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Circulars (in CD)

1. Circular on Para Banking Activity dated 22.07.2004.
2. Circular on Para Banking Activity dated 01.07.2005.
3. Circular on Import of Goods and Services dated 02.07.2007.
4. Circular on Export of Goods and Services dated 02.07.2007.
5. Circular on Risk Management and Inter Bank Dealing dated 02.07.2007.
6. Circular on Miscellaneous Remittance from India dated 02.07.2007.

ABBREVIATIONS

AAS	Auditing and Assurance Standards
ACB	Audit Committee of Board of Directors
AML	Anti Money Laundering
AMC	Asset Management Committee
ATMs	Automatic Teller Machines
BIF	Banking Companies, Financial Institutions and Intermediaries
BRs	Bank Receipts
CA	Chartered Accountant
CASA	Control and Self-Assessment
Cr	Credit
CBS	Core Banking Solutions
Dr	Debit
DD	Demand Draft
DDP	Demand Draft Payable
DICGC	Deposit Insurance and Credit Guarantee Corporation
ECGC	Export Credit Guarantee Corporation
ECB	External Commercial Borrowing
ECS	Electronic Clearing Service

EFT	Electronic Funds Transfer
EMI	Equated Monthly Installment
FCRA	Foreign Contribution Regulation Act
FERA 1973	Foreign Exchange Regulation Act, 1973 (replaced by Foreign Exchange Management Act, 1999)
FEMA 1999	Foreign Exchange Management Act, 1999
FOREX	Foreign Exchange
FEDAI	Foreign Exchange Dealers' Association of India
FDI	Foreign Direct Investment
GL	General Ledger
HO	Head Office/Central Office
IBA	Indian Banks' Association
ICAI	Institute of Chartered Accountants of India
IS	Information System
KYC	Know Your Customers
LC	Letter of Credit
LG	Letter of Guarantee
MICR	Magnetic Ink Character Recognition
MT	Money Transfer
PAN	Permanent Account Number (issued by Income Tax Authority)
PML	Prevention of Money Laundering

PMLA	Prevention of Money Laundering Act
NABARD	National Bank for Agriculture and Rural Development
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SBI	State Bank of India
SIDBI	Small Industries Development Bank of India
SIAs	Standards on Internal Audit formulated by the Internal Audit Standards Board of the ICAI
SGL	Subsidiary General Ledger
SSI	Small Scale Industries
SLR	Statutory Liquidity Ratio
STR	Suspicious Transactions Reporting
TT	Telegraphic Transfer
TM	Tailor Machine
UTPS	Unitary Transfer Pricing System

GLOSSARY

Gold Banking	Business of buying, selling and dealing in bullion and specie (Section 6 of the Banking Regulation Act, 1949) Extending Credit against gold (RBI has established a framework for ongoing review of policy in gold.)
Spot delivery	Delivery of foreign exchange on the second working day after the day of transaction.
Tom delivery	Delivery of foreign exchange on a working day next to the day of transaction.

INTRODUCTION

Prelude

1. The subject audit cannot be dealt simply by enumerating various techniques and procedures. Thought needs to be devoted to the underlying philosophy of auditing and its concept. Before getting into the very process of auditing it is important to give a look at its evolution. The word audit comes from the Latin word **auditus**, meaning hearing. Auditing in its simple form originated with the development of organized system of accounting, as it became necessary to entrust one man with the propriety of another. Auditing began in ancient times, but modern auditing techniques originated in the United Kingdom during mid 1800s, contemporaneously with the Industrial Revolution.

2. The system of concurrent audit in banks was introduced by the Reserve Bank of India (RBI) in October 1993 pursuant to the recommendations of the Ghosh Committee on Frauds and Malpractices in Banks. Since then, RBI has issued a number of circular impacting widely the scope and coverage of concurrent audit in banks. With the financial sector reforms as well as information and communication technology revolutions, the operational environment of the banks has also changed very fast. Whereas deregulation has opened up opportunities for banks to diversify into new areas like investment banking, gold banking, mortgage financing, depository services, securitization, e-banking etc., liberalization are opening up the turf for new players, which is increasing competition among all the banks. Key words that describe the change are operational flexibility and functional autonomy, which has bestowed greater freedom to banks to take on competition. Greater stress is being laid on operational efficiency and prudent risk management.

3. In this changing scenario, the role of concurrent audit has become very crucial and important for banks in discharging their duties properly and efficiently, particularly for timely detection of irregularities and lapse, which help in minimization of irregularities as well as prevention of frauds. For best results, concurrent

auditors, who are given the task of substantive checking, must be fully abreast with the changes in functioning and operational activities of the banks at all levels and at all times.

4. The scope of concurrent audit is determined, among other matters, by the respective banks within the broad framework of guidelines issued by the RBI. As these requirements vary for different types of banks, it is not possible to lay down a single set of guidelines which would act as a model to the task applicable to all banks having different size, spread and activities.

5. This Manual deals with the subject of concurrent audit in banks primarily in the context of regulatory requirements applicable to commercial banks in both the public and the private sectors on the premise that transactions entered into by different banks would generally warrant application of similar procedures except for those procedures which address any specific requirements of examination under regulatory provision and reporting thereof.

6. This Manual intends to assist the concurrent auditors in carrying out the concurrent audit of banks. It also aspires to introduce a certain measure of uniformity in the conduct and reporting practices of the concurrent auditors. The Manual has been developed following a practical, field work approach, covering almost all the areas of significance and relevance in concurrent audit of banks.

7. This Manual is divided into four parts as follows:

- Part I : Understanding the Banking Business and Its Legal Framework
- Part II : Domain of Concurrent Audit
- Part III : Various Other Audits (Other than Concurrent Audit) Assigned to Chartered Accountants Firms.
- Part IV : Model Manual of Instruction with Various Reports & Checklist

9. It is important to note, that apart from concurrent audit, members of the Institute are also engaged¹ to carry out certain other types of audits as well in banks, such as: -

- Revenue Audit/Income-Expenditure Audit
- Stock and Debtors' Audit
- Credit Audit
- Pre-Disbursement Audit
- Information System (IS) Audit
- Depository Participants Audit (DP Audit)

Normally Banks also have a system of inspection of branches by bank officials themselves. In addition, the RBI also conducts inspection of important branches and reviews activities of head offices of banks (called annual financial review).

This manual however, concentrates on concurrent audit, including revenue audit/income and expenditure audit, stock & debtors' audit, credit audit which forms an important component of concurrent audit. In view of emergence of the concept of risk management as a part of sound corporate governance of banks and the imperatives of adherence to the Basel II accord (which the banks have undertaken to implement forthwith) the basic features and components of Risk Based Internal Audit is also provided in Chapter 2 under Part III of this manual.

¹ Subject to the fulfillment of any criteria laid down by the Reserve Bank of India in this regard. For example, in case of Information Systems Audit and Audit of Depository Participants.

PART – I

Understanding the Banking Business and Its Legal Framework

Chapter-1

Banking in India

Evolution of the Banking Institution in India

1.1 Banking on modern lines started with the establishment of banks by the English Agency Houses at Kolkata and Bombay. Bank of Hindustan, the first Bank in India on modern line was established in 1770. Bank of Bengal was established in 1786 at Kolkata. Subsequently, three presidency banks were established in Kolkata (1806), in Mumbai (1840) and in Chennai (1843). In early years, these presidency banks were allowed to issue currency notes until 1862 when the Government started issuing currency notes. Moreover, in the year 1860 the concept of limited liability for banks was accepted under Indian Law.

1.2 Till 1860, the banks which were in existence opened branches in various cities and towns like Agra, Mumbai, Chennai, Banaras, Simla, and Delhi etc. By the end of 1900 there were three classes of banks in India viz. the Presidency Banks (which were three in number); the Joint Sector Banks (nine in number); and Exchange Banks or Foreign Banks (eight in number). Some of the prominent joint sector banks were the Allahabad Bank, the Alliance Bank of Simla, the Oudh Bank and the Punjab National Bank.

1.3 **1900-1950:** The *Swadeshi* movement, which started in the early phase of 1900s, gave stimulus to growth of banking system in India. It resulted in establishment of joint stock banks by Indians. The more prominent of them were the Peoples' Bank of India; the Bank of India; the Bank of Baroda; the Central Bank of India, etc. During this period, Indian Joint Stock Banks specializing in short term credit for trade in the form of cash credit and overdraft started operation. The Indian banks did not

undertake foreign exchange business, and the monopoly remained with foreign banks. In 1921, the Presidency banks were merged and the Imperial Bank of India was created. Subsequently, the same Bank was converted into the State Bank of India. The period of 1900 to 1925, however, saw failure of many banks. The phenomenon attracted attention of the Government of India and a committee, Central Banking Enquiry Committee, was constituted by the Government in 1929 to trace reasons behind failure of banks. The Committee highlighted some important reasons responsible for bank failures including, insufficient capital, poor liquidity of assets, combination of non-banking activities with banking activities, irrational credit policy, incompetent and inexperienced directors, etc.

1.4 The Reserve Bank of India (RBI) Act was passed in 1934 and the RBI came into existence in 1935 on the basis of major recommendations of Central Banking Enquiry Committee. In 1949, the Banking Regulation Act was passed which gave wide powers to the RBI with regard to establishment of new banks, mergers and amalgamation of banks, opening of new branches, closing of existing branches, shifting of existing new branches to other locations, etc including inspection of banks. The Banking Regulation Act gave wide powers to RBI to regulate, supervise and develop the banking system. The period after 1949 was marked by the efforts of RBI towards institutionalization of savings, to adapt the credit system to the emerging needs of the economy. The Banking Regulation Act was landmark legislation. The Act thus provided the framework for RBI's supervision of banks. In 1947, India got independence and the partition thereafter affected Indian banking system.

1.5 **1950-1969:** This period in history of banking industry in India was marked by important events including constitution of the State Bank of India {the State Bank of India (SBI) became successor to the Imperial Bank of India under the State Bank of India Act, 1955}, the creation of a state partnered/state sponsored Bank in order to have effective control over the Imperial Bank of India and integrating it with the former state owned banks of princely states. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959 enabling the SBI to take over eight state-associated banks as its subsidiaries, of which the State Banks of

Bikaner and State Bank of Jaipur were merged into one Bank, viz. State Bank of Bikaner and Jaipur and the other state owned banks were, the State Bank of Indore, the State Bank of Mysore, the State Bank of Patiala, the State Bank of Saurashtra, the State Bank of Hyderabad, and the State Bank of Travancore. The conversion of Imperial Bank of India into the State Bank of India and the reconstitution of Associate Bank in 1959, were intended to accelerate the pace of extension of banking facilities all over the country.

1.6 **1969-1990:** To bring about a wider diffusion of banking facilities and to change the uneven distribution of pattern of lending, schemes for social control for banks was announced in the Parliament in December 1967, to ensure an equitable and purposive distribution of credit within the resources available keeping in view the relative priorities of developmental needs. The social control measures were designed to achieve a social orientation of banking within the framework of existing ownership. National Credit Council was set up in 1968 to assess the demand for bank credit from various sectors of the economy and to determine the priorities. In July 1969, the Government of India nationalized 14 major banks, which became one of the important events in the history of Indian Banking. Banks were nationalized to achieve social objectives so that they effectively played the role of catalytic agents for economic growth by extending banking facilities in all parts of the country. Six more Banks were nationalized thereafter termed as “Corresponding New Bank” (the body corporate specified against an existing Bank in column 2 of the First Schedule of Banking Companies Act, 1980). With a view to develop the rural economy with development of agriculture, trade, commerce, industry and all other productive activities in the rural area RRBs were established under the Regional Rural Banks Act, 1976.

1.7 Presently there are four types of banking institution in India. These are: -

- Commercial Banks
- Regional Rural Banks
- Co-Operative Banks

- Development Banks more commonly known as 'term-lending institutions' and Exim Bank

Commercial Banks

1.8 Commercial banks are by far the most widespread banking institutions in India. Commercial banking in India passed various phases.

Prior to Nationalization

These were mostly owned by large business houses resulting in flow of commercial credit to selected enterprises mostly within the same group of companies thereby suffering concentration risk. The beneficiaries were a select few and credit was utilized for a limited number of activities pursued by those houses. This resulted in increase in stressed assets and in certain cases to bankruptcy. In order to retrieve the situation, and to assure the safety of depositors' money, various control measures of RBI on banks followed. By this time, a large number of depositors lost their money.

Nationalization and thereafter

A number of commercial banks were nationalized with an attempt to shift the focus of commercial bank lending to a large extent. RBI propagated the concept of lending to priority sector and laid down corresponding guidelines. Every commercial is required to deliver credit to certain important sectors of the Indian economy. This inaugurate the era of directed credit flows to specified sectors. The financial inclusion of the under-privileged in the banking system started with the nationalization of Banks. According to RBI directives, the scheduled commercial banks are required to ensure that priority sector advances constitute a prescribed minimum level of net bank credit and that a substantial portion is directed towards the weaker sections of the society.

1.9 Credits provided by the commercial banks are an important driver of national economy. During the post-independence period, a phenomenal growth in industrialization has been possible largely due to enhance credit off-take from banks and financial institutions.

1.10 Commercial banks operating in India can be divided into two categories based on their ownership - public sector banks and private sector banks. However, irrespective of the pattern of ownership, all commercial banks in India function under the overall supervision and regulatory control of the RBI.

Private Sector Banks

Older Private Sector Banks

1.11 These are the banks which were operating in a smaller scale prior to 1971 and since their business was below the cut off level, it wasn't nationalized.

New Private Sector Banks

1.12 Pursuant to the new policy of liberalization announced by the RBI, these banks commenced operation during 1994. They are expected to have a minimum paid up capital of Rs100 Crores.

1.13 The ownership of private sector banks is in private hands. They are of three types:

- a) Indian scheduled commercial banks other than public sector banks.

(The term 'scheduled commercial banks' refers to commercial banks, which are included in the Second Schedule to the Reserve Bank of India Act, 1934). It may be noted that not all scheduled banks are commercial banks; some co-operative banks are also scheduled banks. Commonly known as 'banking companies', these banks are 'companies' registered under the Companies Act, 1956 or an earlier Indian Companies Act.

- b) Non-scheduled banks.

- c) Indian branches of banks incorporated outside India, commonly referred to as 'foreign banks'.

1.14 Some of the banks have set up subsidiaries - wholly-owned or partly owned - to operate in some specialized spheres of activity such as merchant banking, funds management, housing

finance, dealing in government securities, etc. These subsidiaries do not carry on all the principal functions of a commercial Bank.

Foreign Banks

1.15 These banks have been functioning long in this country having access to substantial capital funds. They operate on a global basis and make use of the latest technology to provide enhanced customer services.

Central Bank of the Country

1.16 The Reserve Bank of India (RBI) is the central Bank of our country. It performs the role of a banker to the Government, to the banks and also regulates the banking scenario of the country besides the financial institution under their ambit.

Regional Rural Banks (RRBs)

1.17 These Banks have been established under the Regional Rural Banks Act, 1976. Public sector banks have been empowered to set up RRB by participating in their capital and also stuffing them at the initial stages. These RRBs are refinanced by the National Bank for Agricultural and Rural Development (NABARD) at concessional rate of interest up to a certain percentage of their loan. They can also avail loans from The National Rural Credit (long term operation) Fund and the National Rural Credit (stabilization) Fund. These were primarily established to service rural credit sponsored by nationalized banks. Very recently it has been decided by the RBI that the sponsor banks should take the responsibility of monitoring and guiding the RRBs.

1.18 Each regional rural Bank has a public sector Bank as its 'sponsor Bank'. Capital in each such Bank is contributed by the Central Government, the sponsor Bank and the State Government Concerned in proportion of 50, 35 and 15 percent respectively. Apart from subscribing to the share capital of a regional rural Bank sponsored by it, the sponsor Bank is also required to train personnel of the said Bank, to provide managerial and financial assistance for the first five years of the latter's functioning (this

period can, however, be extended by the Central Government and/or NABARD).

Co-operative Banks

1.19 As a part of the financial structure prevailing in the country over a century, co-operative banks are functioning. While we have State Level Co-operative Banks, District Level Co-operative Banks as well as the Urban Co-operative Banks throughout the country, some of the Urban Co-operative Banks especially in the western and southern part of the country have done substantial business to carve out niche markets for them.

1.20 These are banks in the co-operative sector which cater primarily to the credit needs of the farming and allied sectors. Co-operative banks include central co-operative banks, state co-operative banks, primary co-operative banks and land development banks. Of these, primary co-operative banks operate in metropolitan cities, urban and semi-urban centres to cater principally to the credit needs of small industrial units, retail traders, etc.

Specialized Financial Institutions

1.21 Industrial Finance Corporation of India (IFCI) set up under the Industrial Finance Corporation of India Act, 1948. It became the first all India Financial Institutions with the objective to provide medium and long term credit to industrial concerns in the country. Later, a number of similar institutions with a similar objective were established either as limited company or under specific Act. The activities of all these institutions, excepting those dedicated, had shifted their direction by converting them to banks duly incorporated as limited company. They are now running with the technology and flexibility at par with the new private sector banks. Further, all these institutions except IIBI has raised equity from public for augmentation of their capital (IIBI is in the process of closure).

1.22 Apart from the above institutions, the following institutions are also functioning as development banks and providing term loans in a big way:

- Unit Trust of India

- Life Insurance Corporation of India
- General Insurance Corporation of India and its Subsidiaries.

Development Banks

1.23 As, these banks were started with the objective of providing only long term finance for development purposes, they are referred to as 'development banks' or 'term-lending institutions'. These institutions provide facilities for the setting up of units in any part of the country. Of late, some of these institutions have sponsored commercial banks also. Besides, these all-India level institutions, every state has a State Financial Corporation and a State Industrial Development Corporation (though they may be known by different names) to cater to the needs of that particular state.

State Level Financial Institutions

1.24 There are financial corporation in almost all the states of the country governed by the State Financial Corporations Act, 1951. Besides, there are state level industrial development and investment corporations. The former play an active role in financing of small and medium enterprises in the states and the later provide term loan and also participate in the equity of the industrial enterprises of the state. Normally, state-level institutions have a monetary ceiling on the quantum of finance they can grant to a single unit.

Chapter-2

Banking Products and Services

Major Products and Services Provided/ Rendered by Commercial Banks

Acceptance of Deposits

2.1 This is the most important function of a commercial bank. Commercial banks accept deposits in various forms, term deposits, savings bank deposits, current account deposits, recurring deposit, saving cum term deposit and various others innovative products.

Granting of Advances

2.2 This again is an important function of commercial banks. Advances granted by commercial banks take various forms such as cash credit, overdrafts, purchase or discounting of bills, term loans, etc. Apart from granting traditional facilities, banks are also providing facilities like issuance of commercial papers, ECB on behalf of bank/borrower, securitization of credit sales, housing loan, educational loan, and car loan etc.

Remittances

2.3 This involves transfer of funds from one place to another. Two of the most common modes of remittance of funds are drafts and Telegraphic/Mail Transfers (TT/MT). Drafts are issued by one branch of the Bank and are payable by another branch of the Bank (or, in case there being no branch of the Bank at the place of destination, branch of another Bank with which the issuing Bank has entered into necessary arrangement). The drafts are handed over to the applicant. In the case of telegraphic/mail transfer, no instrument is handed over to the applicant; the transmission of the

instrument is the responsibility of the branch. Generally, the payee of both the TT and the MT is an account holder of the paying branch. Electronic Funds Transfer is another mode of remittance which facilitates almost instantaneous transfer of funds between two centres electronically.

Collections

2.4 The customers can lodge various instruments such as cheques, drafts, pay orders, travelers cheques, dividend and interest warrants, tax refund orders, etc. drawn in their favour and the trade bills drawn by them on their buyers with their Bank for collection of the amount from the drawee (the bank or the drawee of the bill). They can also lodge their term deposit receipts and other similar instruments with the Bank for collection of the proceeds from the Bank with which the term deposit, etc. is maintained. Banks also collect instruments issued by post offices, like national savings certificates, postal orders, etc.

Clearing

2.5 The instruments mentioned above may be payable locally or at outside centre. The instruments payable locally are collected through the clearing house mechanism, while the instruments payable outside are sent by the Bank, with which instrument has been lodged, for collection to the branches of the issuing Bank at those centre or, if there is no such branch, to other banks. Clearing house settles the inter-Bank transactions among the local participating member banks. Generally, post offices are also members of the house. There may be separate clearing houses for MICR and non-MICR instruments. The clearing house is managed by the RBI, State Bank of India or any other Bank nominated by RBI. In case a bank has many branches within the area of a clearing house, it nominates one branch to act as the 'nodal' branch of that Bank for all the branches within that area. This nodal branch collects instruments to be presented to other branches also. This nodal branch is called Service Branch in some banks.

2.6 The accounts of all member banks are maintained by the clearing house. All member banks have to pay an agreed sum to the Bank managing the clearing house for meeting the cost of

infrastructure and services it provides to them. In addition to the regular clearing houses as discussed above, Electronic Clearing Services (ECS) is also in vogue. ECS takes two forms: ECS credit or ECS debit.

- In the case of ECS credit, there is a single receiver of funds from a large number of customers, e.g., public utilities, mutual funds, etc. The beneficiary (i.e., the receiver of funds) obtains mandate from its customers to withdraw funds from their specified Bank accounts on a particular date. These customers may have accounts with different banks in the same clearing house area. Before the specified date, the beneficiary compiles Bank-branch-wise particulars of the accounts to be debited and furnishes the details in the electronic media like a floppy disc to its own Bank which, in turn, arranges to provide them to the banks concerned, through the clearing house, for verification of particulars of accounts. Any discrepancies are rectified and, on the specified date, the accounts are debited by the respective banks and the beneficiary gets the credit.
- In the case of ECS debit, there is a single account to be debited against which a number of accounts with a number of banks in the same clearing house area are credited. This system is useful for distribution of dividend/ interest, payment of salaries by large units, etc

2.7 The Bank/Branches, who have adopted Core Banking System (CBS) can honour instruments even of other branches beyond their clearing zone payable at par by the designated branch of that centre. This system facilitates easy payment mechanism from any centre particularly to the customers eligible and opting for the same.

Treasury Function

2.8 This is the second most important and vital department of a bank immediately, after the Advances Department. It handles purchase and sale of various types of securities (mainly government bonds, treasury bills and non-SLR bonds, debt securities commercial papers, etc) in the shape of investment for SLR (statutory requirement) and other for investment purpose mainly for earning interest for the banks. Such department also handles fund management of the bank (borrowing and lending of

funds) as also collection of interest on various investments on different dates.

Cash Management Product

2.9 A derivative of the collection business, this facility is provided for expeditious transfer of funds collected by a customer at the specified centre in the country to his central account with the use of electronic networking. It is particularly useful for large units which have their sales/collection network in a very wide geographical area. Only selected branches of a bank may handle the business due to the infrastructural requirements.

Issuance of Letters of Credit and Guarantees

2.10 These are two important services rendered by banks to customers engaged in business, industrial and commercial activities. A letter of credit (LC) is an undertaking by a bank to the payee (the supplier of goods and/or services) to pay to him, on behalf of the applicant (the buyer) any amount up to the limit specified in the LC, provided the terms and conditions mentioned in the LC are complied with. The guarantees are required by the customers of banks for submission to the buyers of their goods/services to guarantee the performance of contractual obligations undertaken by them or satisfactory performance of goods supplied by them, or for submission to certain departments like excise and customs, electricity boards, or to suppliers of goods, etc. in lieu of the stipulated security deposit

Merchant Banking Business

2.11 Many bank branches act as collection agents to issue business for merchant bankers. The customer and the bank have to agree to the modalities of the scheme, like names of branches authorized as collecting branches, the procedure for retaining the subscription and its remittance periodically, the documents required by the customer from the collecting branches, etc.

Credit Cards

2.12 The processing of applications for issuance of credit cards is usually entrusted to a separate division at the central office of a

bank. The dues against credit cards are collected by specified branches. Many of them also act as 'cash points' to provide cash to the cardholder on demand up to the specified limits. Most credit cards issued by banks are linked to one of the international credit card networks like VISA, Master, or Amex.

Technology-based Services

2.13 Some banks have started providing internet banking services and phone banking services. Some banks, acting as stock brokers, also provide facility to their customers to buy or sell securities on stock exchanges through the internet. The fast changing technology has synchronized banking facility in such a way that the customer need not physically attend for any transactions. The banks are now providing the facility of payment of utility bills, railway reservation, and tax deposition through ATM/internet banking and are also providing value added services like recharge facility to mobile phone users.

Dividend/Interest/Refund Warrants

2.14 Many entities require facilities for distribution of funds to their shareholders and others. For this purpose, they issue warrants in favour of shareholders/others payable at designated branches of specified banks, with a prior arrangement with the banks concerned. The aggregate amount of the warrants or other instruments issued is deposited by the entity with a nodal branch. The designated branches pay the warrants at par when presented to them.

Safe-keeping Services

2.15 Banks provide services for safe keeping of the scrips and valuables of customers in their vaults. A receipt is issued to the customer by the branch at the time of deposit of the items and an acknowledgement is obtained from him at the time of delivery. Each transaction - a receipt or delivery - is duly recorded in appropriate register(s) and periodically, the items physically available are cross checked with the balances as per registers.

Lockers

2.16 This facility is provided to customers for protecting their valuables, in lockers. The branch has no knowledge of the contents of the locker. Only the account holder (the hirer) or his representative, duly authorized by the account holder, can operate on the locker. Each access to the locker is properly recorded in the appropriate registers.

Handling Government Business

2.17 Banks act as agents for receipts and payments on behalf of various government departments like income tax, central excise, sales tax, etc. There are authorized branches to handle the specified type of work. Normally, a specified branch acts as a nodal branch for a particular segment of the government business within a given geographical area. The responsibility of the nodal branch includes obtaining details of transactions from the linked branches and to reconcile their accounts inter se and with the department concerned. Banks are remunerated for handling this business by way of service charges which are usually as agreed or a stated percentage of the collections or payments, as the case may be.

Depository Participant (DP) Services

2.18 The depository system is meant to facilitate quick transfer of stock market securities in a dematerialized form from the seller to the buyer by using satellite connectivity. The depository scheme is operated presently by two depositories - Central Depository Services Limited and National Securities Depository Limited. Depository participants, i.e., bank branches providing depository services are in effect agents of the depository concerned. Each participating branch has to get itself registered with a depository. The customer has to open an account with the branch which provides the DP services. This account is debited by the branch with the securities sold by the account holder and credited with the purchases.

Automated Tetter Machine (ATMs)

2.19 Operations on ATMs are through a card (popularly known as ATM card) which contains information about the cardholder in a

magnetic form. The cardholder has to also use the password (also known as Personal Identification Number, i.e., PIN) to carry out any transaction through ATM. Earlier, ATMs were used merely as cash dispensing machines but now-a-days, other services like issue of drafts, deposit of cash and instruments, balance enquiry, etc. are also being provided by many banks. ATMs may be on-site (i.e., housed in the branch premises) or off-site. The transactions routed by the customers through the ATMs may be entered into the books of account of the branch either on-line (i.e., simultaneously with the transactions) or off-line. However, on an off-line mode, the proper recording of transactions needs to be ensured.

Exchange of Notes

2.20 Banks exchange mutilated notes from the public for good quality notes. These mutilated notes are periodically sent to the RBI which gives equivalent credit to the branch concerned.

Debit Cards

2.21 Debit cards are issued by the bank where customer is having his /her account. The debit cards are generally issued from central office of the bank. The Debit Card facilitates the customer to pay at any authorized outlet as well as to withdraw money from ATM from his account. The debit cards are sometimes networked with inter-bank network.

Auto Sweep Facility in Saving Account

2.22 The banks are offering auto sweep facility in saving accounts of their customers where balance exceeding a certain limit automatically gets transferred to term deposit account having higher rate of interest and in case of need the funds in term deposit automatically get transferred to saving account.

Third Party Advertisement on ATM Network

2.23 The banks are providing advertisement facility to the vendors on ATM Network. The advertisement on ATM Network provides the opportunity of earning revenue to the Bank.

Securitization of Future Lease Rentals

2.24 The banks are advancing loans to lessor on securitization of future lease rentals receivable based on the mortgage of leased assets at net present value (NPV). The banks are advancing the loans to lessor (owners) of the assets under a tri-partite agreement and collect the future rentals to appropriate against the advance made.

Derivatives

2.25 Financial derivatives are gaining importance in India. Banks are offering derivative options against exchange fluctuation losses.

Reverse Mortgage

2.26 Reverse mortgages are powerful tools that help eligible homeowners obtain a tax-free cash flow. Over two hundred thousand people have already used Reverse mortgages to enhance their income after retirement. A reverse mortgage is a government sponsored and insured loan that requires no payments during the period of time borrowers live in their home. Reverse mortgages enable eligible homeowners to access the money they have built up as equity in their homes. Conceptually, a reverse mortgage seeks to monetize the house as an asset and specifically the owner's equity in the house.

Para-banking Activities

2.27 Banks also undertake certain eligible financial services or para-banking activities either departmentally or by setting up subsidiaries. However, banks can set up subsidiary for undertaking such activities only with prior approval of RBI. Some of those activities are given in foregoing paras

- *Equipment Leasing, Hire Purchase and Factoring Services:* Banks also undertake equipment leasing, hire purchase and factoring services as departmental activities.
- *Mutual fund business:* Banks are not permitted to directly undertake mutual fund business but sponsor mutual funds, subject to the RBI guidelines in this regard. Banks normally

refer clients to these mutual funds and earn a commission in return.

- *Money Market Mutual Funds (MMMFs)*: Banks can also sponsor MMMFs business subject to the prior approval of the RBI. The MMMFs are, however, subject to regulation by the Securities and Exchange Board of India. Banks also, at time, provide cheque writing facilities for MMMFs subject to the RBI guidelines in this regard.
- *Insurance Agents*: Though banks are prohibited from undertaking insurance business, yet in terms of the RBI guidelines in this regard, banks can act as agents of insurance companies on fee basis, without any risk participation. The , RBI in July, 2005 issued a Master Circular (No.DBOD.FSD.No.10/ 24.01.01/2005-06) containing instructions/guidelines issued by it to banks on para banking activities. This is in appendices under *Part II, Domain of Concurrent Audit*.
- *Acting as referee* to financial status, business reputation and respectability of their customers.
- *Tax Matters* : As add-on services banks recently have started advising select customers on their income tax, wealth tax and allied matters and to fill the returns with proper disclaimer.

Transaction in Foreign Exchange

2.28 By virtue of the Reserve Bank of India Act,1934 (RBI Act,1934), Reserve Bank of India (RBI) is vested, to:

- Sell to or buy from any authorized person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi or Madras (or at such of its branches as the Central Government may, by order, determine), foreign exchange at such rates of exchange and on such conditions as the Central Government may from time to time by general or special order determine, having regard so far as rates of exchange are considered to its obligations to the International Monetary Fund.

- *Provided* that no person shall be entitled to demand to buy or sell foreign exchange of a value less than two lakhs of rupees.

Authorized Person

2.29 Authorized person means a person who is entitled by or under the Foreign Exchange Regulation Act, 1973 to buy, or the case may be, to sell, the foreign exchange to which the demand relates (section 40 of RBI Act, 1934).

Authorized Dealers

2.30 The Bank does not deal with the customers, importers, exporters, or individuals, popularly called merchants, directly. Section 6 of the Foreign Exchange Regulation Act, 1973 (since modified as Foreign Exchange Management Act), authorizes some banks and institutions to transact in foreign exchange. Such banks and institutions are called Authorized Dealers (ADs), and the merchants will transact only with them, and none other. RBI is also empowered to lay down guidelines to the ADs with regard to their quotations of exchange rates to the merchants. The Foreign Exchange Dealers Association (FEDAI) frames the rules of conduct. The rates quoted to these merchants are known as merchant rates. Authorized Dealers may quote both spot or ready rates and forwards without intervention of the RBI. Forwards may be for any future period without restriction, so long as the banks cover each operation by an opposite transaction for same duration so as to hedge exchange risk.

2.31 Services normally rendered by banks in Foreign Exchange Business are: -

- Acting as dealer being authorized in terms of section 6 of the Foreign Exchange Regulation Act, 1973 (since modified as Foreign Exchange Management Act)
- Financing export by way of:
 - Packing Credits
 - Loans against duty drawbacks, cash subsidy etc.

Banking Products and Services

- Advance against bill for collection
- Purchase of export bills
- Post shipment finance
- Guidance in exchange control formalities
- Export promotion measures
- Documentation-shipping documents, uniform customs etc.
- Issuing Letter of credits, circular notes, banker draft, travelers' cheque.
- Performance and other guarantees.
- Miscellaneous others in the scope of banking and Para-banking services.

Chapter-3

Organizational and Operational Structure of Banks

3.1 While the exact organizational structure may differ from one bank to another, most large-sized banks have a four-tier structure - head office, zonal offices, regional offices and branches (the nomenclature may, however, vary among banks), each tier of the structure being responsible for performing the functions specified by the Head Office. However, there are some banks having three tier structures without zonal office concept.

3.2 At the apex level, there is the head office/central office of the Bank whose main functions are as follows:

- Laying down policies and procedures for smooth and efficient functioning of the Bank and to review them periodically.
- Deciding on the extent of powers-financial and administrative—which may be vested in various functionaries of the Bank.
- Planning and performance budgeting.
- Asset-liability management.
- Laying down lending policy of the Bank, the risk management guidelines, and the rehabilitation and recovery guidelines including policies for compromise, settlement and write-off.
- Deciding about the interest rates on the deposits and the loans as well as about charges for various services and review interest rates and charges periodically.

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- Treasury and investment management (usually handled by the head office, though in some cases, select large branches may also be involved in this function).
- Monitoring and controlling the functioning of various offices of the Bank. Periodic inspections and internal audit are important constituents of such monitoring and control mechanism.
- Reconciling the transactions among various offices of the Bank.
- Introducing new products and services and reviewing the existing ones.
- Issuing instructions to branches and other offices from time to time on matters deserving their attention or requiring compliance by them.
- Publish the credit policy after surveying the economic scenario of the country.
- Submission of various information to RBI and Ministry of Finance Govt. of India.
- HR development function and framing of policy of development of personnel to utilize their talent.
- To obtain various licenses for opening new branches and other financial function as per statutory rule.
- To publish balance sheet and profit and loss statement of the Bank and organize annual general meeting of the shareholders.
- To keep close track with the technology building and take suitable up gradation.
- Technology Management including management of CBS and disaster management.

3.3 At tier II, there are the zonal offices which are responsible for overall workings of the branches in their areas of operation. Zonal offices act as a link between the branches and the head office, either directly or through regional offices.

3.4 Below the zonal offices, there are the regional offices which are the immediate controllers of the branches under their jurisdiction. They are responsible for business development, compliance with the laid down systems and procedures, satisfactory customer service, quick redressal of complaints and submissions of the required statements/reports/returns by branches under their jurisdiction. They are also responsible for smooth functioning of the branches under them. Regional office organize monthly review meeting in order to judge the performance of the branch under their control in all area of operation and discuss on the internal audit and inspection report of the branch and the report of the auditor of the branch.

3.5 Branches are lowest rung in the hierarchy of the banking organization structure. In fact, the banking operations (i.e., accepting deposits and making loans) actually take place at the branch level. Their jobs are numerous, practically everything in relation to banking, except for pricing of products/services and the policy formulation. Some branches have extension counters and sub-offices functioning under them. The extension counters/sub-offices is meant for specific locations like airports, large Institutions, large project sites, etc. and cater exclusively to the banking needs (either all or limited) of the concerned local area organization. Presently these extension counters are being converted to full fledged branches as per the policy of RBI.

Role of the RBI as the Central Bank

3.6 RBI is the central bank of our country. RBI is responsible for development and supervision of the constituents of the Indian financial system (which comprises banks and non-banking financial institutions) as well as for determining, in cohesion with the Central Government, the monetary and credit policies, keeping in mind the need of the hour. Among its important functions are issuance of currency; regulation of currency issue; acting as banker to the central and state governments; and acting as banker

to commercial Banks and other financial institutions, including term lending institutions. RBI has also been entrusted with the responsibility of regulating the activities of commercial and other banks. No bank can commence business of banking or open new branches without obtaining license from RBI. The RBI also has the power to inspect any Bank.

3.7 RBI is empowered under section 21 of the Banking Regulation Act, 1949, to control advances by banks in general or by any Bank in particular. Among the measures that the RBI can adopt for this purpose are to prescribe purposes and extent of advances, margin requirements, maximum exposure to a single borrower, rate of interest and other terms and conditions, etc. Besides these measures, it also controls the total volume of bank credit by varying bank rate through open market operations or by varying cash reserve and statutory controls.

3.8 Bank rate refers to the rate of interest at which the RBI re-discounts the first class bills of exchange or other eligible instruments from banks. Variations in Bank rate affect the interest rates charged by banks generally, interest rates of banks move up or laying down in accordance with movements in Bank rate.

3.9 Open market operations involve sale or purchase of government securities in the bourses. When RBI buys government securities from banks in the open market, the funds in the hands of selling banks increase, enabling them to expand credit, and *vis-à-vis*.

3.10 Banks are also required to maintain a prescribed minimum percentage of their demand and time liabilities in India in the form of cash and/or current account balances with the RBI (called 'cash reserve'). Additionally, they are required to maintain a further percentage in the form of cash and/or other liquid assets (called 'statutory liquidity ratio'). Varying the cash reserve ratio and/or statutory liquidity ratio enables the RBI to increase or decrease (as the case may be) the funds available to banks for lending and other similar purposes.

3.11 Apart from directions relating to operational matters, RBI periodically issues guidelines, on accounting matters to be

followed by banks. These guidelines have a profound effect on the annual accounts of banks. The text of the notifications/circulars/guidelines, etc., issued by RBI is normally also available on its website (www.rbi.org.in).

Branch Network of Commercial Banks

3.12 Apart from the term-lending institutions, commercial banks are arguably the most important constituent of the banking system in India. To carry out their functions effectively, these banks have established a large network of branches in India. Based on their location, these 'domestic' branches are commonly classified into rural branches, semi-urban branches, urban branches and metro branches. Apart from these domestic branches, some banks have also established offices abroad. The foreign offices of banks are generally of the following types:

- *Full-fledged branches* - Such branches transact all kinds of banking business.
- *Off-shore banking units* - Such branches transact foreign exchange business of any kind except domestic banking business with the residents/ corporations, etc., domiciled in the country concerned.
- *Subsidiaries* - The laws in some countries do not permit foreign banks to open their branches in those countries. Therefore, Indian banks have to set up wholly or partly-owned subsidiaries in such countries.
- *Representative offices* - Such branches do not transact any banking business. The objective behind setting up such offices is to maintain close liaison with the important bodies there to promote mutual business interests.

3.13 Generally, branches conduct a variety of banking business under one roof. Recently, however, the trend of creating 'thrust-based' or 'focus-based' branches is on the rise. This has led to setting up of branches by banks exclusively for a specified segment of their clients. Presently, such specialized branches are

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generally of the following types (nomenclature may, however, vary from Bank to Bank):

- Personal Banking branches, catering to the needs of individual customers only.
- Corporate accounts group branches, catering to the needs of major corporate clientele.
- Commercial or Industrial Finance branches, catering to the needs of industries in the small, medium and/or large sectors.
- Recovery branches, which deal only with the recovery aspects of non performing advances which were originally granted at other branches of the Bank.
- Housing Finance branches which deal only with housing loan proposals - from individuals, and in some cases, also from the developers of housing units.
- Agricultural Finance branches, catering to the needs of the agriculture sector only.
- Service branches, handling only the local clearing instruments received from outstation branches or from other local branches of the Bank for collection.
- Commodity specific branches, which handle the accounts, predominantly borrowal accounts, of the units belonging to a particular industry, e.g., leather, diamonds.
- Overseas or International Banking or Foreign Exchange branches catering to the banking needs of those enterprises which are engaged in imports into/exports from India.
- SSI branches, catering exclusively to the requirements of the small scale industrial (SSI) units.
- NRI (Non-Resident Indian) branches, catering exclusively to the banking needs of NRIs.
- Securities branches, dealing only with the securities portfolio of the Bank.
- High net-worth branches.

Chapter-4

Internal Control Through Inspection and Internal Audit

4.1 The system of internal control is devised by an organization in order to achieve management's objectives. It constitutes all the methods and procedures are adopted by the management of an entity in ensuring, as far as possible, orderly and efficient conduct of its business, including adherence to management policies. Safeguarding assets, through prevention and detection of fraud and error and ensuring accuracy and completeness of the accounting records, and the timely preparation of the reliable financial information are the basic objectives of a sound internal control system. The system of internal control extends beyond those matters which directly relate to the functions of the accounting systems.

Vigilance Function in Banks

4.2 All banks have a vigilance department, though it may be assigned different names in different banks. Its functions include surveillance over the suspect staff/ transactions, and also looking into cases of frauds/misappropriation/connivance, etc. leading to loss to the bank. In the case of large non-performing assets, the department may be required to investigate and detect the reason for the same. The nature of findings of the vigilance department is of relevance to the auditor, particularly in evaluating the efficacy of internal controls including the depth of preventing vigilance.

Inspection

Branch Inspection

4.3 Such inspection is much broader in scope than revenue audit and covers all important areas of functioning, including efficacy of systems and procedures, compliance with head office

directions, customer service, maintenance of books and- records, etc. Most banks have a fixed schedule of branch inspection.

Head Office Inspection

4.4 The inspection at head office level is aimed at evaluating the functions being carried out at the head office. It covers, *inter alia*, investment and other treasury functions, functioning of the central stationery department, fixed assets (if centralized), inter-branch reconciliation, etc.

RBI Inspection

4.5 The RBI also carries out inspection of currency chest branches to review chest balances and other functions that are being performed by the branches as its agent. Besides, the RBI also carries out inspection of branches under section 35 of the Banking Regulation Act, 1949, to examine compliance of various policies and norms about credit and other functions laid down by the RBI from time to time. RBI inspections, however, are not in the nature of internal audit.

Revenue Audit

4.6 Revenue audit is usually conducted at large and medium-sized branches and is aimed at 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 letter of credit etc. This type of audit is also known as income and expenditure audit and revenue/income leakage audit.

4.7 As already stated, revenue audit exercise is to detect leakage of revenue, but this is not the sole purpose of this audit. Auditors are also required to examine the reasons for any leakage of revenue and should suggest measures to avoid its recurrence. A separate report for intentional mistakes of revenue leakage is annexed to the main report by the auditor.

Stock and Debtors' Audit

4.8 This audit covers the following aspects: -

- regularity of the borrower in submitting the stock statements to the bank.
- regularity of the bank staff in inspecting the borrower's unit to verify the physical stocks *vis a vis* book figures.
- the present system of stock taking.
- the methodology adopted in the valuation of the stocks (LIFO, FIFO, or average rate).
- identification of slow moving and non-moving stocks and to assess its quality.
- verification of the debtors' list against the debtors' ledger and prepare age wise breakup of debtors and to assess the prospects of recovery of debt, if it is doubtful

4.9 The essentials of this audit should not be confined, merely to checking physical existence of stocks and the book debts as appearing from the book of account (ledger balance) but would encompass a general over view of the borrowing unit's operations which can be summarized as under:

- To check existence at security cover.
- To check correctness of data declared in the Stock Statements.
- To check quality of goods, in particular to detect the slow moving or non-moving goods inclusive of rejection imbalanced inventory etc.
- To check validity of primary securities.
- To check book-keeping whether updated.

Internal Control Through Inspection and Internal Audit

- To check system of stock issues/ reconciliation with physical quality.
- To check conformity with other records, i.e. for excise purpose with Excise Register.
- Pricing of materials including WIP, F/Goods etc. and how for they are reasonable based on the consistent practice followed.
- Confirmation of the balances of book debts by the respective parties.
- Verify creditors figures to ascertain unpaid stock

Credit Audit

4.10 This audit is conducted: -

- To verify whether loans and advance have been sanctioned properly (scrutiny at appropriate level).
- To verify whether credit limits are reviewed or not.
- To verify the security documents held with the banks *vis-à-vis* stipulation in the sanction letter.
- To verify whether the documents are being received well in advance.
- To verify whether the advance is being followed up and supervised regularly.
- To verify whether the advance have been classified as per RBI guidelines.

4.11 Main objectives of the credit audit are normally as under: -

- Improvement in the quality of the credit portfolio of Bank.
- Review of sanction process and compliance status of large loans.

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- Feedback on regulatory compliance.
- Independent review of credit risk assessment.
- Pick up early warning signals at the early stage of loan period i.e. immediately after loan disbursement/fixation of credit limits and suggest remedial measures.
- Recommend corrective action to improve credit quality credit administration and credit skills of employees.
- Review of compliance with fair practice code and best practices code.

Internal Audit

4.12 The scope of the internal audit, ordinarily, includes:

- Examination and evaluation of the adequacy and effectiveness of the internal control systems.
- Review of the application and effectiveness of risk management procedures and risk assessment methodologies.
- Review of the management and financial information systems, including the electronic information systems.
- Review of the accuracy and reliability of the accounting records and financial reports Review of the control mechanism of safeguarding assets.
- Appraisal of the system and efficiency of the operations.
- Testing of both transactions and the functioning of specific internal control procedures .
- Review of the systems established to ensure compliance with legal and regulatory requirements, code(s) of conduct and the implementation of policies and procedures.

- Testing of the reliability and timeliness of the regulatory reporting.

4.13 Internal audit is a necessary concomitant of the principle of good corporate governance. It ensures that the freedom of management is exercised within the framework and with appropriate checks and balances. It ensures an effective internal control environment that provides assurance on the efficiency of operation and security of assets.

4.14 Internal audit process monitors the adequacy and effectiveness of the internal control environment across the bank and the status of compliance with operating systems, internal policies, validation of IT security regulatory requirements etc.

4.15 The banking industry is involved in dealing with public money. The very nature of this business demands proper checks and balances to ensure that the dealings are closely monitored and the risks arising out of the banking business are minimized. Towards this end, the internal audit function in a bank assists the senior management of the Bank in providing an objective assurance that all the controls are well designed and effectively operated. The Bank's internal audit report is the primary source of information about the effectiveness of the risk management and internal control systems in the Bank. Thus, it can be seen that internal audit has a crucial role to play in a Bank's existence and growth. Therefore, it needs to be effective. The Basel Committee on Banking Supervision of the Bank for International Settlements has also pronounced certain principles required to be followed for an effective internal audit in banks.

4.16 In India, each bank, normally, has a separate internal audit/inspection department that inspects the bank's functioning periodically and reports to the Audit Committee of the Board of Directors. Banks are expected to have sufficient resources and invest in training their staff to conduct internal inspections.

4.17 Additionally, banks either maintain in-house departments for carrying out "systems audits" or outsource this. Systems Audit focuses on whether the internal procedures and controls are being

adhered to at the operational level and whether the existing systems are adequate and commensurate with the requirement of the changing business environment.

4.18 The effectiveness of internal audit function of a Bank is assessed during the course of on-site inspection by RBI. Supervisory concerns thrown up by internal audit/ inspection provide pointers or indicators for on-site inspection by RBI.

Chapter-5

Legal Framework and KYC Policies

5.1 There is an elaborate legal framework governing the functioning of banks in India. The principal enactments which govern the functioning of various types of banks are:

- Banking Regulation Act, 1949
- Banking Companies (Nationalization of Undertakings) Act, 1970
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
- Negotiable Instruments Act, 1881
- State Bank of India Act, 1955
- State Bank of India (Subsidiary Banks) Act, 1959
- Regional Rural Banks Act, 1976
- Companies Act, 1956
- Co-operative Societies Act, 1912 or the relevant State Co-operative Act
- Information Technology Act, 2000
- Prevention of Money Laundering Act, 2002

- Credit Information Companies Regulation Act, 2005
- Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

Besides, the above enactments, the provisions of the Reserve Bank of India Act, 1934, also affect the functioning of banks. The Act gives wide powers to the RBI to give directions to banks; such directions also have considerable effect on the functioning of banks.

Salient Provisions of Banking Regulation Act, 1949

5.2 Of the above, the Banking Regulation Act, 1949 is the most important as it affects the functioning of all institutions carrying on banking business. Other enactments relate only to certain specific type(s) of banks. Some of the important provisions of the Act are briefly described below since familiarity with them is essential for the performance of the duties of an auditor. It needs to be emphasized that the ensuing discussion is not an exhaustive discussion on all the relevant provisions of the Act. It's important to note that some of the provisions discussed hereunder are not applicable to certain types of banks in view of there being specific provisions with regard to the relevant matters in the respective principal statutes governing their functioning.

Banking Companies

5.3 A *banking company* means "any company which transacts the business of banking in India" [section 5(c) of the Banking Regulation Act]. The term 'company' for this purpose covers companies registered in India as well as foreign companies, i.e., companies incorporated outside India and having a place of business within India [section 5(d)].

Forms of Business of Banking Companies

5.4 'Banking' is defined as "the accepting, for the purpose of lending or investment, of deposits of money from the public,

repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise" [section 5(b)]. It has been clarified that any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader, shall not be deemed to transact the business of banking [*Explanation* to section 5(c)].

5.5 Section 6 of the Act permits a banking company to engage in certain forms of business in addition to the business of banking. Besides the forms of business specifically listed in clauses (a) of sub-section (1) of section 6, a banking company may do "all such other things as are incidental or conducive to the promotion or advancement of the business of the company" [clause (n) of sub-section (1) of section 6]. Under clause (0), a banking company may engage in any other form of business (besides those covered by other clauses) which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.

5.6 Under sub-section (2) of section 6, a banking company is prohibited from entering into any form of business other than those covered by subsection (1) of the said section. Section 8 specifically prohibits a banking company from buying, selling or bartering of goods except in connection with the realization of a security held by it. It also prohibits a banking company from engaging in any trade or buying, selling or bartering of goods for others except in connection with collecting or negotiating bills of exchange or in connection with undertaking the administration of estates as executor, trustee or otherwise. However, the above prohibitions are not applicable to any business specified by the Central Government in pursuance of clause (0) of sub-section (1) of section 6.

Licensing of Banking Companies

5.7 Section 22 of the Act prohibits a company from carrying on banking business in India unless it holds a license issued by the RBI. The license may be a conditional license. The license may be cancelled if the company ceases to carry on banking business in

India or fails to comply with the conditions of the license or fails to fulfill any other condition laid down in the section.

Power to Suspend Operation of the Act

5.8 On a representation made by the RBI in this behalf, the Central Government may suspend the operation of the Act or of any provision thereof for a period up to 60 days either generally or in relation to any specified banking company. In case of a special emergency, the Governor of the RBI or, in his absence, any authorized Deputy Governor may also similarly suspend such operation for a period up to 30 days. In either case, the Central Government may extend the period of suspension from time to time for periods not exceeding 60 days at any one time. The total period of suspension cannot, however, exceed one year [section 4].

Requirements as to Minimum Paid-up Capital and Reserves and Regulation of Capital

5.9 Section 11 of the Act lays down the requirements as to minimum paid-up capital and reserves. Different limits have been laid down for banking companies incorporated outside India and other banking companies. Under section 12, the capital of a banking company can consist of ordinary (i.e., equity) shares only, except where preference shares have been issued prior to July 1, 1944 or where the banking company has been incorporated before January 15, 1937.

Restrictions on Opening and Transfer of Places of Business

5.10 Under section 23, prior permission of the RBI is required for opening of new, or transfer of existing, places of business in India. Similar permission is required by a banking company incorporated in India for opening a new, or transferring an existing, place of business outside India. The above restrictions, however, do not cover the change of location of an existing place of business within the same city, town or village. Opening of a temporary place of business for a period not exceeding one month

is also exempted provided the conditions laid down in this behalf are satisfied. The term 'place of business' includes any sub office, pay office, sub-pay office and any place of business at which deposits are received, cheques en-cashed or moneys lent.

5.11 It may be noted that recently, the RBI has permitted banks to open new places of business or transfer existing ones without obtaining specific permission from it provided certain conditions specified by the RBI in this behalf are satisfied.

Inspection by the RBI

5.12 Wide powers have been given to the RBI under section 35 for inspection of any banking company and its books and accounts. The Central Government can also direct the RBI to cause such an inspection.

Power of the RBI to Give Directions

5.13 The RBI is empowered to issue such directions to banking companies generally or to any banking company in particular as it deems fit in public interest, or in the interest of banking policy, or to prevent the affairs of any banking company from being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company, or to secure the proper management of any banking company generally (section 35A). The RBI is also empowered to caution or prohibit banking companies generally or any particular banking company against entering into any particular transaction or class of transactions, and generally give advice to any banking company [Clause (a) of sub-section (1) of section 36].

Provisions Relating to Accounts and Audit

5.14 Section 29 of the Act lays down requirements as to profit and loss account and balance sheet. Section 30 deals with audit of profit and loss account and balance sheet prepared in accordance with section 29. Section 31 deals with publication of profit and loss account and balance sheet and their submission to RBI, whereas section 32 deals with submission of profit and loss

account and balance sheet to Registrar of Companies. Section 33 deals with display of audited balance sheet and profit and loss account by companies incorporated outside India and carrying on banking business in India. . It may be noted that some of the above provisions are not applicable to nationalized banks, State Bank of India, subsidiaries of State Bank of India, regional rural banks, and co-operative banks.

Other Important Provisions of the Banking Regulation Act, 1949

5.15 Besides the above provisions, a number of other provisions of the Act are relevant to the work of the auditor. Some of the important, provisions are as follows:

Section 9	Disposal of non-banking assets (Banks are prohibited to hold any immovable property other than assets for its own use and should dispose off the assets held in satisfaction of claim within 7 years or ' such extended period as RBI allows.)
Section 13	Restriction on commission, brokerage, discount and remuneration etc., on issue of shares up to 2.5 % of the paid up value of the shares
Section 14	Prohibition of charge on unpaid capital
Section 15	A banking company is prohibited from paying dividend unless expenses representing intangible assets are written off subject to exceptions provided
Section 17	Creation of Reserve fund
Section 18	Cash reserve to be maintained
Section 19	Restriction on nature of business of subsidiary companies

Section 20	Restrictions on loans and advances
Section 20 A	Restrictions on power to remit debts owed by directors and related enterprises
Section 21	Power of Reserve Bank to control advances by banking companies
Section 24	Maintenance of a percentage of (<i>liquid</i>) assets
Section 25	Quarterly return of Assets in India
Section 26	Return of unclaimed deposits (including non-operative accounts being older than 10 years or more)
Section 45 Y	Power of Central Government to make rules for the preservation of records

Applicability of Various Enactments to Different Types of Banks

5.16 As mentioned in paragraph 5.1 above a number of enactments govern the functioning of banks in India. While the Banking Regulation Act, 1949 is applicable to all types of banks (though some of its provisions may not be applicable to certain types of banks or may be applicable with certain modifications), the other enactments are relevant only to particular type(s) of banks. The enactments applicable to different types of banks are discussed below.

Nationalized Banks

5.17 Nationalized banks are governed by :

- a) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980; and
- b) Specified provisions of the Banking Regulation Act, 1949.

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5.18 Fourteen banks were nationalized under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 while another six were nationalized under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The provisions of these two enactments are identical and deal, *inter alia*, with such matters as the following:

- Authorised and paid-up capital
- Annual accounts
- Qualifications, appointment, powers and duties of auditor (including contents of audit report)
- Disposal of profits
- Special audit at the instance of the Central Government
- Time and place of annual general meeting and business to be transacted thereat
- Restrictions on payment of bonus to officers and other employees
- Powers of the Board of Directors to make regulations in consultation with the RBI and with the previous sanction of the Central Government

5.19 Apart from all the provisions of the aforesaid Act of 1970/1980, the following provisions of the Banking Regulation Act, 1949, also apply to nationalized banks by virtue of section 51 of the latter Act:

Section 10	Prohibition of employment of managing agents and restrictions on certain forms of employment
Section 13	Restriction on commission, brokerage, discount, etc., on sale of shares
Section 14	Prohibition of charge on unpaid capital

Legal Framework and KYC Policies

Section 14 A	Prohibition of floating charge on assets
Section 15	Restrictions as to payment of dividend
Section 17	Reserve Fund
Section 19	Restriction on nature of subsidiary companies
Section 20	Restrictions on loans and advances
Section 20 A	Restriction on power to remit debts
Section 21	Power of RBI to control advances by banking companies
Section 21 A	Rate of interest charged by banking companies not to be subject to scrutiny by Courts
Section 23	Restrictions on opening of new, and transfer of existing, places of business
Section 24	Maintenance of a percentage of assets
Section 25	Assets in India
Section 26	Return of unclaimed deposits
Section 27	Monthly returns and power to call for other returns and information
Section 28	Power to publish information
Section 29 [excluding sub-section (3)]	Accounts and balance sheet

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Section 30 [excluding sub- section (1) (1A) and (3)]	Audit
Section 31	Submission of returns
Section 34	Accounting provisions of the Act not retrospective
Section 35	Inspection
Section 35 A	Power of the RBI to give directions
Section 36 [excluding clause D of sub-section (1)]	Further powers and functions of RBI
Section 45 Y	Power of Central Government to make rules for the preservation of records
Section 45Z	Return of paid instruments to customers
Section 45 ZA	Nomination for payment of depositors' money
Section 45 ZB	Notice of claims of other persons regarding deposits not receivable
Section 45 ZC	Nomination for return of articles kept in safe custody with banking company
Section 45 ZD	Notice of claims of other persons regarding articles not receivable
Section 45 ZE	Release of contents of safety lockers
Section 45 ZF	Notice of claims of other persons regarding safety lockers not receivable

Section 46	Penalties
Section 46 A	Chairman, director, etc., to be public servants for the purposes of Chapter IX of the Indian Penal Code
Section 47	Cognizance of offences
Section 48	Power of RBI to impose penalty
Section 48	Application of fines
Section 50	Certain claims for compensation barred
Section 52	Power of Central Government to make rules
Section 53	Power to exempt in certain cases

State Bank of India and its Subsidiaries

5.20 State Bank of India and its subsidiaries are governed by:

- a) State Bank of India Act, 1955/State Bank of India (Subsidiary Banks) Act, 1959, as the case may be; and
- b) Specified provisions of the Banking Regulation Act, 1949.

5.21 The provisions of the Banking Regulation Act, 1949, applicable to State Bank of India and its subsidiaries are specified in section 51 of the said Act and are the same as those applicable to nationalized banks.

Banking Companies

5.22 Section 2 of the Banking Regulation Act, 1949, provides that the provisions of the Act shall be in addition to, and not, save as expressly provided there under, in derogation of the Companies Act, 1956, and any other law for the time being in force. Thus, banking companies attract the provisions of both the Banking Regulation Act, 1949, as well as the Companies Act, 1956. In case

the provisions of these enactments are at variance, the provisions of the Banking Regulation Act, 1949, shall prevail.

Regional Rural Banks

5.23 Regional rural banks are governed by

- a) Regional Rural Banks Act, 1976; and
- b) Specified provisions of the Banking Regulation Act, 1949.

5.24 The provisions of the Banking Regulation Act, 1949, applicable to regional rural banks are specified in section 51 of the said Act and are the same as those applicable to nationalized banks.

Co-operative Banks

5.25 Co-operative banks are governed by:

- a) the Co-operative Societies Act, 1912, or the Co-operative Societies Act of the state concerned, as the case may be; and
- b) Part V of the Banking Regulation Act, 1949.

5.26 Part V of the Banking Regulation Act, 1949, modifies certain provisions of the Act in their application to co-operative banks and omits certain others. The sections which have been significantly modified in their application to co-operative banks are sections 2, 5-A, 8, 9, 11, 18, 19, 20, 22, 23, 24, 27, 29, 31, 35, 35A, 36, 36A, 49A, 54 and 55. Besides, the First Schedule to the Act is not applicable to co-operative banks while the Third and the Fourth Schedules to the Act have been replaced by a schedule applicable only to co-operative banks.

Scheduled Banks

5.27 These are the banks included in the Second Schedule to the Reserve Bank of India Act, 1934. The Reserve Bank includes a Bank in this Schedule if it fulfils certain conditions.

5.28 The Reserve Bank gives certain facilities to scheduled banks including the following:

- a) Purchase, sale and rediscounting of certain bills of exchange (including foreign bills of exchange) or promissory notes.
- b) Purchase and sale of foreign exchange.
- c) Making of loans and advances to scheduled banks.
- d) Maintenance of the accounts of scheduled banks in its banking department and issue department.
- e) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of the Reserve Bank free of charge or at nominal charges.

Returns to be Submitted to the RBI

5.29 The Banking Regulation Act, 1949 requires banking companies, nationalized banks, State Bank of India, its subsidiaries, and regional rural banks to furnish the following returns to the RBI:

- a) Monthly return of assets maintained in India in accordance with section 24 and demand and time liabilities in India at the close of business on each alternate Friday during the month. [Section 24]
- b) Quarterly return of assets and liabilities in India at the close of business on the last Friday of every quarter. [Section 25]
- c) Annual return of unclaimed accounts which have not been operated for 10 years. [Section 26]
- d) Monthly return of assets and liabilities in India at the close of business on the last Friday of every month. [Section 27]

5.30 The above types of banks have also to furnish such other statements or information as may be required by the RBI under section 27 of the Act. In exercise of its powers under the aforesaid

section, the RBI requires a large number of returns to be furnished to it. Some of the important returns required to be furnished to the RBI are as enumerated below, with their periodicity indicated in parentheses:

- a) Report on Non-performing Advances (annual)
- b) Statement showing the position of reconciliation of investment account (annual)
- c) Statement on compromises and settlements involving write off (half yearly)
- d) Statement on bad debts written off (annual)
- e) Details of Doubtful or Loss Assets and also Suit Filed accounts with outstanding aggregating Rs.1crore and above (half-yearly)
- f) Details of remittance of profits / surplus retained in India (annual)
- g) Particulars of provisions held on problem credits of overseas branches (half-yearly)
- h) Inter-branch reconciliation (quarterly)
- i) Reconciliation of outstanding inter-branch accounts (annual)
- j) Reconciliation of clearing differences (annual)
- k) Position of balancing of books (quarterly)
- l) Returns relating to frauds, robbery, etc. including fraud involving Rs. one crore and above (quarterly)
- m) Return of Capital Adequacy (quarterly)
- n) Return on Asset Quality (quarterly)
- o) Asset-liability management (monthly)

5.31 Money Laundering in plain meaning is an activity involved in washing and ironing illegal/black earning as legitimate/white earning.

5.32 E-Banking/Cyber Banking strengthened with global reach of internet and www are considered Vulnerable, as it facilitates fast movement of fund across the global within short span of time

Indian Initiative

5.33 In view of an urgent need for the enactment of a comprehensive legislation *inter alia* for preventing money laundering and connected activities, confiscation of proceeds of crime setting up of agencies and mechanisms for coordinated measures for combating money-laundering etc., the Prevention of Money Laundering Act, 2002 (PMLA, 2002) enacted with an amendment by the Prevention of Money Laundering (Amendment) Act, 2005

Know Your Customer (KYC) Policies Under Prevention of Money Laundering Act (PMLA)

Money Laundering Defined in PMLA

5.34 Section 3 of the PMLA, 2002 defines “Offence of Money Laundering” as an attempt to indulge or intentional assistance or intentional participation or involvement of a person in any process or activity connected with the proceeds of crime and projecting it as untainted money rendering in legally usable form.

Terrorist Financing

5.35 Terrorist Financing is the reverse procedure of Money Laundering. Here the money earned from legitimated sources is used for illegitimate activities i.e. financing terrorism. Funds earned by Political boss Industrial organizations etc interested if such activity is supplied to extremist organizations for carrying out their motive.

KYC Policies

5.36 KYC refers to the policies and procedures established by the Banks, Financial Institutions, and Intermediaries to ensure that the Bank System is not used by *malafide* people. The objective is that due care should be taken before any business relationship is entered.

5.37 In today's world of advanced technologies, once the money enters the banking channels it is difficult to check its movement alone, forget Origin. The best way to check money laundering is to check it at placement stage itself by effective KYC techniques.

Requirements under the PMLA

5.38 Chapter IV of the Act deals with obligation of BIF.

- Section 12 contained in the chapter requires BIF to:
 - Maintain records of transactions of prescribes nature and value.
 - Furnish the above information to the director.
 - Verify and maintain records of the identity of the customers in prescribed manner.
- Section 13 of the Act empowers the director to Scrutinize records and impose penalty of a minimum of Rupees 10,000/- to a maximum of Rupees 1,00,000/-.
- Section 14 provides protection to the BIF and its officers from any liability in Civil or criminal proceedings for providing the information required by section 12.
- Section 15 provides for the manner of furnishing of information to the director. The same has been delegated rules and have been provided in the rules.
- The Act places responsibility on BIF. Lets understand each one of them in details:

- Banking Company has been defined in 2(e) of the act as a banking company or cooperative Bank to which the Banking Regulation Act, 1949 applies. The banking regulation act inter alia requires that any company which is engaged in accepting repayable deposits (either on demand or otherwise) for the purpose of lending of investments is called a banking company.
- A Company which is engaged in manufacturing or under which accepts deposits only for financing its own business is specifically excluded.
- Intermediary has been defined in clause 2(n) of the Act to mean:
 - Stock-brokers.
 - Sub-brokers.
 - Share transfer agents.
 - Bankers to an Issue.
 - Trustee to a trust deed.
 - Registrar to an issue.
 - Merchant bankers.
 - Underwriters.
 - Portfolio manager.
 - Investment Adviser.
 - Depository Participants.
 - Custodian of Securities.
 - Foreign Institutional Investors.
 - Credit Rating Agencies.

- Others, as may be notified under the section 12 of the SEBI Act, 1992 by the SEBI.
- Financial Institution have been defined under section 2(l) of the Act to mean a financial institution defined under 45-I(c) of the RBI Act, 1934 and includes a:
 - Chit Fund Company.
 - Cooperative Bank.
 - Housing Finance Institution.
 - Non banking finance Institution.
- The Cooperative banks having paid up capital of less than 1 lakh rupee which are not covered under the definition of Banking Company are covered under the Financial Institution category.

Rules Prescribed under the PMLA (Notification GSR 444(E) dated 1.7.05)

5.39 Rule 2 contains the definition of important terms used in the Rules.

- “Suspicious Transactions” has been defined in clause (g) of sub-rule (1) as transactions whether or not made in cash, which to a person acting in good faith-
 - live rise to a reasonable ground of Suspicion that it may involve proceeds of crime; or
 - appears to be made in circumstances of unusual or unjustified complexity; or
 - appears to have no economic rational or bonafide purpose.

5.40 Transactions for which records are to maintained under rule 3(1)-

- All cash transactions of the value of more than rupee ten lakhs or its equivalent in Foreign Currency.

- All series of cash transactions integrally connected to each other taking place in a month exceeding above limit.
- All cash transactions where forged or counterfeit currency have been used or any forgery of a valuable security has taken place.
- All suspicious transactions in cash or not as listed in Sub-clause I to V.

5.41 Rule 4 describes the details of records to be kept.

- Nature of the transaction.
- Amount and currency of the transaction.
- Date of the transaction.
- Parties to the transaction.

5.42 Rule 5 describes the manner and procedure for maintenance of information.

- In HARD and SOFT copies in accordance with the procedure and specified by RBI and SEBI.
- Evolve an internal mechanism to keep these records as per the RBI and SEBI guidelines.
- Follow RBI and SEBI guidelines.

5.43 Rule 6 requires BIF to maintain the records as required by these rules for ten (10) years after the date of Cessation of transaction between the BFI and the client.

5.44 Rule 8 lays down the time limit for furnishing records to the director-

- In case of transaction exceeding the specified limit, within seven days of end of the month in which they occur.

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- In case of forged currency or security transactions and Suspicious transactions, within 3 days of transaction.

5.45 Rule 9 provides for the verification of the records of the identity of the clients. Sub-rule 1 provides that at the time of opening an account of every client, the Bank shall procure-

- Record of identity of the client.
- Current address and permanent address.
- Nature of business and his financial status.
- Sub-rules (2) to (6) of Rule 9 deals with records to be submitted by different type of client. This requires things like officially valid documents, photographs, proof of the nature of business or the financial status, certificate of incorporation, MOA and AOA, resolution of governing Body, trust deed, etc.
- “Officially Valid Documents” has been defined under Rule 2(l)(d) as follows:
 - The passport; or
 - The driving license; or
 - The PAN; or
 - The voter ID card; or
 - Any other document as may be required by the BIF of the client.
- Sub-rule (7) of Rule 9 requires that every BFI shall formulate and implement a client identification programme which shall incorporate the given requirements and such other things as it may think appropriate to enable it to determine true identity of its clients. A copy of the program is to be forwarded to the director.

5.46 Rule 10 contains requirements similar to that of Rule 6 but in respect of records relating to the Identity of the client instead of that relating to the transaction.

KYC Guidelines issued by RBI Circular No. DBOD/AML/BC.18/ 14.01.001/2002-03 dated 16.08.2002

5.47 Customer identification for new customers includes:

- Verification by-
 - Introductory reference by an existing account holder; or
 - Other person known to Bank; or
 - Documents provided by the customer.
- Board of the directors to have in place adequate policies that establish processes and procedure. To monitor the transaction of suspicious nature in accounts and have system conducting due diligence and reporting.
 - “Know Your Customer” procedures for existing customer to be completed at the earliest.
 - Ceiling and monitoring of cash transaction.
 - Ceiling limit for issue of DD, TT, mail transfers made by cash Rs.50,000/-.
 - Identification of Customers through PAN the Rs.10,000/- limit for above transactions.
 - Risk Management and Monitoring procedures.
 - Internal Control Systems.
 - Terrorism Finance

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- Internal Audit/Inspection.
- STR.
- Adherence to FCRA.
- Record Keeping – for 5 years, including message generated in wire transfers
- Training of staff and management

It is Crucial to train operating and Management staff, so that they fully understand the need for strict adherence to KYC norms. All institution are required to run ongoing training program.

PART – II

Domain of Concurrent Audit

Chapter-1

Evolution of Concurrent Audits in Banks

Introduction

1.1 Though a system of concurrent already in existence in large and exceptionally large bank branches, it was formally introduced by the Reserve Bank of India *vide* its circular of October 1993. This measure of the Reserve Bank of India arose out of the recommendations of the *Ghosh Committee on Frauds and Malpractices in Banks*. In its said circular, the banking regulator explained concurrent audit as being “an examination which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person.” The primary objective if the introduction of a formal system of concurrent audits in banks was to “serve as an administrative support to branches, help in The RBI circular also clarifies that concurrent audit is essentially a management process.

1.2 The importance of concurrent audit was highlighted by the banking regulator as being essential for:

- Sound internal accounting functions
- Effective controls
- Setting the tone for vigilance internal audit to preclude incidence of serious errors and fraudulent manipulations.

The regulator, however, made it amply clear that the concurrent auditor would not sit on the judgment of the decisions taken by the branch manager or an authorized official.

1.3 Subsequently, a working group was set up by RBI under the Chairmanship of Shri Jilani, (the then Chairman, Punjab National Bank) for reviewing the working of concurrent audit system in banks and giving its recommendations for improving it. Further, some of the Public Sector Banks had also sought additional guidelines on the scope of the system, coverage, reporting procedures, remuneration payable to Concurrent Auditor, etc. Accordingly, RBI, in consultation with Audit Sub-Committee of the Board for Financial Supervision, revised the guidelines vide its circular dated 14th August 1996. RBI issued another circular on 12th August 1997 in connection with Concurrent Audit System – Foreign Exchange Transactions - Enlargement of scope.

1.4 The objectives of concurrent audit thus can be enumerated below: -

- To supplement efforts of the Bank in carrying out simultaneous internal checks of transactions and compliance with the systems and procedures of the Bank.
- To perform substantive checking in key areas and rectification of deficiencies in the earliest possible period to preclude the incidence of serious errors and fraudulent manipulation.
- To reduce the interval between a transaction and its examination by an independent person not involved in its documentation.
- To improve the functioning of the branch, leading to up gradation of working of the branch and prevention of fraud.
- Compliance with internal control as well as RBI/Government of India guidelines.
- Identification of areas/activities requiring corrective action and urgency.

1.5 The concurrent auditor is engaged to supplement the efforts of the branch in carrying out simultaneous internal check of transactions and other verifications and compliance with the

stipulated procedures laid down. In particular, it should be seen that: -

- The transactions are properly recorded/documented and vouched
- The irregularities are rectified immediately
- The systems and procedures of the bank are implemented properly
- The transactions are performed or decisions are taken within the policy parameters stipulated by the Head Office, and is not violating the instructions or policy prescriptions of the RBI
- The delegated authority is exercised and the same is within the terms and conditions of the delegated authority.

In very large branches, which have separate sections dealing with specific activities, concurrent audit is a means by which the branch in-charge can ensure that the different sections function within parameters and procedures.

Relationship Between Risk Based Internal Audit and Concurrent Audit

1.6 The concurrent auditor does scrutinize the important and vital transaction of the branches having qualitative magnitude of the bank/branch business. It facilitates correction of irregularities in least possible period so as to minimize the incidence of errors/irregularities and fraudulent manipulations. Whereas in case of the risk based internal audit, the focus will shift from the present system of full scale transaction testing to risk identification, measuring the risk, prioritization of audit area, periodicity, and allocation of audit resources in accordance with the risk assessment of the bank /branches.

Chapter-2

General Guidelines on Concurrent Audit

2.1 As stated earlier, the system of Concurrent Audit in the Commercial Banks was instituted by RBI in terms of its circular dated 11.10.1993 with guidelines. This was subsequently revised vide circular dated 14.08.1996 in general. The relevant circulars of the Reserve Bank of India have been reproduced in **APPENDICES** to the Manual.

2.2 The 1993 circular of the RBI made it clear that the concurrent audit system should be integrated with the other systems of internal audit/inspection which are already in existence in the bank. RBI also stressed on the need for proper documentation of the entire system of audit, inspection and their follow-up as well as review of the performance of the integrated audit system from time to time.

2.3 Since the RBI has time and again stressed that the concurrent audit is a management process integral to the establishment of sound internal accounting function and effective controls and thereby setting the tone for a vigilance internal audit to preclude the incidence of serious errors and fraudulent manipulation, concurrent auditor was thus expected by RBI to verify: -

- whether the transaction or decision are within the policy parameters laid down by the head office;
- that they do not violate the instruction or policy prescription; and
- that they are within delegated authority.

2.4 Banks, while appointing concurrent auditors normally also provide them with a manual of instructions for the assignment. The objective and scope of the engagement are more or less as per the regulatory framework. An effort is however made to provide uniform guidelines to be followed for conducting concurrent auditor by the chartered accountancy firms. The focus of this Manual is more on the areas required to be covered by the RBI in its various circulars on concurrent audit. It is well evident that the system of Concurrent Audit was already in existence in some Banks. It was suggested by RBI in its circular dated 11.10.1993 that while framing the system Bank may also clearly spell out the linkage between different forms of internal inspection and audit and the proposed Concurrent Audit. Individual banks may widen the scope of Concurrent Audit beyond the framework of RBI guidelines. In this Manual, however, only those areas as directed to be covered by RBI have been primarily considered on the basic principle of Internal Audit as spelt out by ICAI.

2.5 Standard on Internal Audit (SIA), 1, *Planning an Internal Audit* has been formulated by ICAI with the purpose of establishing standards and providing guidance in respect of planning an Internal Audit. Some of the extracts from SIA 1 as considered relevant are reproduced/ referred below:

“Objective of Planning

4. The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the above overall objectives of an internal audit. The internal audit plan should, generally, also be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organization. An internal audit charter is an important document defining the position of the internal audit vis-à-vis the organization. The internal audit charter also outlines the scope of internal audit as well as the duties, responsibilities and powers of the internal auditor(s). In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the terms of the engagement.

Scope of Planning

8. *Internal audit plan should cover areas such as:*
- (i) *Obtaining the knowledge of the legal and regulatory framework within which the entity operates.*
 - (ii) *Obtaining the knowledge of the entity's accounting and internal control systems and policies.*
 - (iii) *Determining the effectiveness of the internal control procedures adopted by the entity.*
 - (iv) *Determining the nature, timing and extent of procedures to be performed.*
 - (v) *Identifying the activities warranting special focus based on the materiality and criticality of such activities, and their overall effect on operations of the entity.*
 - (vi) *Identifying and allocating staff to the different activities to be undertaken.*
 - (vii) *Setting the time budget for each of the activities.*
 - (viii) *Identifying the reporting responsibilities.*

The internal audit plan should also identify the benchmarks against which the actual results of the activities, the actual time spent, the cost incurred would be measured.

9. *The scope of an internal audit is normally affected by factors such as:*

- (ix) *Terms of the engagement.*
- (x) *Nature of accounting system - manual or IT-based - and the degree of reliance placed by the auditor on the same.*
- (xi) *Accounting policies adopted by the entity*

General Guidelines on Concurrent Audit

- (xii) *Nature of information technology system used by the client in the various business processes and the exception reports generated by the system.*
- (xiii) *Authorization and delegation of authority in the systems environment and data entry checks and data security measures including generation of day end logs of security and authorization violations.*
- (xiv) *The nature of management information system in vogue and the extent to which the management information system reports are used by the client in establishing and reviewing internal controls*
- (xv) *Expected audit coverage, including identification of areas of audit requiring special attention, number and locations to be included, nature of business segments to be audited and the need, if any, for specialized knowledge*
- (xvi) *Materiality thresholds established in respect of various areas of audit especially, those areas requiring special attention.*
- (xvii) *Nature and extent of audit evidence to be obtained*
- (xviii) *Experience and skills of the staff and the need for supervising, directing, coordinating and reviewing their work.*
- (xix) *Requirements of the applicable pronouncements of the Institute of Chartered Accountants of India.*
- (xx) *Statutory or regulatory framework in which the entity operates.”*

Planning process as formulated in SIA 1, therefore, involves the following: -

- Obtaining knowledge of the business
- Establishing the audit universe
- Establishing the objective of the engagement

- Establishing the scope of the engagement
- Deciding the resource allocation
- Preparation of Audit Programme

“Deciding the Resource Allocation

*17. Once the scope of the internal audit procedures is established, the next phase is that of deciding upon the resource allocation. Efficient resource allocation is essential to achieve the desired objective, within the constraints of time and cost as well as optimum utilization of resources. **For this purpose, the internal auditor should prepare an audit work schedule, detailing aspects such as:***

- ***Activities/procedures to be performed;***
- ***Engagement team responsible for performing these activities/procedures; and***
- ***Time allocated to each of these activities/procedures.***

18. While preparing the work schedule, the internal auditor should have regard to aspects such as:

- ***any significant changes to the entity's missions and objectives, business processes, and management's strategies to counter these changes, for example, changes in the entity's controls structure or changes in the risk assessment and management structures***
- ***any changes or proposed changes to the governance structure of the entity***
- ***composition of the engagement team in terms, of skills and experience and any changes thereto***

The engagement work schedule should, however, be flexible enough to accommodate any unanticipated changes as well as professional judgment of the engagement team in the

components, of the audit universe as discussed above. The work schedule should also reflect the internal auditor's assessment of risks associated with various areas covered by the particular internal audit engagement and the priority attached thereto.

Preparation of Audit Programme

19. The internal auditor should also prepare a formal internal audit programme listing the procedures essential for meeting the objective of the internal audit plan. Though the form and content of the audit programme and the extent of its details would vary with the circumstances of each case, yet the internal audit programme should be so designed as to achieve the objectives of the engagement and also provide assurance that the internal audit is carried out in accordance with the Standards on Internal Audit. As a corollary, the audit plan developed by the internal auditor would need to be risk-based plans, appropriately reflecting and addressing the priorities of the internal audit activity, consistent with the organization's goals. The internal audit programme should also be finalized in consultation with the appropriate authority before the commencement of the work. The internal audit programme identifies, in appropriate details, the objectives of the internal audit in respect of each area the procedures to be performed to achieve those objectives the staff responsible for carrying out the particular activity, the time allocated to each activity as also the sufficiently detailed, instruction to the staff as to how to carry out those procedures. The internal audit programme may also have provision for information such as the procedures actually performed, reasons for not performing the originally identified procedures, actual time consumed in carrying out the relevant procedure, reasons for deviations from budgeted time etc. A well prepared, comprehensive audit programme helps proper execution of the work as well as of the proper supervision, direction and control of the performance of the engagement team."

SIA 2, *Basic Principles of an Internal Audit*, issued by the Institute of Chartered Accountants of India, should also be referred for the purpose.

Brief Outline - Basic Feature (relevant for the Concurrent Auditor) in the RBI Directives on Concurrent Audit (Revised and Communicated vide Circular dated 14.08.1996)

Scope of Concurrent Audit

2.6 The concept of Concurrent Audit as directed by RBI conceived on the recommendation of a high level committee setup by RBI to enquire into various aspect of fraud and malpractices in Banks. It found that the process of examination is conducted either simultaneously with the transaction or in the earliest possible period after the transaction. In the reporting system it was desired that the Concurrent Auditors may report the minor irregularities, wrong calculation, etc., to the branch manager for immediate rectification and reporting compliance. According to the study, this may shorten the intervening period of the transaction and remedial measures and will ultimately prevent fraud.

Coverage of Business Branches

2.7 The RBI envisaged that department/divisions at the Head Office dealing with treasury functions viz. investment funds management, including inter-Bank borrowings, bill rediscount and foreign exchange business service branches needed to be subjected to concurrent audit. In terms of the RBI circular, the following branches need to be covered:

- (a) Branches whose total credit and other risk exposures aggregate to not less than 50% of the total credit and other risk exposures of the Bank, and Branches whose aggregate deposits cover not less than 50% of the aggregate deposits of the Bank.
- (b) These branches include:
 - Exceptionally large branches.
 - Very large and large branches.

- Special branches handling forex business, merchant banking business, large corporate/wholesale banking business and forex dealing rooms.
- Branches rated as poor/very poor.
- Any other branch where in the opinion of the Bank concurrent audit is desirable.

The RBI also made it clear that the branches subjected to concurrent audit should normally not be included for revenue/income audit.

Types of Activities to be Covered

2.8 The concurrent audit should broadly cover the following items.

- **Cash**
 - Daily cash transactions with particular reference to any abnormal receipts and payments.
 - Proper accounting of inward and outward cash remittances.
 - Proper accounting of Currency Chest transactions, its prompt reporting to RBI.
 - Expenses incurred by cash payment involving sizeable amount, whether such expenditure is authorized by appropriate authority.
- **Investments**
 - Ensure that in respect of purchase and sale of securities, the branch has acted within its delegated power having regard to its Head Office instructions.
 - Ensure that the securities held in the books of the branch are physically held by it.
 - Ensure that the branch is complying with RBI/Head Office guidelines regarding Bank Receipts, SGL forms, delivery of scripts documentation and accounting.

- Ensure that the sale or purchase transactions are done at rates beneficial to the Bank.

- **Deposits**

- Check the transactions about term deposits received and repaid.
- Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits.
- Check new accounts opened, particularly current accounts, operations in new current/S.B. accounts may be verified in the initial periods to see whether there are any unusual operations.

- **Advances**

- Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level).
- Verify whether the sanctions are in accordance with delegated authority.
- Ensure that securities and documents have been received and properly charged/registered.
- Ensure that post-disbursement supervision and follow up is proper, such as receipt of stock statement, installments, renewal of limits etc.
- Verify whether there is any mystification of the loans and whether there are instances indicative of diversion of funds.
- Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
- Check the Bank guarantees issued, whether they have been properly worded and recorded in the register of the

General Guidelines on Concurrent Audit

Bank. Whether they have been promptly renewed on the due date.

- Ensure proper follow up of overdue bills of exchange.
- Verify whether the classification of advances and income booking has been done as per RBI guidelines.
- Verify whether the submission of claims to DICGC and ECGC are in time.
- Verify that instances of exceeding delegated powers have been promptly reported to controlling/Head Office by the branch and have been got confirmed or ratified at the required level.
- Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.
- Verify Balance Sheet items of the borrowal unit.
- Stock verification/security verification.
- Mortgages - Whether properly documented.
- Registration of charges with Registrar of Companies and Resolution passed by appropriate authorities.
- Guarantees obtained and documents of net worth statement.
- Latest audited accounts of the borrower.
- Non-corporate borrowers audited accounts where credit facilities exceed cut off amount.
- QMR statements.
- Withdrawal within limit/ Advance Value (Drawing Power Limit).

- Documents for Term Loans.
- Verification of Interest calculation to ensure that there is no revenue leakage.
- Suggestions for legal action in respect of sticky advances and status of cases, where legal action has been initiated.
- Classification of loans and advances.
- **Foreign exchange transactions**
 - Import transactions
 - Collection of Bills
 - Direct Bills
 - Bills under L/C
 - Export transactions
 - Bills under L/ C
 - Bills for collection
 - Remittances
 - Inward
 - Outward
 - L/Cs
 - Opened by the branch
 - Advised and confirmed by the Bank
 - Guarantees
 - Financing of Import and Export under various types of credit facilities

General Guidelines on Concurrent Audit

- Indian Rupees
- Foreign Currency
- Facilities
- Reporting of foreign currency transactions to authorized branch 'A' category.
- Submission of Statements
 - Authorities in the Bank
 - Other authorities
- Deposit A/cs. of Non-resident and Special Currency A/ c of Resident.
- Booking, utilization and cancellation of Forward Contracts.
- Reconciliation of Nostro and Vostro A/cs. and test checking of transactions in Nostro ledger in terms of Reserve Bank of India's RBI guidelines.
- Check the foreign bills negotiated under letters of credit.
- Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules.
- Check whether inward/outward remittance has been properly accounted for.
- Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorized and necessary charges have been recovered.
- Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the Bank.

Manual on Concurrent Audit of Banks

- Ensure that the overbought/ oversold position maintained in different currencies is reasonable, taking into account the foreign exchange operations.
- Ensure adherence to the guidelines issued by RBI/HO of the Bank about dealing room operations.
- Ensure verification/reconciliation of Nostro and Vostro account transactions/ balances.

Some of the activities are listed below to facilitate the Concurrent Auditor to detail their audit programme relating to foreign exchange transaction. The list of the activities, it is re-emphasized, is merely to facilitate them in their task and should be treated as illustrative list and not as activities limiting the scope of Concurrent Audit.

- | | |
|-----------------------------------|---|
| 1. RBI Guidelines in dealing room | 1. Selection, training and rotation of dealers. |
| | 2. Segregation of activities to ensure internal check. |
| | 3. To check dealing room operation in-depth. |
| | 4. To assess availability of proper and adequate infrastructure and its utilization. |
| 2. Access to Dealing Room | 5. Entry to the dealing room should be restricted to authorized persons only. Whether Bank has given any guidelines, and if so, implemented or otherwise. |
| 3. Limits | 6. To check whether guidelines of RBI/Senior |

General Guidelines on Concurrent Audit

		Management are adhered to
a) Daylight	7.	To check if proper sanctions were obtained
b) Overnight	8.	To evaluate risk management i.e. to ensure that the policies adopted for optimizing the risk exposure are properly adopted.
c) Gaps- Mismaturities	9.	To check whether outstanding are within the sanctioned limit
d) Inter-Bank Limits	10.	To check whether spot/forward limits are interchanged
e) Country Limits	11.	Are used as per serial number. Records are kept of cancelled deal slips
f) Inter-Bank Deal Slips	12.	To check authorization
g) Inter-Bank Deals	13.	To verify rates, broker notes, telex/SWIFT confirmation
	14.	To check data entry accuracy and subsequent effects on various positions, gaps and limits etc
	15.	To check correct posting in various mirror ledgers

- | | | |
|---|-----|--|
| | 16. | To cross-verify (in select cases) timings of the deal, reasons for swap deals etc |
| 4. Exchange Rates/Card Rates-Customer Transaction | 17. | The exchange rate of merchant transactions take into account guidelines given by the RBI, Foreign Exchange Dealers Associations of India, as also policy guidelines conveyed in writing by International Division of the Bank. |
| 5. Nostro Account Funding | 18. | Approximate funds position, availability of funds in each currency in the Nostro a/c is made available to the dealers as and when they require the same |
| 6. Inter-Bank Transactions Settlement | 19. | Records are adequate to ensure that all cases of delay in receipts/payments are properly noted, so that there is no instance of claim receivable/payable. |
| | 20. | Where compensation is done by adjustment in value, date, suitable notation is made and claims (receivable/payable) is treated as settled. Such cases too have to be verified in the context of income leakage |

General Guidelines on Concurrent Audit

- | | | | |
|----|---|-----|--|
| | | 21. | To check authorization in case of payment fee by foreign Bank for value date |
| | | 22. | To cross tally with cash book section |
| | | 23. | To check whether it is within prescribed limit |
| 7. | Counter Party
Confirmations or Branch
Deals | 24. | Confirmation is a well-established practice and must be adhered to |
| | | 25. | Broker's note, by itself, does not substitute confirmation by counter party |
| | | 26. | To check the system adopted for regularizing instances where there are differences between deal slip data and counter party confirmation. Records kept for this activity should be adequate. |
| | | 27. | Compliance with RBI guidelines and Bank's guidelines for this activity |
| 8. | Brokerage for Forex Inter
Bank Deals | 28. | Compliance with RBI and the Bank's own guidelines for this activity |
| | | 29. | Check whether brokerage rate is as per FEDAI guidelines and that Foreign currency Rupee rate for cross currency |

- deals is as per FEDAI guidelines
9. Nostro Ledgers Mirror A/c Checking
30. Foreign Exchange and equivalent rupee value checking, to ensure that the system is in order (as per RBI guidelines)
31. Mirror ledger is not debited/credited towards cancellation/early utilization charges under forward contracts
32. To check authenticity of transaction having rupee debit/credit without having corresponding foreign currency
10. Returns
33. To verify whether necessary returns/ reports are filed within prescribed due dates
11. VOSTRO Accounts
- The auditors may ensure the following:
34. Exchange Control Regulations regarding the operations in the account.
35. Authorization of transactions in the account.
36. Recovery of interest for overdrafts in the account.

- **Housekeeping**
 - Ensure that the maintenance and balancing of accounts, ledgers and registers including cash book is proper. Prompt and regular reconciliation of entries outstanding in the inter-branch and inter-Bank accounts, suspense account, sundry deposit account, DDP account, Drafts Account etc. Ensure early adjustment of large value entries.
 - Carry out a percentage check of calculations of interest, discount, commission, and exchange.
 - Check whether debits in income account have been permitted by the competent authorities. Check the transactions of staff members.
 - In case of difference in clearing, there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the day book to verify as to how the difference in clearing has been adjusted.
 - Such instances should be reported to Controlling Office in case the difference persists.
 - Detection and prevention of revenue leakages through close examination of income and expenditure.
 - Check cheques returned/bills returned register and look into reasons for return of those instruments.
 - Checking of inward and outward remittances (DDs, MTs and TTs). Reconciliation of bankers accounts.
- **Other items - High value transactions.**
 - In case the branch has been entrusted with Government Business, ensure that the transactions are done in accordance with the instructions issued by Government, RBI and Controlling Office.
 - Study internal inspection/audit reports and ensure that the branch gives proper compliance thereto.

- Ensure that customer complaints are dealt with promptly.
- Verification of statements, controlling office returns, Statutory Returns.

Reporting System

2.9 In respect of the reporting system, RBI has prescribed as under:

- i) The concurrent auditor should be attached to the branches and not the zonal offices.
- ii) Minor irregularities pointed out by the concurrent auditor should be rectified on the spot. Serious irregularities should be straightaway reported to the controlling offices/Head Offices for immediate action.
- iii) There should be zone-wise reporting of the findings of the concurrent audit to ACB and an annual appraisal/report of the audit system should be placed before the ACBs.
- iv) Whenever fraudulent transactions are detected, they should immediately reported to Inspection & Audit Department (Head Office) as also to the Chief Vigilance Officer as well as Branch Managers concerned (unless the branch manager is involved).
- v) There should be proper reporting of findings of the Concurrent Auditors. For this purpose, each bank should prepare a structured format. The major deficiencies/ aberrations noticed during audit should be highlighted in special note and given immediately to the Bank's branch/controlling offices. A quarterly review containing important features brought out-during the concurrent audit should be placed before the ACB.

General Guidelines on Concurrent Audit

- vi) Follow-up action on the concurrent audit reports should be given high priority by the controlling office/inspection and audit department and rectification of the features done without any loss of time.
- vii) A special cell in the inspection and audit department may be created in each bank to: -
 - Review the selection of auditors
 - Initiate and operate a system for the appraisal of the performance on Concurrent auditors
 - Ensure that the work of Concurrent Auditors is properly documented
 - Be responsible for the follow-up on audit reports and the presentation of the quarterly review to the ACB

2.10 The administrative powers, be it for lending or for any others function are normally well defined by the respective banks in its guidelines/manual/circulars. The powers of the authorities at the branches are expected to be exercised accordingly. A concurrent auditor should take note of the same and verify whether all the systems and procedures laid down are followed in the branch. Audit of vouchers, recording transactions should be done to verify authenticity, accuracy and the fact that they are within the delegated authority of branch personnel and also that the revenue leakage is prevented and any loophole in the system is plugged.

2.11 The extent of checks to be carried out by the concurrent auditor would depend primarily on the professional judgment of the concurrent auditor, the following points are worth noting in this regard:

- In case of balance sheet items, investment portfolio, foreign exchange transactions, fraud prone/sensitive areas, outstanding advances more than a specified amount and also in accounts with less than a specified amount, if any unusual feature is found, it would be better for the concurrent auditor to increase the coverage of the items checked.

- In case of income and expenditure items, inter bank, inter branch transaction, interest paid and interest received, clearing transactions and deposit accounts, the check may use test checks.
- At a branch with poor performance in certain areas such as monitoring on house keeping, advances, investment, the concurrent auditor may carry out a more detailed checking of such areas.
- The concurrent auditor should concentrate on high-value transactions having financial implication for the Bank, rather than those involving lesser amount although number-wise, they may be large.
- The concurrent auditor should verify accuracy of statements and returns, compliance with internal inspection/audit reports and aspects relating to customer service.
- The concurrent auditor should identify problem areas at branch level and offer his suggestions to overcome them.
- In case of any shortcomings, where an adverse remark is required to be given, the concurrent auditor should give reasons therefore and also suggest steps that may be taken to avoid their recurrence.
- The concurrent auditor should make maximum efforts for removal/rectification of irregularities on the spot. List of irregularities should be given on a daily basis to the Section In-charge against his receipt under intimation to the Controlling Officer and it is suggested that their rectification should be monitored by the Controlling Officer to avoid unnecessary bulky report by the Concurrent Auditor.

Audit Planning and Documentation

2.12 The concurrent auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles of an audit and as per terms of reference. The Institute has also issued SIA 3, *Documentation*. This should be referred for the purpose.

2.13 The auditor should record the audit plan as per the checklist and the format of audit report given by the respective banks. Circulars, terms of engagement, scope of work etc., and the engagement letter should also be taken into consideration in this regard.

2.14 The concurrent auditor should keep all the working papers on record which are used in finalizing the reports. The following papers can be kept in permanent audit file:

- Letter of engagement, undertaking/comment by the firm to the Bank
- Audit checklist
- Information regarding branch business, data, nodal officer, status of branch, whether computerized/parallel category of branch, etc.
- Performance of monthly, quarterly, annual report revenue report
- Correspondence with the Bank for any matter

2.15 Similarly, the current audit file may include all other papers relevant to the audit, for example:

- Branch Audit Programme
- Branch's statement as on the data of the report on which basis it is prepared.
- Periodic correspondence with the concerned departmental officer
- Irregularities intimated to the Controlling Officer
- Discussion of the audit report
- Particulars of big borrowers, depositors etc.
- Circulars received from head office of the auditee Bank

It is necessary for the auditor to record his observation in an appropriate record and bring them to the notice of concerned official of the Bank.

Reporting Systems

2.16 The idea behind a concurrent audit is an examination that is conducted either simultaneously with the transactions or within the earliest possible period after the transaction. The audit is a regular affair i.e., the deficiencies or lapses in the normal working get rectified at the earliest.

2.17 The findings of irregularities are first to be reported to the branch and if rectifications or appropriate steps thereof are not taken these are to be brought to the notice of an appropriate higher authority in the form of the report. This would help in minimization of irregularities as well as prevention of fraud. The reporting format may be monthly, quarterly, half-yearly and annually as per the terms of engagement.

Special Report - Reporting on Frauds

2.18 A special report may be submitted by the concurrent auditor in situations of any serious irregularity/frauds, etc. In such cases, the concurrent auditor should get in touch with the higher authorities at the earliest besides sending a special report/flash report to the higher authorities, explaining the findings of the case. This aspect is normally mentioned in the scope of work/appointment letter given by the concerned Bank based on the Mitra Committee recommendations.

Time Schedule for Reports

2.19 The time schedule for submission of the concurrent auditor's report is usually given in the engagement letter.

Relative Importance to Different Areas

2.20 The purpose of concurrent audit is substantive checking in key areas with the appropriate design of audit sampling. The concurrent auditor normally goes through the vouchers and other

books of the branch of the previous day and identifies areas to be scrutinized in details. In case the volume of transaction and deposit/advances at the branch are heavy and it is not possible to conduct 100 percent checking the next day, the concurrent auditor may concentrate on high value transactions having material financial implications for the Bank rather than those involving lesser amount but having no material financial impact on the bank. In any case, the examination of all transactions as per prescribed norms should be done. Generally, the following guidelines may be followed:

- The concurrent auditor would examine the workings of each department and identify problem areas and loopholes.
- The concurrent auditor would observe that necessary compliance of the prescribed systems and procedures is done in the branch.
- The concurrent auditor should indicate the extent of checking of various areas in his report. If the same is not given in the format in which the report is to be submitted, reference of this fact may be made in covering letter of the report.

Frequency of Checking Different Items

2.21 The frequency of checking of different items by the concurrent auditor depend on factors such as the guidelines given by the bank in the scope of work, circulars issued by the RBI from time to time, etc.

2.22 A concurrent auditor needs to devise his own strategy/time frame covering all the areas. For this purpose, the auditor would need to first identify the areas at the branch which need greater attention, the areas which are to be regularly monitored, the items which are to be checked daily, and the items which may be checked less frequently.

2.23 The concurrent auditor would also need to go through the previous reports such as the statutory audit report, internal inspection reports, RBI inspection reports, and concurrent audit reports of the branch as well for this purpose. Illustrative checklists (daily/weekly/fortnightly/monthly/quarterly/half-yearly, etc.) are given in a Chapter 5 of Part II.

Monitoring

2.24 While the basic responsibility of monitoring the activities of the branch rests with the branch in-charge, the concurrent auditor's work would supplement the process with proper and timely reporting.

Removal of Irregularities

2.25 To supplement the process of removal/rectification of irregularities in the earliest possible period, the concurrent auditor will bring his finding of the irregularities/ deficiencies/discrepancies to the notice of the branch officials. The outstanding deficiencies/irregularities need to be discussed with branch officials and their viewpoints also need to be reflected. The concurrent auditor should maintain an appropriate record of the irregularities observed as well as the discussions held with the branch officials. Pending irregularities not rectified would be included in the final report of the concurrent auditor. Materiality of these pending irregularities should be clearly spelt out in the final report. The Controlling Officer's view on these final queries should also be noted down.

2.26 The irregularities pointed out in the previous monthly/quarterly concurrent audit reports may be dropped by the concurrent auditor with proper disclosure if the same have been rectified.

2.27 The concurrent auditor should get the guidelines implemented in respect of following sensitive areas on priority basis to avoid the occurrence of these irregularities:

- Morning checking i.e. checking of all computers generated supplementary, checksum generation checking, previous day's G.L. Day Book, Exceptional Transaction Report, Day beginning by System Administrator as per Computer Manual etc.,
- Teller's reconciliation.
- Custody, checking and use of scrutiny forms.
- Balancing and checking of books.

- Safekeeping of AOF's, ledgers, teller cards etc..
- Use of password by the password holder himself and initialing each entry in Audit Trail/Transactions list by, the password holder, and the same appears in the printout.
- Post sanction and periodic verification of securities.
- Correct provisioning of interest on deposits and advances and proper maintenance of the Interest Register.

2.28 Certain irregularities like excess cash, suspense entries, defects in AOF's supplementary ledger checking, bills, insurance etc., find place in many of the reports. Cash Ratio limit in terms of percentage and/or amount is fixed by the higher authorities. Variations, if any, should be reported by the concurrent auditor. The concurrent auditor should, however, permit a reasonable time for the completion of the formalities. In case the branch officials do not co-operate in rectification of the irregularities, the concurrent auditor may contact/write to the higher authorities.

Infrastructure for Concurrent Auditor

2.29 Necessary infrastructural facilities, all circulars from the controlling office, operating instruction/directives should be made available to the concurrent auditor.

Coordinator for Concurrent Audit

2.30 Concurrent audit is different from the statutory and other audit of banks, as this former is an ongoing process. Appropriate co-ordination is necessary for smooth conduct of the audit and rectification of irregularities.

Extension Counters/Service Branch

2.31 If any extension counter(s) is/are functioning under the branch, such extension counters should also be taken under the scope of the concurrent audit at appropriate intervals. In case of a service branch, checking whether a regular statement of branch accounts are sent to all local branches and outstanding entries as per the statement should also be scrutinized. If the originating entries pertain to the service branch, duplicate advices would be

sent to the branches. In other case, it is important that the service branch is informed by sending advices from branches whenever the rectification entries are passed by branches among themselves without routing the transaction through service branch.

Focus of Concurrent Audit

2.32 A study of the *modus operandi* of the fraudulent transactions generally indicates that the processing of transactions is done without adhering to the systems and procedures. This permits an unscrupulous person to misuse the procedures of the bank and undertake fraudulent transactions, which remains unnoticed for a long time. Concurrent Auditor would therefore, need to focus on adherence to laid down systems and procedures and safeguards.

Maintenance of Appropriate Record

2.33 In order to keep correspondence between the branch in charge and the Concurrent Auditor under control, instead of daily/weekly reports, the concurrent auditor may maintain a record of his observations, duly countersigned by the bank official in the earliest possible period. The recording should be made on a daily basis with date with suitable column for recording rectification/removal. The record preferably remains in the custody of the incumbent in-charge with a copy to Concurrent Auditor. The various items to be normally recorded are given below: -

Date	Irregularity Observed	Initial/authorisation of Concurrent Auditor	Initial of Bank official

How Irregularity Rectified	Date of Rectification	Initial/authorisation of Concurrent Auditor	Initial of Bank Official

2.34 The record should be made available to the officer in charge of the controlling office or their representatives as and

when they visit the branch to apprise them of the state of working of the branch, removal/rectification of irregularities by the branch, compliance of systems and procedures by the branch.

Reporting Frauds

2.35 The concurrent auditor, while carrying out concurrent audit of the branches will ensure that the laid down guidelines and systems, and procedures are followed by the branch to obviate the possibilities of frauds/irregularities taking place. Wherever any irregular fraudulent transactions are detected by the concurrent auditor, such matters should be immediately reported to the concerned officer of the controlling office through a Special Report.

Annual Report (AR)

2.36 The Concurrent Auditor would submit an annual report to the Controlling Office. Features of regular inspection report on all areas of the branch functioning will be incorporated into this report.

Time for Submission of the AR and Stay at the Branch

2.37 This aspect varies from bank to bank but as a general practice i.e. unless otherwise instructed, the Concurrent Auditor compiles the Annual Report within the prescribed time while staying in the branch.

2.38 During this tenure, the concurrent auditor will also conduct audit on regular basis for that month also and submit a separate concurrent audit Report for the month, unless, he has been advised to discontinue the present assignment/proceed for next assignment. This monthly Concurrent Audit Report is to be submitted alongwith the Annual Report and a copy handed over to the next concurrent auditor for them to incorporate the irregularities mentioned in the monthly report in the next of his first monthly concurrent audit report.

Confirmation Required

2.39 The Concurrent Auditor would normally report only the irregularities not rectified And confirm that all the areas mentioned in the check list/ guidelines have been checked by them. He also needs to confirm compliance of these instructions by the branches. The Concurrent Auditor would verify and confirm that provisions made at the branch on account of interest payable on deposits and receivable on advances are realistic and regular and make an appropriate report thereon. While the officials of the branch continue to be responsible for any over or under provisioning, the concurrent auditor should verify that all monthly Income and Expenditure vouchers are passed correctly before the date so that profit/loss of the branch is reflected correctly.

2.40 The concurrent auditor will also ensure that the interest charged on advances and interest paid on deposits is as per the guidelines issued from controlling office and is checked regularly to plug any revenue leakage. The Concurrent Auditor will also need to point out instances where rotation of employees has not been done e.g. employees performing same duty/job for more than one year or as the administrative policy of the Bank stipulates.

Chapter-3

Conduct of Concurrent Audit

3.1 A concurrent audit is to be conducted according to the guidelines and instructions given by the particular bank in that regard. However, the basic needs of the Concurrent audits are generally the same in all the banks.

Appointment of Auditor and its Accountability in terms of RBI guidelines

3.2 The circulars issued by the Reserve Bank of India provide as follows in respect of the appointment of a concurrent auditor:

- i) The option to consider whether concurrent audit should be done by Bank's own staff or external auditors is at the discretion of the individual banks.
- ii) In case of bank has engaged its own officials, they should be experienced, well trained and sufficiently senior. The staff engaged on concurrent audit must be independent of the Branch where the concurrent audit is being conducted.
- iii) Appointment of an external audit firm may initially be made for one year, extendable upto three years – after which the firm may be shifted to another branch subject to satisfactory performance.
- iv) If external audit firms are appointed and any serious acts of omission or commissions are noticed in their workings – their appointments may be cancelled and the fact may reported to RBI and the Institute of Chartered Accountants of India (ICAI).

3.3 Thus, a concurrent audit may be conducted by any bank official, who is assigned duties for the same. However, now-a-days in most of the banks, Chartered Accountants firms are being appointed to conduct concurrent audit of branches. Broadly, there is no difference in the norms when Concurrent Audit is conducted by Bank's own officials or by Chartered Accountants.

Appointment Letter and Expectations of the Bank

3.4 When an auditor receives appointment letter as a concurrent auditor of branch from the Bank, he or the firm, as the case may be is required to communicate his/its acceptance or otherwise through a letter prescribed by the respective Bank. In case the assignment is accepted, the auditor is also required to submit an undertaking to abide by the terms of appointment as well as regarding confidentiality of Bank's matter besides disclosure of any interest in the Bank. This appointment is the agreement between Bank and auditor describing terms of contract, scope of audit and other related terms of reference, such as time allotted, frequency of checking etc. The concurrent auditor must mention the reference of this appointment letter in audit programme and letter covering the report.

3.5 In pursuance of RBI circular of September 26, 1995, a Bank is required to constitute an Audit Committee of its Board. The membership of the audit committee is restricted to the Executive Director, nominees of the Central Government and the RBI, Chartered Accountant director and one of the non official directors. One of the functions of this Committee is to provide direction and also oversee the operations of the entire audit function in the Bank. The Committee also has to review the internal inspection/audit function in the Bank, with special emphasis on the system, its quality and effectiveness in terms of follow up. The Committee may also review the system of appointment and remuneration of the concurrent auditor.

3.6 Considering the coverage of this audit assignment and the specialized nature of work there is also a need for training to be imparted to the staff of the auditors. This training has to be given

in specialized fields such as foreign exchange computerization, areas of income leakage, fraud prone areas, determination of credit rating and other similar specialized areas. The Bank can organize such training programmes so that it can ensure the quality of audit.

Audit Programme

General Reference

3.7 For the purpose of concurrent audit, the general references should be drawn from the sources, including:

- Bank's Book of Instructions
- Bank's Manual on Documentation
- Circulars of the Reserve Bank of India issued from time to time.
- Exchange Control Manual and Rules of FEDAI (Foreign Exchange Dealers Association of India).
- Inspection Reports of:
 - RBI
 - Bank's Internal Inspectors
 - Long Form Audit Report (LFAR) of the statutory auditor
 - Visit Reports of Executives from controlling offices (ZO/HO)

3.8 The auditor should prepare a programme and keep it in the branch concurrent Audit file. After completion of each Monthly/Quarterly audit, the Progress Report (Annual) should be updated to enable the subsequent concurrent auditor to take up the audit for subsequent months. From the follow-up sheet (indicating what areas are due to be completed), the routine as well as the 'important' areas may be decided during the month and reported

under appropriate head of accounts. After completion of drafting of the monthly report, again a 'Follow up' sheet has to be prepared for the next month. This process should be continued till the last month of the concurrent audit period. This will ensure that all the areas of the Bank's functioning have been covered by the audit team during the 'concurrent audit year'.

Programme

3.9 The audit programme sheet should emphasize verification of transactions by the concurrent auditors in view of the principal objectives. The concurrent auditor should not confine their areas of functioning to instructions on subject matter already given to them in writing, but should also use their own judgment and wisdom to cover such other matters which might lead to a financial loss subsequently. Each concurrent auditor has to draw his own audit programme. To facilitate them in this task, various items to be verified/audited are listed separately under the handout Concurrent Audit- Induction material. The list is only illustrative and should not be treated as exhaustive. It should be ensured that all other areas (not covered in the Audit Sheet) are comprehensively covered in the Concurrent Audit Report.

3.10 **Understanding the Branch Business Profile** is essential for successful Concurrent Audit of the branch. A model of profile is given below: -

PROFILE OF BRANCH

- i) Name of the Branch :
- ii) Date of Opening of Branch :
- iii) Area Classification – M/U/SU/R :
- iv) Category of Branch – EL/VL/M/S :
- v) Risk – H/M/L :

Conduct of Concurrent Audit

- vi) Whether Branch is provided with :
- a) Currency Chest : Yes/No
 - b) SDV : Yes/No
 - c) SDL : Yes/No
 - d) ATM Facility : Yes/No
- vii) Whether Branch is provided with :
- a) Foreign Exchange Business : Yes/No
 - b) Govt. Business : Yes/No
 - c) Merchant Banking Business : Yes/No
 - d) Mechanized with CBS (Core Banking System) : Yes/No
- viii) Particulars of the Manager in-charge of the Branch : Tenure in the Branch
- | Name | Scale | From | To |
|----------|-------|------|----|
| Existing | | | |
| Previous | | | |
- ix) Date of last internal inspection :
- Date of submission of :
Rectification Confirmation
- x) Date of last concurrent audit :
- Date of submission of :
Compliance Report /
Rectification Confirmation

BUSINESS PROFILE OF THE BRANCH

Name of the Branch.....

For the Month/Quarter ended.....

a) Synopsis of Assets & Liabilities

Rs./Lacs

	Position		
Assets	As on last day of the financial year	As of last Friday pf the previous month/quarter	As of last Friday of current month/ quarter
Cash			
Balance with Bank			
Investment			
Advances			
Inter Branch Transaction (Net Dr)			
Other Assets			
P/L/ A/c (Dr. Balance)			
Total			
Liabilities			
Deposits			
Borrowing from Banks			

Inter Branch Transaction			
Other Liabilities			
P/L/ A/c			
Total			

b) Business Parameters

	Position	
Particulars	As of last Friday pf the previous month/quarter	As of last Friday of current month/ quarter
Deposits		
• of which low cost deposits		
Advances		
Non performing Assets (NPA) % to total advances		
Recovery performance		
• of which cash recovery		
• Other than cash recovery		
• Priority sector advances		
Export Credit		
Profit		
Staff Productivity		
Observations on		

sudden spurt or fall in Deposits and Advances.		
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3.11 The concurrent auditor would therefore need to the following documents in particular before the commencement of the audit.

- The appointment letter together with the management circular/ instruction on the subject.
- Acceptance Letter
- Communication to previous auditor

3.12 A checklist or flow till commencement is given below: -

A. On receipt of appointment letter:

- Write for No Objection to the immediate previous auditor
- Send Acceptance letter along with statement of Fidelity, Confidentiality etc.
- Contact the respective Branch Manager – for programme, arrangement and status report

B. To carry with branch during their visit to the branch:

- Authorization Letter
- Necessary guidelines
- Various Formats
- Letter head of the branch

C. Audit Programme

- Allocation of work

- Commencement of the work as per schedule given in subsequent paragraphs

Items to be Covered on the First Day of Concurrent Audit

3.13 Generally, on first day of commencing the concurrent audit the following is to be verified by the concurrent auditor:

Cash

3.14 The concurrent auditor should physically verify the cash in hand. While doing this he should ensure that there is no accumulation of large stocks of heavy cash and cut/mutilated/soiled notes, which otherwise need to be reported. If cash holdings are beyond the prescribed cash retention limit, the same also need to be reported. The concurrent auditor would also need to verify whether cash is promptly remitted to the currency chest or to RBI And report the same is it is not being so deposited. The concurrent auditor would also need to check that where cash is remitted, whether, credit for the same is received same day or next day or not and report the same if not so.

3.15 Similarly, foreign currency is also to be physically checked by the concurrent auditor and is to be promptly disposed off by selling or by remitting as per direction of the Bank authorities. If accumulated, it needs to be reported. The concurrent auditor also needs to verify whether entire cash is checked physically at least once in a month by the Manager or any other officer other than the Custodian of Cash?

3.16 If heavy cash, more than the retention limit is kept by the branch, that may adversely affect the profitability of the branch in particular and the Bank in general. To avoid it, it is necessary for the branch to keep cash within retention limit, that if there is any theft or robbery in the Bank, that can be claimed from insurance company and there is no loss to the Bank. If cash is found short or

excess, that needs to be reported.

Security forms

3.17 Security forms i.e., Bank draft books, cash order books, FDR books, cheque books, etc. are to be physically checked with the register. If any discrepancy is found, that is to be reported.

Government securities

3.18 Government securities just like NSC, Bonds, etc. held in Bank's own and Government Securities held against advances are to be physically checked and if any, discrepancy is found, that is to be reported by the concurrent auditor.

Petty cash, postage, telegram, stamps in hand/embossed stamps, travelers' cheques, gift cheques, articles and security in safe custody

3.19 These are to be physically checked and tallied with General Ledger and if there is any discrepancy, that is to be reported.

Inward bills for collection including parcels, DDs receivable and inland bills discounted receivable

3.20 All the inward bills are to be physically checked by the concurrent auditor and all parcels in hand are to be physically verified and if there is any old outstanding bills are kept by the branch beyond the stipulated time mentioned in bills are to be reported. If bills purchased by any of the other branches of the Bank and received by the branch, and are outstanding beyond stipulated time, the same needs to be reported.

Chapter-4

Concurrent Audit Universe and Procedures

4.1 The concurrent auditor may scrutinize certain daily transaction of the branch on the same day and certain others on the next working day. He may scrutinize certain items at periodical intervals and other lesser important items on any day of the month. The concurrent auditor normally carry out audit of transaction on the basis of daily vouchers, general ledger balance book, subsidiary books, and ledgers.

4.2 To facilitate the work of a concurrent auditor and ensure that he/they doesn't miss any important aspect, the checklist for audit is prepared according to the size of the branch by the auditor himself in accordance with the guidelines and instructions of the particular Bank. This checklist is however normally given by each Bank and is to be followed by the Concurrent Auditor. For preparing this checklist, one of the approaches followed is to prepare it on the basis of items to be verified on daily basis, weekly basis, fortnightly basis, monthly basis, quarterly basis, half-yearly basis and yearly basis. The various items of banking transaction/services to be verified are enumerated in the subsequent paragraphs.

Deposits

4.3 The main source of bank finance is the deposits accepted from public. To cater to the needs of various types of customers, banks offer different types of accounts with various facilities attached to these accounts. The Bank accounts are broadly classified into the following categories:

- (i) Savings Deposit
- (ii) Current Deposit

- (iii) Fixed Deposit
- (iv) Non-resident Account
- (v) Recurring Deposit etc.
- (vi) Saving cum fixed deposit/Swift A/C

Savings Deposit Account

4.4 The Savings Deposit Accounts are opened to attract small savings of the public. The number of withdrawals per year is restricted. A Savings Deposit cannot be opened normally by any trading or business concern, whether it may be individual, or partnership concern, etc. A bank may open savings deposit account for the primary cooperative credit society which is financed by that Bank, companies incorporated under Section 25 of the Companies Act, 1956; cooperative societies, philanthropic associations and institutions which are exempt from payment of income-tax with the prior permission of the RBI. No overdraft is allowed on Savings Account.

Fixed Deposit Account

4.5 Fixed Deposits are the funds kept by the public with the Bank, which are not required immediately and are repayable on the expiry of term of the deposits. The period of deposits may vary from 15 days to 5 years or even more than 5 years. The rate of interest varies depending on the period the deposit is kept. Sometimes large value deposits are given special rate of interest by the banks.

Classification of Deposits

4.6 For the purposes of the disclosures in the Balance Sheet, the RBI classifies the deposits accepted by Bank into following categories, namely:

- I. Demand Deposits
- II. Savings Bank Deposits
- III. Term Deposits

I. Demand Deposits

(i) From Banks Includes all Bank deposits repayable on demand.

(ii) From Others Includes all demand deposits of the non-Bank sector. Credit balances in overdrafts, cash credit accounts, deposits payable at call, overdue deposits, inoperative current accounts, matured term deposits, and cash certificates, certificates of deposits, etc. are to be included under this category.

II. Savings Bank Deposits Includes all savings Bank deposits (including inoperative savings Bank accounts)

III. Term Deposits

(i) From Banks Includes all types of Bank deposits repayable after a specified term.

(ii) From Others Includes all types of deposits of the non-Bank sector repayable after a specified term. Fixed Deposits, cumulative and recurring deposits, cash certificates, certificates of deposits, annuity deposits, deposits mobilized under various schemes, ordinary staff deposits, foreign currency non-resident deposit accounts, etc. are to be included under this category.

Notes

Deposits included under demand deposits as per RBI classification are :

- i. Credit balance in overdrafts & Cash Credit accounts.

- ii. Deposits payable at call
- iii. Overdue deposits
- iv. Inoperative current accounts
- v. Matured term deposits and cash certificates
- vi. Certificates of deposits, etc.

4.7 The cash credit account would be included if the balance is showing credit balance. The current accounts are also payable on demand. The outstanding telegraphic and mail transfer demand drafts are also to be included under the demand deposit head.

4.8 Term deposits as per the classification would include:

- i. All deposits repayable after a specified term
- ii. Fixed deposits
- iii. Cumulative and recurring deposits
- iv. Cash certificates
- v. Certificates of deposits
- vi. Annuity deposits
- vii. Deposits mobilized under various schemes
- viii. Ordinary staff deposits
- ix. Foreign currency
- x. Non-resident deposit accounts, etc.

Advances

4.9 The lending of funds to customers is the main business of a banking company. A bank earns income from the interest and discount, etc. arising out of the funds lent by it. The lending of funds has inherent-risks, i.e. the loan or advance may go bad.

Banks therefore follow prudential lending principles as prescribed by the Reserve Bank of India while lending the funds in order to reduce the associated risks.

Various Forms of Credits

4.10 The advances made by banks are normally in the following forms:

- i) Cash Credit
- ii) Overdraft
- iii) Loans

Cash Credit

4.11 Cash credit, is an arrangement between a bank and the customer by which money is advanced against hypothecation of stocks in trade and a bond of credit by one or more sureties. The borrower can reduce the debit balance by paying back surplus available with him. The interest is charged on the total amount utilized.

4.12 Cash credit is normally sanctioned by the bank for a period of one year and is generally renewed if the account is operated satisfactorily. The cash credit is generally secured by tangible assets. The borrower need not withdraw the whole amount and may withdraw the funds as and when required. The maximum amount sanctioned depends on the working capital requirements of the borrower. The interest charged (now monthly) on the outstanding debit amount to the debit of the borrower's account.

Overdraft

4.13 The overdraft is a facility given by a bank to meet temporary needs of the borrower. An overdraft facility is usually sanctioned against security, shares, stock, bonds, fixed deposit receipt, life insurance policy (surrender value) etc.

Loan

4.14 A loan is a lump sum payment to the borrower. The borrower can withdraw the amount at once or keep it in his account and withdraw as per his needs. The repayment terms are settled in advance. A loan may be a demand loan or term loan. A demand loan is repayable over a longer period. A loan which is repayable within a year is called a short term loan. Loans repayable within a period of 3 to 5 years are called medium term loans and loans repayable beyond 5 years are long term loans. Sometimes loans are disbursed over a period depending on the requirement of the borrower. The interest is charged on the amount disbursed. When the loan is disbursed in stages, the end use is generally enquired into before the disbursement of subsequent installments.

4.15 Loans can be either secured or unsecured. An *unsecured loan* is one for which the bank holds no security other than the personal guarantee of the borrower. Such loans are now an uncommon feature except personal loans. *Secured Loans* in the form of cash credit or overdraft are a common feature in the banking industry. A bank also extends term loans for the purpose of purchase of assets. The repayment is fixed in advance by way of installments. When only a part of the advance is covered by securities as at the date of balance sheet, that part should be classified as secured and the remaining amount be shown as unsecured. Banks do not advance amounts equal to the value of the security but keep sufficient margin to provide for a decline in the value of security. RBI has also directed specified margins to be kept against a particular type of security.

4.16 A commercial bank's performance is evaluated mainly on the quality of its house keeping and proper functioning of its large network of branches. Numerous transactions involving huge sum of money take place everyday at bank branches. The accounts of everyday transactions of a branch are prepared and reconciled everyday. Any mistake/wrong accounting leads to enormous representation of true state of affairs of the branch to its

controlling/head office. Any mistake in paying interest to the depositors and or realizing interest from the borrower's leads to revenue leakage in the banking sector.

4.17 Prior to 1990, the following were the common features of bank lending:

- (i) Traditional approach to Bank Credit
- (ii) Strict regulated environment
- (iii) Stand alone approach
- (iv) Administered rate of interest
- (v) Risk/Reward Mechanism was conspicuously absent and
- (vi) No provisional norm for hard/ sticky advances.

However, after 1990 there were rapid changes in the lending activity undertaken by banks, marked by:

- a) Deregulation of interest rate
- b) IRAC norms i.e. Income Recognition and Asset Classification.
- c) Stricter Provisioning and Capital Adequacy norms
- d) Introduction of Risk based Management System
- e) Lending through Cash Flow System instead of MPBF System (Maximum Permissible Bank Finance).

4.18 In older days supervision of bank credit meant ensuring, basically safety of advance. But such traditional concept of safety of bank's advance being reflected in tangible security and credit worthiness of borrower has undergone a metamorphosis since 1969 after nationalization of 14 major Banks in the country. No longer can a bank take solace in sufficiency of security for his loans since new and dynamic social responsibilities have been entrusted on the Bank. While of course, safety of advance still

continues to be a paramount factor in supervision and follow up, that is not the sole, concern at the present Banker. In today's banking, the role of a bank can be stated to be threefold as under:-

- (i) To make a proper selection of borrower, who is worthy of bank's assistance, both in terms of commercial principle and as well as the national priority;
- (ii) To ensure that funds lent are safe; and
- (iii) To ensure that good and proper use of bank credit is made by the borrower, judging from two angles - first, bank credit is not pre-empted as a result of inefficient working capital management, speculative buildup of inventory and secondly, bank credit is not diverted for "unauthorized use"

4.19 Undue emphasis of safety of funds, is however, not desired by the banking sector nowadays, since, if the advance is misutilized, i.e., used for the purpose' other than the originally intended one, it attracts comments notwithstanding safety of the same. Safety of advance does not merely depend upon the availability of security of adequate value; it is also based upon continued viability of the enterprise, because, if the enterprise is weak, it is extremely doubtful whether the security would fetch the value originally ascribed to it.

4.20 It is quite clear from the foregoing that concept of safety of funds in banks has changed, as it should, because no longer the banker does perform the role of a money-lender, but finances an industrial activity and thus security is simply not synonymous with safety. In order to co-relate and frame guidelines to cover such change in the banking sector for follow up of bank credit, a study group was formed by the RBI under the chairmanship of Sri P. Tandon and its report was published by RBI in 1975.

4.21 While discharging the duties of professional assignments entrusted by the banks the concurrent auditor should, look into the aspect of supervision and follow-up of bank credit in order to

protect the interests of the Bank . The broad aspects which may be looked into are enumerated below:-

- (i) To see compliance with the terms and conditions of the sanction (essence of credit audit to be taken into consideration).
- (ii) To undertake physical inspection of godown/factory (checklists are given in elsewhere in the Manual)
- (iii) To observe continued viability of operations
- (iv) To verify the end use of bank credit.

Operations

4.22 In respect of operations, the concurrent auditor would need to check the following aspects:

- (i) general tempo of activity and number of shifts worked.
- (ii) present operating trends percentage utilization of capacity, idle machinery/idle labour hours.
- (iii) orders in hand (where applicable).
- (iv) realization pattern of *Book Debts/Bills*.
- (v) availability of raw material, stores, spares, power and fuel.
- (vi) labour relations.
- (vii) marketing difficulties if any (This will be reflected from the unduly excessive buildup of receivables or finished goods).
- (viii) turnover of human resources in key operating areas .
- (ix) any change in management setup.
- (x) any sign of incipient sickness.

Financial Follow Up

4.23 The financial follow-up devised by Tandon/Chore Committee is an off shoot of RBI'S concern on lack of proper

follow-up procedures then prevalent in commercial banks. For such financial follow up the Tandon/Chore Committee suggested certain Quarterly Information System (commonly known as QIS) to be provided by the borrowers to enable the bank to verify as to whether borrower's operating performance and finance-management conform to the budget and promise made to the bank while availing the bank credit. This has been replaced by QMR/HMR Statement.

4.24 The concurrent auditor, while discharging his duties, should have knowledge of such follow-up statements as well as how they should be scrutinized to protect the interests of the bank. It is mandatory under the RBI regulations for a limit above a specified amount but below the cut off point has been left to the discretion of the banks .

4.25 Particulars of QIS format as originally introduced are given below: -

Description	Periodicity	Date of Submission
i) <i>QIS I Statement of Current Assets and Current Liabilities Projection</i>	Quarterly	One week before the commencement of the Quarter to which it relates.
ii) <i>QIS II Statement of Current Assets and Current Liabilities Actual</i>	Quarterly	Six weeks after the Close of the Quarter to which it relates.
iii) <i>QIS III Part 'A' Operating Statement, Part 'B' - Funds Flow Statement - Both Actual & Projection</i>	Half Yearly	Two months from the commencement of the half year to which it relates.

4.26 Particulars of QMR/HMR (which are now in use) replacing QIS are given below:

Description	Periodicity	Date of Submission
i) QMR I replacing QIS II	Quarterly	Six weeks after the Close of the Quarter to which it relates.
ii) HMR I replacing QIS III	Half yearly	Two months from the commencement of the half year to which it relates.

Credit Cards

4.27 The credit card operations occupy a special place in the modern day banking industry. A credit card has three important functions:

- It is a means of paying for goods and services
- It is a means of obtaining cash
- It is a source of revolving credit. Usually, there is a contract between the card issuer (the Bank) and the card holder (customer) whereby – the card holder is permitted to make use of the card at specified retail outlets (known as member establishments) to pay for the goods and services.

4.28 The mechanism of a credit card can be illustrated as follows:

As soon as the card holder makes purchases from specified retail outlets/member establishment, the retail outlets make out bills to the account of the card holder and obtain payment from card organizations like Visa or Master immediately who in turn make a bill to the Bank which issued the card. The Bank makes payments to Visa or Master immediately. Subsequently, the payment is realized from the respective card holder.

Types of Cards

4.29 There are many types of cards in the Indian market and the more popular ones are listed below.

Charge Card

4.30 Most of the cards issued in India are charge cards and not credit cards. A charge card is a payment card where the card holder is required to settle the outstanding in full at the end of a short period, usually a month.

Credit Card

4.31 It is an instrument of payment which enables the card holder to obtain either goods or services from merchants where arrangements are made to reimburse the merchant. The outstanding amount is payable by the card holder to the bank over a specified period which carries a fixed amount of interest also.

Cash Card

4.32 Cash Cards are issued in addition to the credit card to enable the card holder to use an ATM.

Gold Card

4.33 It is also a type of credit card issued to high value customers.

Debit Card

4.34 It is a payment card used to obtain cash, goods and services by automatically debiting the payments to the card holder's Bank account immediately.

Smart Card

4.35 It is known as a chip card, which holds personal information about the card holder and can be used with a Personal

Identification Number. It has a magnetic strip to read pre-recorded information stored in the card.

Co-branded cards

4.36 Co-branded cards are those that a bank promotes jointly with other non-financial institutions. Card holders use their co-branded cards in the same way they use any other cards but each time they make a purchase, they accumulate points which enable them to claim discount in the price.

Frauds in Credit Card Transaction

4.37 Wrongful use of lost and stolen card is the biggest area of fraud. Credit cards are sometimes picked up by unscrupulous persons and they use the cards indiscriminately before steps can be taken to hot list the cards by the issuing banks. Now, banks have started issuing photo cards. Photo cards are useful as a marketing tool because people like having their picture on the card and it also serves to prevent fraud by impersonations of the card holder.

Bad Debts

4.38 A bad debt arises where a cardholder is unable/unwilling to repay the amount he has borrowed on a credit card. Although cardholders are given credit limits having due regard to the total income, some accounts become delinquent because of over-purchase by cardholders without having the means to pay for them when the bills are presented for payment. Banks adopt normal recovery measures for regularizing the default and in case of persistent default, legal action is also resorted to. A checklist covering these items during the course of concurrent audit is given in a separate chapter.

Foreign Exchange Transactions

4.39 Branches dealing in foreign exchange are classified in three categories, The “A” categories are allowed to open and

maintain currencywise account with foreign banks/correspondents. These accounts are called Nostro accounts. While “B” category branches operate directly upon the account (Nostro accounts) opened by “A” category branches. The “C” category branches can handle foreign exchange business only through “A” and/or “B” class branches. The banks authorize some branches only to deal with spot or forward sale/purchase of foreign currencies with RBI, foreign correspondent banks, other banks in India. Foreign banks have opened accounts with Indian banks for foreign exchange dealings. These accounts are called Vostro accounts.

4.40 All the foreign exchange business transactions are governed by the Foreign Exchange Management Act (FEMA), 1999. A bank has to be very careful in dealing with foreign exchange transactions because it has to have full knowledge about foreign parties. The bank has to take care that the transaction does not violate the provisions of FEMA and the rules framed thereunder. The foreign exchange rate fluctuation is another hazard in these dealings and may involve loss.

4.41 The bank scrutinizes the documents, shipping bills and orders, etc. received from the customers and makes independent assessment of customers’ standing and ability to meet the commitments. The banks enter into forward sale/purchase of foreign currency to protect their dealings in foreign exchange. The forward sale/purchase transactions would cover spot or forward purchase of foreign currencies.

4.42 The concurrent auditor has to look into the following factors involved in foreign exchange dealings of banks:

- i. Compliance with FEMA
- ii. Compliance with RBI rules.
- iii. Follow-up of procedures of authorized dealers.
- iv. Brokers’ notes.
- v. Reconciliation/correspondent statements of Nostro accounts balances are to be reconciled with corresponding accounts.

- vi. Interest applicable on credit/debit balance on Nostro accounts and profit/loss on exchange accounts to be recorded in profits and loss account.
- vii. In the case of Nostro accounts, because the debits are raised later, on account of payments made of TTs/MTs/DDs drawn on Indian banks by foreign banks/exchange houses, etc. the interest loss can be avoided if the debts are value dated.
- viii. Overdrafts allowed in Nostro accounts.
- ix. Reconciliation of daily closing balances with accountholders and confirmations obtained.
- x. Maintenance of the Registers as per the requirements of RBI.
- xi. Submission of periodical returns to RBI.

4.43 The various statements to be filed by banks are as follows:

- i) Weekly return of various currencies held in different forms and monthly returns of bid bonds, guarantees issued, statement of non-resident accounts, export letters of credit, blocked accounts are:
 - Fortnightly returns of export bills negotiated/sent for collection, outward remittances effected against imports sale/purchase transactions in foreign currencies.
 - The details regarding purpose, commodity, country, currency, terms of payment, etc.
 - Statement of overdue export bill awaiting realization, purchases in the form of travelers' cheques, currency notes and gift parcels exported every quarter.
 - R>Returns are being submitted regularly by the branches to RBI who are dealing directly foreign exchange transaction (either purchase or sale of foreign currency) on behalf of that branch or other branches.

Dealing Limits

4.44 The guidelines for dealing limits are discussed below.

Daylight Limits

4.45 The Exchange Control rules requires that the position should be square or near square in each currency at the close of business each day. In the course of operations, during the day both with customer as well as in inter-Bank business, the dealer may have to maintain open positions in the various currencies transacted by the bank. The management should therefore, lay down the maximum position limits in each currency that may remain uncovered during the day after a careful study of the nature and volume of operations (customer as well as inter-Bank) at each center at which the bank undertakes inter-Bank operations and the conditions of the exchange markets, generally, both in India and abroad. This necessitates a periodical review (in some circumstances even daily reviews) of the maximum daylight positions permitted to the dealer(s). The need for returning the position to square or near-square is stressed while laying down daylight limits, as the exchange market conditions or the inadequate trading hours or time zone factors make it difficult for the dealer(s) to return to square or near- square position before the close of business. It must be clearly understood that any temporary excesses over the approved daylight position limits will require approval of the bank management. In the smaller banks, it is the usual practice even to lay down a dealing limit for the dealer in each currency so that any deal individually larger than the approved limit will require prior approval of senior most management official of the bank.

Overnight Limits

4.46 The Exchange Control Rule requiring maintenance of square or near square position is adhered to as the exchange market conditions can be very fluid and unpredictable. Management keeps a close watch on the dealers' positions at the close of business each day - to ensure that the Exchange Control rule supplemented by the internal guidelines is observed. A statement of daily closing positions indicating the overbought and

oversold positions, if any, held in excess of the daylight limits in the currency during the day (whatever be the time interval) and the limits (both daylight and overnight) laid down by the management should be submitted to the senior management official at the close of business daily.

4.47 The bank's top management should ensure that the dealers do not hold a position which can be considered as not being near square. Any violations of the Exchange Control regulations in this regard are viewed adversely by the Reserve Bank. Non-reporting days should be effectively curbed through the daily statements submitted to the authorities, supplemented by interval spot checks, wherever necessary.

Inter-Bank Limits

4.48 Authorized dealers should set up limits for dealing with individual banks both in overseas banks as well as authorized dealers in India. While setting up limits, the capital plus reserves position of the other Bank, the manner of past dealings with the Bank and the market reports about the functioning of the Bank must be borne in mind. It is a common practice to lay down limits as a multiple of the last known capital plus the reserves position of the bank. In some cases, balance sheet totals and assets coverage ratios may also be considered while limits are fixed or reviewed. Whatever be the procedure followed, dealings should be undertaken on the basis of value of contracts concluded already and outstanding with the Bank so that the outstanding at all times are within set limits, any temporary excess being permitted with prior consent of the management. For this purpose, sales and purchases must be aggregated and not set off. All transactions, including TOM delivery and SPOT delivery contracts (but not ready or cash) should be reckoned for the purpose of monitoring inter-Bank limits. Extra care must be exercised if forward maturities get clustered around particular date(s) (months) and the credit risks on the relative settlement dates may be considered. While banks are free to set limits for the counterpart banks, according to the norms spelled out above they should not fix low limits (including refusal to deal) against particular banks on extraneous considerations such as deposit-grabbing or competition in exchange business.

Customer Limits

4.49 Under the present Exchange Control regulations, all customer contracts for spot deliveries are deliverable on the same day. Further, customer forward contracts are permissible only if they are self-liquidating in nature, i.e., they are fulfilled by delivery of foreign exchange obligations arising from imports of goods or services. Speculative and trading contracts are prohibited. Even then, authorized dealers would do well to set limits for forward contracts for their larger customers so that the credit risks arising from such exposure can be periodically monitored. Such limits may be laid down by the management wherever found appropriate and the monitoring conducted through the accounting department should maintain proper records of customer-wise outstanding liabilities under forward contracts. The transactions of fresh contracts and deliveries there against, handled for such customers, by the Foreign Exchange Department or by the branches should be required to be reported to the Accounting Department to enable it to perform the monitoring function effectively.

Organization of the Dealing Department

General

4.50 Foreign exchange dealing is a highly specialized function and has to be performed by a set of well-trained personnel. Typically, a Dealing Department should consist of dealers and backup staff who are responsible for the follow-up of the deals made by the dealers, giving feedback of collated information to the dealers, helping dealers to get overseas telexes and SWIFTS, checking rates, etc. There is a considerable scope of abuse by over-lapping of functions through manipulation of rates on contracts already concluded manipulation through position, mismatching etc. The effectiveness of control over the dealing room largely depends on how the department is organized.

Segregation of Dealing and Accounting Functions

4.51 The dealing function must be separated from the accounting, funding and other backup functions. In the smaller banks, the functions should be assigned to different officers of the same rank reporting to a senior officer of the bank, so that the dealing and the backup functions are carried out by two or more persons, mutually supporting and drawing support and each acting as a check on the other in the larger interests of the Bank. The practice observed in certain banks whereby officers in senior ranks handle inter-Bank deals and also control the funding and other backup functions.

Infrastructure of the Dealing Department

4.52 For the Dealing Department to function effectively, it is necessary that the Managements in the banks provide adequate infrastructure to the Department. Independent telex/SWIFT machines (which can be kept locked by the Dealing Department), which contribute to efficient functioning of the Department, will protect banks from the activities of unauthorized persons with an intention of fraudulent foreign exchange deals on behalf of banks. Economic journals, newspapers, exchange market reports, reports from leading correspondent banks, money reports from organizations like Reuters video screen, etc., will greatly enhance the efficiency of the dealers. The larger banks may also provide separate rooms for dealing personnel with proper sound proofing, air-conditioning, etc.

Duties of Dealers

4.53 The duty of the dealers is to operate in the inter-bank market according to the guidelines laid down by the management of the bank from time to time. In the best interests of the bank it is important to provide an effective and quick feedback to the management. The ideal arrangement will be for the dealers to confer before the work starts on the trend in the overnight markets and the markets still operating in the same time zone in the light of the overnight 'news bag' and the Bank's own business and arrive

at tentative conclusions valid for the day. The dealer (or the Chief dealer) should keep the management informed of the conclusions. It is essential that the management should keep communication channels with dealers open at all times (by intercom, direct access, etc.) so that quick consultations are facilitated. In banks operating at various centers under a decentralized set up, the dealers operating at centers away from the Head Office should likewise constantly maintain contact with the local management responsible for the dealer's functions. The dealers could also communicate with the dealer (or the Chief dealer) at the Head Office to coordinate the market view.

Dealing Procedure

4.54 The dealers should have no accounting work of any kind to perform, as they should at all times concentrate on the market through telex, telephones, video screen services, by maintaining contact with other banks, brokers as well as banks abroad. Deals made by the dealers should be recorded on printed 'Deal Slips'. The deal slips should indicate the name of the broker (if any), name of the counterparty Bank, currency, amount, rate and delivery, under the authentication of the dealer.

4.55 Duplicate deal slips should be prepared preferably in different colours to identify sales and purchases. One copy will be retained with the Chief dealer/ Manager and the other, sent to the back-up staff for accounting and issue of contracts etc. Time at which the deal is put through should be indicated in the deal slip. The deal slips should be passed on to the Accounting Department for further processing.

Dealers of Customers Business

4.56 Large banks may find it advisable to deal selectively with customer enquiries regarding rates and also conclude business with them in the Dealing Department, instead of in the Foreign Exchange Department. In such a set up, the dealers attending to customer business should, as far as possible, be distinct from the dealers in inter-Bank in order that the former may have the orientation required for customer dealing which is different from the one required for inter-Bank dealing. Such -separation will also

be in the interest of the Bank as possibilities of over familiarity between dealers in the Bank and customers exist.

Rotation of Dealers

4.57 Dealers should not be kept for too long on dealing duties. A period of three to five years being considered as a reasonable period for effecting a change, training and substitution of dealers should be an on-going process so that the same personnel do not remain on dealing duties beyond a reasonable period in the interest of both the individual and the Bank.

Duties of Accounting Department

4.58 For deals done through brokers, the Accounting Department should procure a receipt of exchange broker's notes irrespective of whether the deals have been done through brokers or directly. It is essential for the Accounting Department to confirm deals made by dealers by sending the requisite confirmation of contracts to the counterparty banks. Likewise, the accounting departments should monitor receipt of confirmation of contracts from counterparty banks and check the correctness thereof, by comparison with Deal Slips or the Bank wise record of inter-bank contracts maintained in the department. Confirmation of contracts must be obtained from the counterparty banks in each case. The signature of the official (who should be one other than the dealer) of the counterparty bank should be verified. An official of the Accounting Department authorized in this regard should likewise confirm contracts sent by counterparty banks under his signature. In no case should the dealer sign the contracts booked by them. Contracts, together with confirmations of counterparty banks should be systematically paired off and after verification inter-se and with relative exchange broker's notes (in case of deals made through their medium), filed away in the accounting department for the purpose of record. Discrepancies should be brought to the notice of the dealers and should be rectified on the same day.

4.59 Dealers in the dealing department maintain position pads and funds chart along with the statement of maturity pattern of the contracts. These should be filed in seriatim and kept with the Dealing department for any future reference. They should also

keep a track of the 'Nostro' balances on the basis of cable advices received from overseas correspondents. Currency wise positions and funds positions should be communicated at frequent intervals to dealers who would be operating only on the basis of deal slips sent by dealers and the reports of foreign exchange business flowing in from the Foreign Exchange Department and from other reporting branches. On grounds of convenience, the Accounting Department should be situated near the dealers.

4.60 Apart from the position and Funds Records, the Accounting Department maintains all other records to facilitate submission of feedback and control information to dealers on the one hand and the Management of the Bank, on the other. The Accounting Department prepares bank-wise summaries of all outstanding forward exchange contracts with banks for which confirmations from counterparty bank have not been received as on the last working day of each month and have the outstanding confirmed by the counterpart banks.

Chapter-5

Checklists

5.1 For effective concurrent audit, it is essential that the audit programme is detail and preplanned. Since the period during which the concurrent auditor is to conduct checking of manifold items in the branch of the Bank is limited and transactions are numerous rationing of the time of the concurrent auditor is a pre-condition to successful audit. The checklist is to be time oriented with volume of transaction and vulnerability of the same being considered for ascertaining frequency of checking.

5.2 The essence of the periodicity of checking and checklist is based on suggested item of coverage as per RBI guidelines as reproduced in the earlier chapter. Considering this checklist of various items with periodicity are given below.

Checklist – Daily

Cash

- i. Verifying daily cash transactions with particular reference to any abnormal receipts and payments.
- ii. Verifying whether proper accounting of inward and outward cash remittances with the prescribed security measures adhered to and noting made in Cash Movement Register.
- iii. Verification of Cash Movement Register.
- iv. Verifying whether the Branch is habitually holding cash balance beyond the cash retention limit or is there a need for it at the branch? Is it fixed rationally?

- v. Verifying whether exchange of cash between cashiers is made after making entry in the register.
- vi. verifying cash scroll and the token book with cashier's summary and Cash Abstract.
- vii. Verifying expenses incurred by cash payment involving a sizeable amount (vouchers of high value of Rs.50,000/- and above).
- viii. Verifying whether Cash Remittance in Transit Account is reversed on the same day by debit to a proper head of account designated for it after receipt of proper acknowledgement/receipt where cash is remitted to a branch/Bank.
- ix. Verifying whether accounting of currency chest transactions and their reporting to RBI is done promptly.

Clearing

- i. Proper accounting of inward and outward clearing on daily basis.
- ii. proper accounting of counter returns, inward and outward. In respect of cheques returned by other banks whether respective customer's account are debited.
- iii. Whether clearing difference arose genuinely and is duly adjusted?
- iv. Whether safeguards are observed to ensure proper handling and custody including returned instruments?
- v. If the branch is independently handling clearing, whether the clearing account is brought to nil every day, if not, comments to be noted down.
- vi. Whether service charges/incidental charges as prescribed are charged for the cheques returned in clearing.

- vii. Whether drawings are allowed against unclear cheques. Whether such cheques are referred through prescribed register and passed by the Controlling Officer, if the drawings exceed the prescribed limit whether these are reported to the Controlling Authority. Examine whether interest was charged and report such omission for rectification.

Deposits

- i. Verifying whether proper introduction has been obtained on new accounts opened and credentials of introducer(s) verified.
- ii. Verifying whether all relevant documents are obtained at the time of opening of accounts viz. Partnership Deed, Articles & Memorandum of Association, Trust Deed and Bye-laws etc.
- iii. Verifying whether photographs of account holders are obtained, attested and pasted/ stapled to the Account Opening Form.
- iv. Verifying whether the payment of Term Deposit beyond Rs.20, 000/- is done through the credit of Current/Savings Bank A/c. or by Manager's cheque.
- v. Verifying all interest payments above cutoff amount say Rs. 3000/- of the previous day with regard to its accuracy.
- vi. Verifying whether service charges for the return of cheques, issue of cheque books, carrying out standing instructions and minimum balance charges are levied as per prescribed norm.

Remittances/Bills for Collection – Inward & Outward

- i. Verifying whether proper accounting of inward and outward remittance transactions is done.

- ii. Verifying whether DDs/TTs/MTs of Rs.50,000/- and above are issued through accounts and not against cash.
- iii. Verifying whether prescribed service charges by way of exchange, commission, out of pocket expenses, interest, overdue interest in respect of all remittances, bills purchased and collection items are recovered.
- iv. Verifying whether IBCNs (Inter Branch Credit Note) are prepared and sent promptly.
- v. Verifying physically the inward bills on hand and post parcels tally with records.
- vi. Verifying whether returned bills are debited to "Past Due & Dishonoured Bills" and followed up as per guidelines.
- vii. Verifying whether documents of title *viz*, Transport Receipts, Railway Receipts are obtained in favour of the Bank and whether transporters are on the IBA approved list.

Advances

- i. Verifying that disbursements are allowed against proper sanction, within sanctioned limits and drawing power.
- ii. Verifying that in case of advances disbursed beyond the discretionary powers of the Controlling Officer, prior permission has been obtained from the competent authority. In case competent authority could not be contacted and emergency powers have been exercised/drawings in excess of sanctioned limits have been allowed in exigency, verify whether weekly returns are being submitted without exception to the controlling authority and/or ratification sought subsequently.
- iii. Verifying whether the permanent incumbent confirms the decisions of the officiating Manager.

- iv. Verifying whether EMI in loan accounts has been correctly calculated.
- v. Verifying interest received vouchers in respect of loan/advance accounts closed on the previous day.
- vi. Verifying whether bills are purchased as per terms of sanction and proper margin is maintained as per sanction.
- vii. Verifying whether pre-sanction verification is done before sanction of BP limits.
- viii. Verifying whether clean bills/cheques purchased are not in the nature of accommodation bills.

Foreign Exchange

- i. Verifying that L/C and Bank Guarantee are issued as per terms of sanction and charges are recovered as per FEDAI Rules / HO Guidelines.
- ii. Verifying that packing credit released is backed by L/C or confirmed order, ECGC cover is available and the ECGC terms are complied with. In case of running packing credit accounts, whether RBI guidelines are complied with.
- iii. Whether in case of discounting of Bills under L/C, prescribed procedure like verification of signatures of the Issuing Bank have been followed and scrutiny report issued.

House Keeping

- i. Verifying whether the branch head authorizes all debits in the Suspense Account.
- ii. Verifying whether tear off sheets for controlling office/HO Balances and IBR are prepared correctly and sent promptly.
- iii. Listing out the Book/Register/Ledger/General Ledger Account heads not checked and/or not balanced. Latest

balances taken, amount of balances short! excess, balances differences freeze out, if any, with remarks and actions taken.

- iv. Verifying day-to-day writing, posting and checking of:
 - a. Supplementary Book
 - b. Day Book
 - c. General Ledger
 - d. Progressive Register/Transaction sheet
 - e. Exceptional Transaction report
- v. Checking sum generated by computers.
- vi. Scrutiny of daily vouchers with more emphasis on high value transaction. There should not be any debit to the Sundry Credit and if any debit has to be made voucher of these must be signed by the in charge of the branch.

Checklist – Weekly

Cash

- i. Verifying whether keys to Strong Room, Cash Safe, and Almirah for Security Printing Books are in joint custody of the authorized officials?
- ii. Verifying whether there is any entry outstanding in Cash Remittance in Transit Account for more than 3 days.
- iii. Verifying whether the branch remits all its excess cash to link branch or Currency Chest.
- iv. Verifying whether the branch remits its surplus balance with other banks regularly to the designated RBI centre.

Clearing

- i. Verifying whether credit for realized cheques are received promptly.

- ii. Verifying entries which remain outstanding for more 2 days and checking for action taken for their disposal.
- iii. Verifying whether account with the Main Branch is reconciled every week.

Deposits

- i. Verifying that letters of thanks are being sent to the new depositors as well as to the introducers in case they cannot come to the branch.
- ii. Verifying that stop payment instructions are being recorded properly.
- iii. Verifying that lien on Term Deposits is properly noted whenever Receipts are held duly discharged by the Depositors.
- iv. Whether the prescribed safety measures and guidelines for issue of cheque books/loose leaves are observed.
- v. Verify whether the branch is following the guidelines issued by RBI and other statutory authorities with regard to all account opening forms obtained during the period including abstention of declaration of staff accounts should be verified.
- vi. Scrutiny of staff accounts to detect any abnormal transaction.

House Keeping

Verifying whether accounts with local branches of the Bank, SBI, and other Banks are reconciled.

TTs Issued and Paid

- i. Examining whether there is non-dispatch/non receipt of confirmation.
- ii. Verifying whether there is follow up for receipt of confirmation?

- iii. Whether there is any remittance in transit outstanding beyond 30 days? Whether relevant returns are sent?
- iv. Whether telegram/telex are sent on same day.
- v. Whether branch claimed interest from other banks where there was delay and followed up the claim for receipt.

Checklist – Monthly

Cash

- i. Conducting a surprise physical verification of cash in hand, foreign currencies, and foreign travelers' cheques on any day during the month.
- ii. Verifying whether currency notes are sorted, stitched and bundled properly. As per latest RBI guidelines notes bundle is not to be stitched now.
- iii. Verifying whether cut/mutilated notes are kept separately as per the RBI norms and disposed off.
- iv. Verifying the number of times the branch exceeded the Cash Retention Limit and action taken by the branch to dispose of surplus cash.
- v. Verifying if there is a large accumulation of soiled notes and steps taken by the branch for the disposal of soiled notes.
- vi. Verifying whether the receipt and delivery of Security Printing Books are properly recorded under joint signatures.
- vii. Verifying whether physical verification of the Security Printing Books and tallying with the balance.

The following is an illustrative checklist on cash management.

	1 st Month	2 nd Month	3 rd Month
i) Date of verification of Cash			
ii) Amount of cash held as on the date of verification.			
iii) Cash retention limit of the branch			
iv) No. of days when cash retention limit exceeded during the month/quarter and by which amount			
v) What is the percentage of cut notes/coil out of total cash held as on date of surprise verification of cash.			
vi) Actual amount of cut notes held.			
vii) Whether cut notes are kept separately.			
viii) Whether "Cash discrepancy register" maintained and Excess/Shortages reported to higher authorities promptly.			

- ix) Whether surprise verification of cash done by officer other than joint custodian officer/manager.
 - x) Whether cash movement register is maintained as per guidelines.
 - xi) Whether the branch is maintaining records/registers relating to inward/outward cash remittances to currency chest properly and proper insurance cover has been obtained.
 - xii) Whether currency chest transactions are properly accounted and reported to RBI?
(wherever applicable)
-

Accounts with Other Bank

- i. Verifying whether large idle balances are maintained with banks and if so, the amount and for what period at a stretch. Ensuring that the branch obtains full particulars of debits/credits in the account and entries are promptly recorded.
- ii. Verifying any outstanding entry of a suspicious nature.
- iii. Verifying whether TT Discounting Limit of the branch with SBI is adequate and the facility is properly utilized.

Deposits

- i. Verifying, if large cash deposits/withdrawals in all operative accounts are genuine and if in line with the volume and type of business of the account holder.
- ii. Commenting upon the action taken in respect of frequent cheque returns and whether they are entered in the Register.
- iii. Verifying whether the deduction of tax at source (TDS) from interest income on Term Deposits is done as per laid down procedure.
- iv. Verifying whether Form No. 60 where the depositor does not have PAN is held on record and the same are submitted as per laid procedure.
- v. Debits in the inoperative accounts:
 - (a) Verify whether inoperative ledgers are kept separately under the custody of the Manager/Officer. Is it inoperative accounts ledger repetitive, can be combined if combined them the subsection names (a, b, c, d, e, f) will be change.
 - (b) Verify if inoperative accounts ledger and Specimen Signatures are kept under the custody of Manager/Asst. Manager and access thereto is controlled.
 - (c) All transactions of cutoff amount and above to be verified in detail/reported and other entries be checked at random.
 - (d) Is there a close follow up of subsequent entries? Are they checked and found in order?
 - (e) Whether dormant/inoperative accounts are transferred to inoperative ledger. If not, it should be noted in the register and they should be transferred.
 - (f) Verify that all transactions relating to inoperative ledgers are allowed under the written authorization of the Manager.

Remittances/Bills for Collection – Inward & Outward

- i. Verify whether registers prescribed by Bank for these are up to date and the tear-off sheets/statements are sent regularly.
- ii. Verify whether branch detains Inward Bills/cheques/ collection item beyond the stipulated period.
- iii. Verify whether overdue bills are properly followed up/non-payment notices are served.

Advances

It can be checked under following heads:

- i) Documentation
- ii) Renewal of documents and time barred accounts
- iii) Bills purchased/discounted/import LC documents
- iv) Cash credit including temporary overdrafts
- v) Loans and advances
- vi) Advances under consortium arrangement
- vii) Merchant Banking Business
- viii) Credit Cards

Documentations

- i. Whether documents register is maintained up-to-date. Entries are made in this register and found in order. If there is any omission it should be reported.
- ii. Are all documents correctly executed in the latest revised prints of prescribed formats and properly stamped wherever necessary in terms of Stamp Act as per manual on documentation and as per circulars on the subject.

- iii. Where immovable properties are held as security by way of deposit of title deeds, verify title deeds register to see whether narration is written for additional limits and all formalities complied with.
- iv. Whether legal opinion and valuation by an engineer are obtained for all the mortgaged properties and the latest Encumbrance Certificate as well as tax receipts is obtained up-to-date.
- v. Verify the correctness of documents.
- vi. All the documents should be examined and action initiated for rectification should also be scrutinized.
- vii. Ascertain authenticity of signatures of executants/borrowers from respective borrower's current correspondence file.
- viii. In case of Limited Company :
 - a) Whether copy of resolution passed by Company's Board is on record for availing the credit facilities from the Bank.
 - b) Whether the authorised signatories as mentioned in the board resolution have executed the documents.
 - c) Whether common seal affixed on the relevant document.
 - d) Whether Bank's charge or modification thereof has been registered with the Registrar of Companies (by filing Form 8).
 - e) Whether search of earlier charge is made.
- ix. Check classification of advances as per RBI's Prudential Norms.

Renewal of Documents and Time Barred Accounts

- i. Verify limits/accounts falling due for review, renewal and action by the branch. Verify whether due date diary of review/renewal maintained and required follow up is done on those dates.
- ii. Whether the debts/decrees are time barred. Action taken to be commented.

Bills Purchased/Discounted/LCBR (Import LC Documents)

- i. In case of Bills that have been returned without recovery, give details indicating date of return, reason for non-payment, status of goods covered, insurance protection, etc.
- ii. In respect of LCBR-whether goods are appropriately protected with insurance.
- iii. Examine the total number of Bills and amount returned and recovered during the period under review.
- iv. Whether satisfactory credit report on drawees in respect of Bills/Drawers in respect of cheques is held?
- v. Whether LC documents (LCBR) were verified with LC terms? Whether LC bill was rejected by the importer for any reason of non-compliance with LC terms, etc?
- vi. Whether cheque/bills are dispatched promptly, at least on the next day?
- vii. Whether interest/commission, as prescribed, are collected?
- viii. If any excess was allowed and not reported, mention the date of excess, amount name of the party, nature of facility, sanctioning authority, etc.

Checklists

- ix. Does the branch ensure dispatch of returned cheques by registered post if they are not collected immediately? In case any deviation is noticed, please give full details.
- x. For supply bills, verify whether the branch ascertained the genuineness of the underlying contract and Power of Attorney registered in the Bank's favour?
- xi. What is the system of follow up for the recovery of returned bills? How long have they been kept pending?
- xii. Are sales against firm order whether the bills relate to genuine trade transactions?
- xiii. Are the goods covered generally traded items/dealt with?
- xiv. Any unusual features noticed in the handling of portfolio of bills?
- xv. In respect of all overdue and returned bills, please examine and comment on the fate of goods and report details of such bills including LCBRs remaining unpaid after arrival of goods, indicating action taken by the branch.
- xvi. In respect of export bills purchased and discounted, expressed in foreign currency, whether overdue bills were promptly converted into rupees under report to the central office.
- xvii. Whether packing credit was adjusted where applicable.
- xviii. Comment on cases where payment is received under reserve.
- xix. ECGC policy as applicable is held-Drawee Limit is mentioned for compliance.
- xx. Wherever LR is accompanied check whether they were issued by approved lorry companies?

- xxi. Whether appropriate margin/exchange/postage has been collected as per sanction stipulation?
- xxii. Whether the turnover in Bills limit reflects the true position of sales as evidenced from balance sheet? Large variation should be commented.
- xxiii. In case of Foreign Bills Purchased/Discounted for export on FOB and C&F terms, whether the contingency risks policy as per Head Office instructions and Exchange Control requirements.

Cash Credit Including Temporary Overdrafts

- i. Whether the branch has identified and classified the advance in accordance with the guidelines of the RBI and the Head Office.
- ii. Report individually on accounts in which there are irregularities due to:
 - (a) Excess drawing over drawing power.
 - (b) Excess drawing over limit
 - (c) Deficiency in documentation
 - (d) Operations unsatisfactory/no operation
 - (e) Drawings against unclear effects
 - (f) Non-inspection of securities
 - (g) Non-recovery/absorption of interest
 - (h) Not covered by sanction
 - (i) Unreported excesses
 - (j) Drawings not reflected by QIS where applicable
 - (k) Account not brought to credit as per sanction terms

- iii. Verify whether passing of cheque is duly authorized through Cheques referred Register, where there are irregularities as mentioned above.
- iv. Whether excess over the limit/drawing power is covered by adequate security and prescribed margin is maintained?
- v. Whether stock statements received contain Sundry Creditor's outstanding to calculate drawing power against paid for stocks.
- vi. Whether any spurt in inventory is noticed and verified for the source of funds.
- vii. Whether norms for inventory and receivable, wherever applicable is monitored.
- viii. Whether appropriate action is taken where the non-submission of stock statement persists for two months.

5.3 FRS are studied critically and date are entered in a register for follow-up at the time of annual review-whether variations from projections are questioned and Considered realistic based on past performance and environmental outlook. A concurrent auditor needs to verify the adequacy/enforceability of insurance or insurable assets with appropriate risks, location, etc. The concurrent auditor needs to indicate cases where a delay in the recovery of interest is noticed. *Ad hoc* facilities allowed to continue beyond the stipulated period mentioned in sanction, also need to be highlighted. Excess beyond the *ad hoc* limit without report/confirmation and allowed to continue without recovery to be pointed out.

5.4 Concurrent Auditor should conduct inspection of units/godown/fixed assets/stocks under pledge and hypothecation in such a way that all the accounts are inspected at least once in every six months. Stock inspection report should be in the prescribed format as per the specimen attached. He should also examine whether stocks register is maintained.

5.5 During stock inspection, correctness of valuation and adequacy of stocks to cover the advance and obsolete/unsaleable aspects of stocks to be examined and reported. In case where delay in the receipt of stock statement is persisting and where stock statements are not received, Concurrent Auditor should take up inspection such units on priority basis and assess the value of security available and report.

5.6 In respect of consortium advances, the Concurrent Auditor should conduct inspection as per decision of the consortium where the turn comes to the particular branch for inspection.

5.7 In cases of temporary over draft, comment when the account was last brought to credit and whether the relevant cheques were passed through the Cheques Referred Register and approved by the manager? Report excesses over the limit and those' remaining overdue with details and whether the facts were reported to the controlling authority.

5.8 In respect of sick and viable units, report on the implementation of a nursing package, if any, progress in preparing a rehabilitation plan, whether the progress report are received and studied, and comment on the current health of the unit. Whether the matter was considered by BIFR, if so, status of references to BIFR. List out weak areas in the unit to be strengthened. Whether functioning of the unit is in accord with earlier projections submitted to the Bank and approved.

Loans and Advances

- i. Verify by surprise goods pledged to the Bank to ensure that keys of the godowns are held in dual custody, goods pledged to the Bank tally with the record maintained in the Godown Register and the invoices both for quantity and value.
- ii. Verify if godown inspection is being conducted periodically and is properly recorded and reports thereof raised/ submitted.

- iii. Verify if stock statements are being received at stipulated intervals, the statements are properly scrutinized drawing, power is correctly calculated, DP Register is maintained and drawings/availments in the account so regulated.
- iv. Verify if all assets charged to the Bank are fully insured and Due Date Diary for insurance policies is maintained.
- v. Verify whether lien is marked in the Register/Ledger against FDR/RD accounts against which advances have been granted and Deposit Receipts/ RD Passbooks are held duly discharged.
- vi. Verify whether NSCs/KVPs against which advance has been allowed have been pledged in favour of the Bank and the said lien notified to the concerned Post Office.
- vii. Check statements regarding limits sanctioned by the Controlling Officer and statements regarding irregularity in the account permitted by the Controlling Officer.
- viii. Verify the loans and advances allowed beyond the discretionary powers of the Controlling Officer during the month and list such accounts along with date of regularization. Whether the same is reported in return to be submitted to higher authorities?
- ix. Verify if the letters of credit issued by the branch are within the delegated powers and ensure that they are for genuine transaction.
- x. Verify Bank Guarantees - whether properly worded and recorded in the registers of the Bank. Whether the extant guidelines are followed in issuance of Bank Guarantees?
- xi. Verify whether expired guarantees are surrendered back to the branch. In case of non-returned expired guarantees, procedure as contained in HO circulars?

Proper follow up of overdue Bills/recourse to the drawers/ merchandize etc.

- i. Verify the limits/accounts falling due for review, renewal and the action taken by the branch on it.
- ii. Verify whether Due Date, Diary of review/ renewal is maintained and required follow-up done on those dates.

Advances under Consortium Arrangement

- i. Guidelines contained in RBI directives and amended from time to time culminating into single window approach is followed.
- ii. Annual consortium meeting is held well in advance for the review of credit facilities. Likewise meetings of all consortium members are held whenever necessary to sort out problems, operational difficulties etc. if any. Generally a responsible officer who would take decision on behalf of the Bank participates in such meetings. Minutes of the meeting are communicated to all consortium members. The branch keeps the controlling office informed of all the meetings and deliberations.
- iii. The lead Bank and the next largest sharing Bank meet at quarterly intervals to assess the performance of the borrower on the basis of the information under Quarterly Information System to fix operating limit/individual Bank's shares for the next quarter and convey the same to all consortium members.
- iv. Joint inspections of the unit/stock are carried out once a year and by individual banks at prescribed intervals as per arrangement and the reports are exchanged among the consortium members.
- v. It is ensured that pro-rata business, including non-fund based business, is transacted through the participating banks.

Merchant Banking Business

- i. Where the branch acts as a Collecting Branch for issue business, the instructions given by the Controlling Branch are properly followed.
- ii. The daily collection position is advised by telex to the Controlling Branch.
- iii. The funds are transferred to Short Deposit Account as instructed and particulars of individual Short Deposits are advised to the Controlling Branch.
- iv. Final Certificates are submitted properly and in time to the Controlling Branch.
- v. The entire funds collected are remitted to the Controlling Branch, inclusive of amounts matured, the short deposits and interest thereon giving complete details of break-up of aggregate amount.
- vi. The branch does not accept applications from investors after the stipulated closing date of the issue.
- vii. Where the branch acts as a Controlling Branch, the terms and conditions on which the branch has accepted the role of Banker to the issue are complied with.
- viii. The branch is correctly recovering the commission and out-of-pocket expenses as agreed with the respective companies.
- ix. There is no delay in the issue of final certificates by the branch in its capacity as Controlling Branch.
- x. Prescribed preventive vigilance measures are duly observed by the branch.
- xi. Where data entry or data processing work is entrusted to outside agencies, the competent authority duly approves

these and the prescribed stamped indemnity has been obtained from such agencies.

- xii. It is ensured that dividend interest warrants/refund payment accounts of companies are funded prior to dispatch of the relative warrants by the companies and there is no misuse of the facility. Deviations, if any, have been made after obtaining the approval of the competent authority.
- xiii. The branch is correctly recovering commission and out-of-pocket expenses from the concerned companies. The competent authority has duly authorized any waiver or reduction of such charges.
- xiv. Claims for reimbursement of amounts of paid warrants received from paying branches are processed and debited to the concerned company's account promptly. Cases of inordinate delays in raising debits, if any, are mentioned.

Credit Card

- i. Application for the issue of credit card has been properly examined and record of issue of the same has been maintained.
- ii. Ensure that the credit in respect of charge-slip is immediately given to the member establishment.
- iii. Ensure that the charge-slip is examined to verify that it does not cover any picked-up card.
- iv. Ensure that the debits arising out of the use of credit cards are promptly recovered.
- v. The Bank maintains a proper record of picked-up cards.
- vi. Undelivered credit cards are properly kept as security items and followed up with credit card department for further instructions.

- vii. Higher authorities are invariably informed about overdrafts/debits arising out of the use of credit cards.

Foreign Exchange Including Export Finance

- i. Verification regarding the reconciliation of NOSTRO and VOSTRO accounts and that balances in NOSTRO accounts are within the limit prescribed by the Bank.
- ii. To monitor whether FEDAI rules have been observed in the extension and cancellation of forward contract - whether competent authority scrutinizes them and the necessary charges, including delivery charges, have been recovered.
- iii. Levy of correct charges on foreign inward/outward remittances
- iv. Monitor timely / proper submission of claims to ECGC.
- v. Adherence to the guidelines issued by RBI/HO about dealing room operations.
- vi. Comment on irregularities in opening the accounts and operation in ordinary NR, FCNR NRE, EEFC and other nonresident accounts whether the debits and credits are permissible under the rules.
- vii. All FCNR receipts are issued by the branch against consideration i.e. only after receipt of funds. High value deposits need special attention.
- viii. Whether rates quoted/applied by the branch on various types of purchase/sale transactions are correct. Verify that over bought/over-sold position maintained in different currencies is reasonable taking into account foreign exchange operations as well as the extent up to which permission has been given to the branch by the International Division of Head Office for such positions.
- ix. Payment of ECGC Premium/Submission of required statements to ECGC for pre-shipment/post-shipment.
- x. Submission of returns to RBI (R-return etc)

- xi. Verification of bill of entry and maintenance of proper records for it.
- xii. In respect of packing credits, please mention if there are over dues, whether they are covered by stocks, Firm Order or LCs, report to ECGC is made, premium paid, whether RBI's approval is sought. Whether claim is made with ECGC and followed up? Report details
- xiii. Whether commercial rate of interest is charged for overdue packing credits and those adjusted otherwise than by export bills.
- xiv. Whether export bill purchased/negotiated/discounted is not realized on due date (in case of demand bills within Normal Transit Period and incase of usance bills on the notional due date) exporter's foreign exchange liability should be converted into Rupee liability on or before the 30th day from the notional due date at prevailing TT Selling Rate.
- xv. In case additional facility is given to exporter in the form of Pre-shipment credit in Foreign Currency (PLFC) or in the form of Rediscounting of Export bills abroad (EBRD) whether conditions applicable to these are complied with.

Note

- Bank's manual of instructions on foreign exchange be stated
- FEDAI rules? RBI circulars to be studied every month for any change/ modification during the months

Refinance Management (IDBI/Exim Bank/ NABARD/SIDBI)

- i. Whether all eligible term loans disbursed has been identified and reported without delay?
- ii. Whether the commercial rate of interest is charged till the date of refinance.

- iii. Eligible Term Loans, which were refinanced, should be reported.

Letter of Guarantee/Co-acceptance

Report on:

- i. Irregularities in issue of guarantee
- ii. Invoked during the month
- iii. Expired during the month

Specify:

- i. Whether it was issued as per the approved format/model guarantee prescribed and standard limitation clause is incorporated. Whether any onerous clause/ unusual clause, which are impossible/difficult of compliance, are incorporated.
- ii. Whether counter indemnity is obtained as prescribed?
- iii. Any deviation from the terms of sanction in regard to margin, security, purpose, period, beneficiary, collection of charges, commission/fee etc.
- iv. Has the branch ensured that the claim is in order
- v. Has the branch been kept informed by the principal accountee and those liable under the counter-guarantee?
- vi. Have follow-up measures been taken as prescribed for the return of the original guarantee the validity period of which has already expired?
- vii. In respect of Deferred Payment Guarantee, whether payment is made to the debit of party's account on due date without creating overdraft/debiting suspense

Other Assets/Sundry Creditors/Accounts

- (i) Any outstanding in suspense/sundry debtors account outstanding for more than 15 days which is not of non recurring nature should be checked and commented for reasons of non adjustment.
- (ii) Now most banks have service/link branches for pension payment reimbursement Govt. accounts transaction etc.
- (iii) All PPO's are properly numbered and recorded
- (iv) Verify whether any excess pension is outstanding in branch for recovery.
- (v) Ensure whether link branch (if applicable) is sending pension payment scroll to RBI/SBI well in time for reimbursement.
- (vi) Whether turnover commission is recovered by the link branch and distributed amongst branches.
- (vii) Where reimbursement are in arrears
- (viii) Records at branch for pension payment (register are up to date)
- (ix) For collection of taxes, PPF A/c etc whether funds received are immediately remitted to link branch.

Compliance of Guidelines on "Know Your Customer" Norms and "Cash Transactions" and Other Internal Control Measures

Whether Bank has complied with the guidelines regarding cash transactions involving amount of Rs.50,000/- while accepting the cash.

Status of Implementation of Mitra Committee Recommendations Relating to Submission of Legal Compliance Certificates

Check total number of officers in the branch (excluding Controlling Officer), of whom no of officers who have not submitted legal compliance certificate. Whether the Controlling Officer has submitted legal compliance certificate to his controlling office?

NPA Management

Verification of monthly statement. Scrutiny of compromises entered into/recommended by the branch during the month

Checklist – Quarterly

Deposits

- i. Verify interest paid in Savings Bank Account at random basis.
- ii. Verify interest provision in Term Deposit Accounts.
- iii. Balancing of 25% of SB ledgers, Current account ledgers other than term deposit registers should be verified in each quarter, so that all ledgers/ registers are covered during the year.

Advances

- i. Verify whether the branch has correctly charged interest (including penal overdue interest), service charges, commission, discount, processing charges etc. on the loans and advances including Bills Purchased/ Discounted/ Negotiated and Acceptances etc. at the stipulated rates and stipulated manner.
- ii. Verify proper classification of assets.
- iii. Verify whether operations in the accounts reveal any unhealthy features such as heavy withdrawals in cash,

suggestive of diversion of funds for purposes other than the declared business of the borrowers.

- iv. Whether Select Operational Data and Quarterly Information System (now FRS) Statements in respect of big borrowers have been received promptly? Whether penal rate of interest @ 1% is being charged for delayed submission/non-submission?
- v. Verify whether the branch has charged lead Bank charges in respect of advances under consortium norms.

House Keeping

- i. Verify whether Accounts with HO are reconciled and old entries in HO accounts are reconciled and reversed.
- ii. Whether necessary register/records are maintained as per controlling office guidelines.

Revenue Checking

Verify and report non-recovery of:

- i. Locker rent.
- ii. Folio charges.
- iii. Penal interest for delayed/non-submission of returns, financial statement required to be submitted.
- iv. Penal interest on advances in respect of lapsed sanction/limit.
- v. Penal interest on excess over limit.
- vi. Overdue interest on all types of bills, loans and packing credits for overdue period.
- vii. Commitment fee for unutilized limit is collected as per rules.
- viii. Commission of letter of credit, letter of guarantee and charges for safe custody etc.

- ix. Standing information charges.
- x. Stop payment charges.
- xi. Processing fee on advances.
- xii. Ledger folio charges.

For rates, Bank's service charges booklet/manual should be obtained and kept on record during the period of audit for any further clarification/ modification with effect as mentioned in respective circular are taken care of

Computers

- i. Number of computers in use.
- ii. Installed modules to be verified from Day Begin Operation Menu available for senior managers.
- iii. Hardware details such as brand name, hard disk capacity, processor name, from copy of invoices/copy of order that is available at branch.
- iv. AMC should be entered for all the system in use. The expiry date will be available from contract entered with vendor by the branch.
- v. The name of printers, routers, and scanner, in use should also be stated.
- vi. UPS and AC details for brand, capacity, number of batteries.
- vii. Whether following registers are maintained and updated:
 - Computer, consumable maintenance log
 - Computer cabin keys and their movement
 - Machine breakdowns/maintenance by vendor visits

- viii. whether branch is changing the parameter whenever it is due, verify with respective maintenance options under module means.
- ix. Whether appropriate Disaster Management is there

Checklist – Half Yearly

- i. Destruction of old records as per time schedule prescribed.
- ii. Proper maintenance of Security Personnel Register and Equitable Mortgage Register.
- iii. Incidental charges and service charges in Saving Bank Account (including inoperative) having balance below prescribed limit.
- iv. Concurrent Auditor should also comment on:
 - i. Availability of Power of Attorney of the signing Officers in the branch, staff strength, training, rotation of duties etc. to be checked.
 - ii. 30% scrutiny of transactions relating to the payment of pension.
 - iii. Whether the prescribed certificates - Life, Re-employment, Re marriage etc. obtained, wherever required, in all pension accounts.
 - iv. Physical checking of Govt. and other securities held on behalf of Investment Department and timely collection of interest thereon and their maturity proceeds.
- v. Adequacy of the follow-up for realization of overdue export bills.
- vi. Compliance with insurance limit for cash and other fixed assets of branches.

- vii. Furniture and fixtures at branch are serially numbered and recorded in fixed assets register, are adequately insured. Depreciation is calculated at HO or branch wise.
- viii. If building is rented, rent agreement is kept in safe custody.
- ix. Whether or not customer service is satisfactory, such as:
 - Customer meeting is convened once in quarter
 - Standing instructions are followed up
 - Complaint/suggestion box is there in branches
 - Whether or not staff at branch is polite to customers.

Security Verification

5.9 The asset checking during the Concurrent Audit has to be more extensive than during Regular Inspection. The Concurrent Auditor has to divide security checking in such a way that some of the borrower accounts are covered every month. More attention should be given to such accounts which are irregular or contain serious irregularities. The following frequency may be considered ideal:

Fund Based Limits	Minimum A/Cs to be covered every month	Minimum coverage during the year
1. Over Rs.10Lacs*	20%	All accounts to be covered in each half year.
2. Rs.1lac to Rs. 10lacs	10%	All accounts to be at least once in a year
3. Rs. 25,000 to Rs.1lac	2.5%	30% of loans and advances
4. Upto Rs.25,000/-	One account	12 accounts

*

While verifying securities in consortium advances, the system of securities checking prescribed in sanction may be taken into account and its adherence commented upon.

Stipulation laid down in sanctions regarding checking of stocks lying at outstation may be looked into and their adherence commented upon.

Computer Audit

- i. Whether Server Room (in case of PBM/TBM branches) is locked overnight, kept neat and clean with air conditioner working perfectly.
- ii. Whether access to Server Room / computers / nodes / ALPMs is restricted to authorized persons only.
- iii. In case of any breakdown, whether the same is noted in Machine Breakdown-cum- Vendor- Visit Register.
- iv. Verify whether UPS is working fine and in case of power failure, sufficient battery back up is available.
- v. Verify that any other load (other than computer and peripherals) is not put on the UPS power points.
- vi. Whether back up is taken daily on floppy/cartridge tape/other media by authorized official and are properly labeled with the days taken and date taken is noted a label outside.
- vii. Whether off-site storage of back-up of system and data are maintained?
- viii. Whether secrecy of passwords is maintained.
- ix. Whether passwords are changed periodically (verify whether periodical changes are recorded by mentioning the date of change of password).
- x. Whether the user having only one user id.
- xi. Whether users the terminals without logging out? Whether operators are given access to DOS/UNIX prompt?
- xii. Whether any unauthorized software programmes are installed/used? If yes, collect details thereof.

- xiii. Whether all balances are tallied with GL heads on day-to-day basis
- xiv. Whether all transactions are authorized daily.
- xv. Whether signature scanning is done regularly for all newly-obtained signature cards.
- xvi. Whether proper procedure is followed for data input and proper rubber stamp is affixed on the reverse of each voucher/data source and the same is filled up and initialed.
- xvii. Whether latest anti-virus software has been installed.
- xviii. Whether all reports/printouts are checked, signed by concerned official and filed properly.
- xix. Whether day book is prepared on the basis of checked final supplementary.
- xx. Whether summary balance report (fall back report) is taken and filed to meet contingency requirements.
- xxi. Whether check sum is generated at day end and is tallied with that generated at next day begin and proper record of the same is maintained.
- xxii. Whether or not any exceptional report is generated and checked by branch manger or not.

KYC Checklist

- i. A Customer maintains multiple accounts, transfer money among the accounts and uses one account as a master account from which wire/funds transfer originates or into which wire/funds transfer are received (a customer deposits

funds in several accounts, usually in amounts below a specified, threshold and the funds are then consolidated into one master account and wired outside the country),

- ii. A customer regularly depositing or withdrawing large amounts by a wire transfer to, from, or through countries that are known sources of narcotics or where Bank secrecy laws facilitate laundering money.
- iii. A customer sends and receives wire transfers (from financial haven countries) particularly if there is no apparent business reason. For such transfers and is not consistent with the customer's business or history.
- iv. A customer receiving many small incoming wire transfer of funds or deposits of Cheques and money orders, then orders large outgoing wire transfers to another city or country.
- v. A Customer experience increased wire activity when' previously there has been no regular wire activity.
- vi. Loan proceeds unexpectedly are wired or mailed to an offshore Bank or third Party.
- vii. A business customer uses or evidences or sudden increase in wired transfer to send and receive large amounts of money, internationally and/or domestically and such transfers are not consistent with the customer's history.
- viii. Deposits of currency or monetary instruments into the account of a domestic trade or business, which in turn are quickly wire transferred abroad or moved among other accounts for no particular business purpose.
- ix. Sending or receiving frequent or large volumes of wire transfers to and from offshore institutions.
- x. Instructing the Bank to transfer funds abroad and to expect an equal incoming wire transfer from other sources
- xi. Wiring cash or proceeds of a cash deposit to another country without changing the form of the currency

- xii. Receiving wire transfers and immediately purchasing monetary instrument prepared for payment to a third party. Periodic wire transfers from a person's accounts to Bank haven countries. A customer pays for a large (international or domestic) wire transfers using multiple monetary instruments drawn on several financial institutions.
- xiii. A customer or a non-customer receives incoming or makes outgoing wire transfers involving currency amounts just below a specified threshold, or that involve numerous Bank or travelers Cheques.
- xiv. A customer or a non customer receives incoming wire transfers from the Bank to 'Pay upon proper identification' or to convert the funds to bankers' Cheques and mail them to the customer or non-customer, when the Amount is very large (say over Rs. 10 lakh)
- xv. The amount is just under a specified threshold (to be decided by the Bank based on local regulations, if any)
- xvi. The funds come from a foreign country or
- xvii. Such transactions occur repeatedly
- xviii. A customer or a non-customer arranges large wire transfers out of the country which are paid for by multiple Bankers' Cheques must under a specified threshold)
- xix. A Non-customer sends s numerous wire transfers using currency amounts just below a specified threshold limit.

Checklist Under Computerised Environment

Application of the System

Auditors to ensure for the parameters-

- Mode of operation.

- Interest
- Commission & other charges.
- Frozen accounts, reason
- Earmarked accounts, reason
- Sanction limit
- Drawing power
- Minimum balance
- List of modules
- Register maintained
- Authorization
- Limited access
- Updation with its date
- Functioning in actual

Opening and Closing of Account

Account Opening

- Introduction procedure
- No Account opened with clearing cheque.
- Minimum balance
- Full name, address, photographs.
- Minor's birth date.
- If minor, guardian information
- Attainment of 'majority' warning
- Single / Joint operation
- Nominations
- Power of attorney
- Closed account Nos.
- Index maintained

- Issuance of passbook

Account Closing

- (a) Incidental charges recovered
- (b) Interest properly calculated and applied
- (c) Charges recovered for unused cheques
- (d) Authorized
- (e) All closed accounts have zero balance
- (f) Details verified and preserved
- (g) Closed account number not used
- (h) An account can not inserted between two accounts

Cheque Book Issue

- (a) Proper Identification
- (b) Checked for requisition slip and screen display
- (c) Procedure of signature verification
- (d) Functioning of encryption facility
- (e) Authorized
- (f) Promptly updated to account
- (g) Recorded in register and slips preserved
- (h) Acknowledged from client

Daily Transaction

- i. Every voucher has-
 - Transaction No.
 - Initial pf operator
 - Authentication by officer
 - Entry appears on transaction sheet

- ii. Every transaction sheet has-
 - Details of transaction
 - Operator ID
 - Signatures
- iii. Daily exception reports-
 - Generated
 - Authenticated by officer & manager
 - Kept in safe custody of manager
 - Action taken by manager
- iv. Access of corrections log to authorized officers only
- v. Transfer scroll & cash book

Cash Transactions

- Main cashier record of cash paid to tellers, name
- Authorized
- Officer receipt scroll
- Encryption receipt / payment facility
- Counterfeit notes / mutilated notes
- Denomination report
- Payments-
 - (a) Level of authorization
 - (b) Signature scanning

Transfer Transactions

- Authorization
- Validation checks
- No pending Voucher
- Debiting, Crediting proceeds
- Signature scanning

- Passing stale/post dated cheques

Clearing Transactions

- Incorporation of all details in system
- Cheques returned for clearing
- Charges recovered
- Batch authorization
- Summary sheets
- Clearing list, summary sheet total tallies with Cash Book
- Problems in module

Interest Calculation

- On clear balance / total balance
- Authorised
- Parameters updated promptly
- Penal interest
- Testing calculation for each type
- Backdated instructions facility
- Application in order

Standing Instructions

- Fully performed
- Preparation of voucher
- Issue of instrument
- Authorization for issue of instrument
- Dispatch record of instrument
- List checked and preserved
- Charges recovered
- Non performance-Intimating client for reasons

- Verifying complaint register

Stop Payment Instructions

- Promptly updated to account for date & time.
- Signature verified, authenticated
- Charges recovered
- Acknowledgement to client
- Cancellation verified, authorized, incorporated
- Record preserved

TMs (stand alone/shared)

- Downloading computer balances
- Restricted access to ATM cabin
- Only maximum amount withdrawal allowed
- Monitoring of transactions
- Transfer of ATM transaction to computer system
- Appropriate effect in accounts
- Daily cash tallying
- Joint custody of cash safe
- Complaint register
- Charges recovered
- Prompt dispatch of cheque book/statements of accounts
- Cash withdrawals through other Bank's ATM card to be reimbursed from ATM Card Cell
- List of Hot Card numbers/Credit Card Issue
- Frequency of breakdown
- Periodicity of maintenance
- Severity of errors

- Unauthorized withdrawals, reason

Balancing of Books

- Up to date and tallies with GL
- Printouts checked and authenticated
- Periodicity
- Rectification of errors
- List of non-rectified balances, reasons

Audit Trail

- Tagged with date, time, user and officers-id
- Traces a transaction
- Traces the history of all transactions
- Complete

Reports

Daily

- Day end control
- Daily balancing
- Transaction sheets
- Exceptional
- Modification in master data
- Supplementary
- Transfer Scroll
- Cash Books
- Trail Balance

Periodic

- Interest Calculation
- Assets, liabilities statement
- TDS

- Closing reports

MIS

- NPA status
- Classification of assets
- Dormant irregular a/c
- TOD confirmation
- Excess drawing/ balance confirmation
- Generated as per schedule
- Authenticated and preserved
- All bear signatures- operator and officer

Transactions in Modules

Auditors has to ensure for

Saving

- Signature scanning
- Withdrawal against clear / total balance
- Cheque payment scrutiny
- Interest credited and TDS
- Interest, commission, other charges
- Joint account operations
- Downloaded entries from ATM
- Credit card debits
- Account with debit balances, authorization
- Transaction in Inoperative accounts
- Closed account
- Deceased claim

Current

- Signature scanning
- Withdrawal against clear / total balance
- TOD granted
- Cheque payment scrutiny
- Interest, commission, other charges
- Credit card debits
- Account with debit balances, authorization
- Transaction in Inoperative accounts
- Closed account
- Regulatory documents submitted

Cash Credit

- Signature scanning
- Withdrawal against clear / total balance/ limit
- Cheque payment scrutiny
- Penal interest
- Interest, commission, other charges
- Interest for group accounts
- EOD granted
- Joint account operations
- Transaction in Inoperative accounts
- Closed accounts
- Requisite documents submitted
- Details incorporated-
- Review/Renewal dates
- Insurance expiry date
- Margins

- Limits
- Classification of asset
- Status- NPA or otherwise
- Submission of stock statements
- Fixing of drawing power
- Suit filed, decreed accounts

Term Deposit

- Signature scanning carried out
- Interest credited and TDS
- Provisions
- Calculation of maturity date
- Joint account operations
- No repayment over Rs. 20,000 is in cash
- Closed accounts
- Deceased claim
- Nomination
- Lien/charges on deposits for
- Loan
- ATM
- Lockers
- Others
- Due date diary

Term Loans

- Type covered
- Sanction terms fed into system
- Documentation
- Details of consortium advances

- Classification of asset
- NPA accounts
- Recovery statements
- Provisions
- Value date credit for staff housing loan
- Due date diary for insurance/documents renewal
- Insurance-
 - Full comprehensive policy
 - Expiry date
- Dates of visits
- Suit filed, decreed accounts
- Joint account operations
- Incidental charges
- Closed accounts

Bills

- Types covered (OBC/IBC/BP/BD)
- Cheque payment scrutiny
- Interest, commission, other charges
- Notarized bills, reason
- Account with debit balances, authorization
- Pending bills, reasons
- Number of days calculation-customer service norms
- Unpaid cheque returned
- Prompt dispatch/ intimation of instrument / bill
- Recovery in case BP returned unpaid
- Others

DD/TT/MT

- Signature on DD and Voucher same
- Stock kept under lock and key
- Prompt dispatched promptly
- Safe custody of signature books
- PAN no.
- Cheque payment scrutiny
- Commission, other charges

New Drafts Account

- Name of software vendor
- Version no.
- IT Dept/RITC letter for installation
- Signature scanning carried out
- Receipt of advance
- Stop payment
- Caution
- Lists
- Duplicate drafts
- Payment of draft prior to receipt of advice
- Validity period of draft
- Stale drafts
- Submission of statements of reconciliation Dept

Safe Deposit Lockers

- Locker application
- Password facility
- Nomination facility
- Locker charges, pending charges

- Safe custody of keys
 - Master
 - Unallocated locker
- Authorization
- Locker register
- Signature scanning carried out
- Deposits maintained
- Commission, other charges
- Joint account operations
- Freezed / sealed lockers and reasons
- Surrendered lockers
- Deceased claim

Cash Book

- Under correct heads
- Daily tallying
- Suspense account transfers
- Nominal account monitoring
- Compulsory recording in Cash Book

Central Office Inter Branch Reconciliation

- Software vendor, version
- Operation by authorization person
- Daily updation
- Follow up for non-reconciled entries
- Step taken, reason for long outstanding
- Timely submission of floppies/ discs.

- Reconciliation Department

Contingent liabilities

- Bills discounted not cleared
- L/C pending
- Bank Guarantees
- Others

Profit & Loss

- Expenses vouchers authorized
- Authenticated by officer
- Daily pasting by operator
- Closing vouchers authorized
- Appropriate classification of items
- Timely submission to Controlling Offices

General Ledger and Trial Balance

- Both sides of cash book tallying
- Carry forward balances
- Daily preparation
- Timely submission to Controlling Offices

Miscellaneous

The concurrent auditor should ensure

Master Creation (All Modules)

- Input forms-
 - Appropriately filled
 - Authenticated
- Must contain information on-
 - Cheque books series
 - Stop payment instructions

- Lien/freeze details
- Mode of operations
- Interest rate
- Client details, etc
- Prior permission obtained for-
 - Allotment to outside agencies
 - Letter of undertaking taken
- Input of ALPM accounts-
 - Checked, download, again checked
 - Printout of hard copies taken
- Printouts of complete details-
 - Verified and authenticated
 - Certificate sent to controlling office

Modification reports- printed, checked and preserved

System Administrator's Role

- Duties defined
- Enabling / disabling users
- Users limited to his/her authority
- Data backups, restore, recovery
- Smooth functioning of system
- Knowledge / capable
- Contingent Plan awareness
- Disaster Recovery Plan awareness
- Proper upkeep of computer system and peripherals

Printouts of Ledgers

- C/C - Every half year
- S/B, Term Deposits, Term Loans - Every half year

Customer Complaints

- Register maintained
- Severity of complaints
- Adequate steps taken for solving
- Preventive measure for non-occurrence
- Pending complaints, reason

Backups

- Daily- six sets, labeled, recorded in register
- Month end- one at branch and other offsite
- Intermediate
- Adhoc
- Spool
- Offsite –
 - Operating system
 - Application Software
 - System Software
- Daily backup
- Month end backup
- Others-
 - Software (source and object code)
 - System / utility Software
 - Operating system
 - Original hardware media
 - Original software media (system, Utility, Application)
- Fresh backup-
 - Operating system after storing
 - New version loaded
- Stock- Sufficient and tested

- Proper steps followed for backup
- Reports- printed checked and preserved

Disk Space Management

- Removal of –
 - Unwanted files- month ends
 - Old information of data files- half yearly
- Space availability
- Ledgers printed before purging the data

Contingency Management

- Contingent plan study-
 - System Administrator
 - Other staff
- Readiness to cope with contingency

Disaster Recovery Plan

- Staff Conversant
- Fall Back procedure
- Confirmation of integrity of data
- Preparedness to cope with any eventuality

Forex Transactions

1st Category branches

Auditor to ensure for :

Dealing Room

- Information on staff
- No. of staff, tenure
- Training

Manual on Concurrent Audit of Banks

- Dealing Hours- timing
- Compulsory break for two week annually

Computerized Environment

- Password secrecy
- Levels of users
- Functions of users
- Id of dealer on transaction sheet, reports
- Automatic pick up of time, date, transaction no.
- Audit trail
- Audit log out facilities
- Late deals marking on report, reason

Other Controls

- Verification of communication system
- Deal slips
 - Name of broker (if any)
 - Counter-party Bank
 - Currency, Amount
 - Time, Date, Rate, Due date
 - Dealers authentication.
 - Preservation, control on tapes and equipment
- Dealers undertaking

Accounting

- All deal capture in system
- Full scrutiny of sample deals
- Reconciliation of dealers record & accounting system
- Stamped agreements for computerized deal slips
- Profit & Loss evaluation through system
- Submission to management
 - True currency position on last Friday of the month including deals in pipeline
 - Position and Funds Register uploading through
 - Deal slips
 - Business reporting from branches

Exchange Brokers

- Broker not acting as principal
- Broker notes are received on same day
- No transaction to be without brokers medium
- Panel of brokers
- Broker wise claims records
- MIS reports
 - Broker wise payments
 - Statement preceding twelve months
- Complaints against brokers

Risk Control and Risk Management

- Counter –party risk to meet obligations
- Ability to fund / execute a transaction at a reasonable price
- Appropriate measure against Legal risk
- Appropriate data processing system
- Incoming deal confirmation
- Counter-party banks confirmations
- Verifying transaction with market condition
- Functional separation of staff duties
- Changes in system, evaluating effect
- Reconciliation of position and results
- Substitution of names of banks in interbank contracts
- Contingency plan
- Overall risk limits
- Adverse movements in implied interest rates
- Reports-
 - good / timely MIS reporting
 - segregation of supervisory and dealing function
 - frequency of reporting increasing during heavy risk period
 - Documentation
 - Board resolution from corporate clients authorizing their officials to deal and execute contracts
 - Specific confirmation per transaction

- Processes established
- Preservation of record and period defined

Evaluation of Profit and Loss

- Disclose actual profit / loss
- Strict adherence to FEDAI- Uniform standard Accounting Procedure
- End of each month and on balance sheet date.

NOSTRO

- Reconciliation of Nostro balances.
- Weekly Receipt of Banks Statements.
- Same date selected for Bank statements and Mirror accounts.
- Done 'on-going basis'.
- Suspense account maintenance, reasons.
- Record held under safe custody and preserved.
- Record held under safe custody and preserved.
- Debit/ Credit matching as per ECM or prior approval.
- Submission of monthly progress report-
 - Large unreconciled items
 - Age-wise grouping, etc.

VOSTRO

- Credit Risk assessment once a year of –
 - Bank itself
 - Correspondent banks

Manual on Concurrent Audit of Banks

- No and list of correspondent banks
- Method adopted to control risk-
 - Reduction on no. of banks
 - Imposition of limits for drawing
 - Securing draft, advices, from correspondents
 - Decentralization of VOSTRO accounts
 - Advice over telex for large payments
 - Prompt value-dating.
- Large operations in inactive or less active VOSTRO accounts
- Confirmation of balance certificates to overseas banks.

2nd Category branches

Auditor to ensure for :

General :

- Parameters for-
 - Interest
 - Rates
 - Commission
 - Charges, etc
- Password security
- Unique user identification
- Reports with operator id, officer id, signature
- Availability of documentary evidence
- Documentation

Checklists

- Matching physical documents with system record
- Safe Custody of numbered stationery, security items, signature books, test key booklets
- Dual custody of foreign currency and travelers cheques
- Proper filing of rate sheets, position sheets credit / debit confirmations / adjustments etc.
- Register Maintenance-
 - Sequential
 - Client wise
 - Currency control
 - Others
- Floppy downloading
- Dealers confirmation for special rates
- Application of rates
- Prompt dispatch of instruments, bills
- Credit reports of suppliers, buyers on record
- Month wise reporting from branch to dealing room-
 - Maturities of outstanding bills
 - Export bills finance
 - Forward contracts
- Earmarking of funds in client account
- Correct notional rates
- Existence of import Export code no.
- Documents as per Bank's rule/sanction terms
- R-Return, XOS, BEF statements submission to RBI

Manual on Concurrent Audit of Banks

- Submission of Statutory Returns

Remittances

- Documentary evidence
- Issue of encashment / FIRE certificates
- Recovery of unpaid instruments
- Immediate disposal of inward remittances
- Issue of foreign exchange to travelers

Import

- Bill of Entry.
- Authorization of import L/Cs.
- Insurance.
- Payment terms governed by Exchange Control regulations.
- Agreement for establishing L/Cs.
- Forward contracts in prescribed form.
- Overdue forward contracts- followed / cancelled as per FEDAL.
- LCs contains.
- FEDAI prescribed clauses
- Uniform Custom Practices 500 governing clause

Export

- GR from / SDF accompany export documents submitted to Bank within 21 days of receipt.
- Follow-up of unpaid items and overdue export bills.
- Pre-shipment bills covered under WTPCG.
- Post shipment bills covered under ECGC policy.
- Insurance.

- Payment terms governed by Exchange Control regulations.
- Crystallization of export bill.
- Agreements for Negotiating export
- Forward contracts in prescribed form.
- Overdue forward contracts followed / cancelled as per FEDAI
- LCs and issue of Guarantees against guarantee
- Approval from International Division is on net record.
- Export bid bonds/performance guarantees covered under ECGC.
- Monthly remittance of ECGC premium under WTPCG.

3rd Category branches

Auditor to ensure for-

- Documents for opening of account include-
 - account opening form
 - photocopies of passport declarations
 - photographs of client
- Source of initial remittance
- Credits and debits to NR accounts conform with Exchange Control provisions
- Monthly submission of NRO, NRSB, NRNR, FCNR
- Interest on NRNR repatriable
- QA22 form kept on record

Other Items

- Verification of high value transaction
- In case of branch has been entrusted with government business, ensuring that the transaction are done in accordance with the instruction issued by the government, the RBI and

head office

- Scrutinise the Government Business Transaction on a day to day basis to arrest on the spot any possible delay in remittance of Government funds, thereby avoiding imposition of penalties at a later date
- Studying internal inspection/audit reports and ensuring that the branch gives proper compliance thereto
- Ensuring that customer complaints are dealt with promptly
- Verification of statements, HO returns and statutory returns
- Audit around computers

Suggestive List of Steps to be Followed by Branches to Avoid Non Implementation Guidelines Stipulated by RBI/GOI/Head Office/Central Office, etc

Deposits

- Obtaining proper introduction of all deposit accounts including Term Deposit.
- Application of correct rate of interest for all deposits as per directives issued from time to time.
- Application of correct rate of interest in case of premature renewal/closure of Fixed Deposits/Overdue Deposits.
- Repayment of deposit by Account Payee cheque/Draft where the amount of deposit repayable together with interest is Rs.20, 000/- and more.

Advances

- Maintenance of prescribed margin on advances against various types of securities, particularly FDR.
- Application of correct interest rate for advances against FDR for self and third party as also all advances against different types of securities to different types of borrowers.

Checklists

- Maintenance of prescribed margin for advances against specified selective credit control commodities.
- Maintenance of loan application register with markings for disposal/credit referred register.
- Compliance with RBI instructions for Export Credit - for charging correct interest rate.
- Monitoring receipt of QMR/HMR data and charging of penal interest for non receipt/ delayed receipt
- Monitoring receipt of borrower's stock statement and charging penal interest for non receipt or delayed receipt.
- Monitoring receipt of financial statements and charging penal interest for non-receipt/delayed receipt.
- Default in the conduct of inspection of stocks and fixed assets under pledge or hypothecation.
- Submission of monthly continuous surveillance statement, wherever applicable.
- Report on the status of renewals of limits giving names of borrowers limit sanctioned - date of expiry - whether renewal proposal was submitted or not - whether there are deficiencies in the account.
- Report should cover compliance with terms of sanction, deficiencies in documentation, operations and follow up. In particular, appraisal of advances falling within branch discretion must be seen and commented on adequacy or otherwise. In general, whether the quality of proposal submitted to sanctioning authority considered all relevant data production/sales/financial position/ projections, etc.
- Whether-systematic credit investigation of borrowers is done?
- Where availability of Seed Money Assistance and subsidy from Government is involved, Concurrent Auditor should verify its receipt thereof and proper accounting.
- Report any account, which shows signs of incipient sickness.

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- In respect of advances under consortium arrangement, please verify whether meetings are held -once in a quarter, verify the minutes and report if there are any irregularities not known to the controlling authorities. Comment on pending issues - deficiencies in documentation.

Customer Service

- Please comment on:
 - Maintenance of complaint received register with disposal markings.
 - Whether acknowledgement of complaints received is made promptly on receipt.

Collection Bills

Inward

- Whether the inward bills held on hand tally with the general ledger.
- Whether all the documents accompanying are intact.
- Whether bills intimations are sent promptly at least on the next day.
- Whether non-payment advices are sent in time.
- Whether charge - commission and postage's are collected as prescribed.
- In the case of purchased/discounted bills received for collection from our branches whether our lien is notified to the carriers.
- Whether parcels received are entered in the parcels received registers and properly stored.
- Particulars of bills outstanding beyond one month/due date should be reported with details of bill numbers, date, amount, party's name and due date with remarks and action thereon.

Outward

- Whether the bills are dispatched for collection at least on the next day if not on the same day.
- Report with details if bills are sent directly to the drawees.
- Details of bills outstanding beyond one month/due date to be furnished with date, number, amount, party's name, due date, with remarks and action thereon.
- Whether fate enquiries are made in respect of unrealized items.
- In respect of foreign bills sent for collection outstanding beyond 6 months detailed statement should be furnished indicating whether exchange control approval from RBI is obtained for extension of time for realization of bills.

Chapter-6

Internal Control for Preventive Vigilance

6.1 Internal control moves inversely with chances of irregularities/fraud. Concurrent Auditor will see the depth and dimension of such internal control as an indicator to the system of preventing vigilance. List is given below to indicate the area of such vulnerable transaction where internal control should be effective and adequate. A Concurrent Auditor should have some insight about it to make the concurrent Audit effective.

6.2 Highly fraud-prone transactions are listed below:

Deposit = (Savings Bank, Current Deposit Accounts)

- (i) Whether deposit accounts are opened, after thorough scrutiny of postal address through Ration Card/Passport/Voters Identity Card/I.T. Pan Card etc.
- (ii) In newly opened accounts, if there is deposit of large amount of cheque and there is immediate withdrawal of the bulk amount is it being monitored by the management staff.
- (iii) Whether introducer's account and signature are duly verified.

If letter of thanks is being issued to the introducer and if so acknowledged copy of letter of thank is being held on record

If letter of thank is not being issued, does the introducer come personally to the Bank and it is duly noted in the specimen signature card.

- (iv) In case of introduction of customer of different Bank branch is obtained, it is obtained confidentially without knowledge/assistance of the depositor customer/ introducer.

Internal Control for Preventive Vigilance

- (v) In dormant/stagnant accounts if any payment is made, is it made on monitoring by the managerial staff.
- (vi) Whether specimen signature cards and other documents signed by the customers are kept under dual control always.
- (vii) Savings/Current Deposit passbooks are handled by responsible staff, and there is no easy access to it by the customers.
- (viii) Passbooks deposited for updating are being duly acknowledged and no box is maintained for receipt of passbooks.
- (ix) Delivery of pass-book is made after scrutiny.
- (x) Specimen signature cards of the dormant accounts are segregated and kept under dual control.
- (xi) Whether staff account turnovers are scrutinized time to time by the manager staff.
- (xii) Are the bill form files and files containing a/c opening forms, in regard to current deposit accounts are kept under effective control.

Remittance

- (i) Whether payment of demand drafts/credit authorization notes/credit notes through newly opened accounts are duly monitored by the managerial staff. New Ledgers are to be scrutinized.
- (ii) For Demand Draft paid without advice immediate intimation is being sent to the issuing branch and the matter is being followed up.
- (iii) In outward bills collection register (OBC), if outstation instruments viz. cheques Demand Drafts, Banker's cheque, refund orders are deposited and on immediate realization are withdrawn from newly opened accounts are those payments duly monitored. There are instances of

encashment of fictitious instruments in collusion with the postal authorities, Banks are being defrauded of huge amount of money.

- (iv) In respect of payment of Demand Draft, pay slip/Banker's cheque/credit authorisation note/credit note etc. signatures of the authorised signatures *are* duly being authenticated.
- (v) File for noting number of lost leaves of Demand Draft, banker's cheque, credit authorization note/credit note etc is maintained and kept readily available for use.
- (vi) In respect of D/D paying branches viz service branches, Demand Draft register is balanced and outstanding Demand Drafts (D/D paid without advice) is being followed up on emergency basis. D/D for large amounts paid without advice is not outstanding for a longer period.

Cash Department

- (i) Dual Control System for cash safe/counting of bundles of notes is always maintained.
- (ii) Generally fraudulent transactions are made more through payment of cash over counter. Unusual high turnover of cash is fraught with the possibility of perpetration of frauds.
- (iii) Statement of SBI/RBI/Focal point branch in relation to maintenance of account, lodgment of cash etc. is reconciled with that of branch records as routine duty on regular basis. Difference if any in between branch record and statement of SBI/RBI/Focal point if persisting for longer period, it requires thorough scrutiny & possibility of fraudulent transaction can not be ruled out.
- (iv) Clearing difference adjustment a/c is being balanced from time to time and no amount is outstanding for long period. Huge amounts are outstanding in such account in some cases. The possibility of long outstanding amount may be proved to be fraudulent.

- (v) Is cash maintained as per retention limit and if exceeded, is permission being sought later on.
- (vi) Over cheque collection counter, is notice being displayed that all instruments should be crossed before depositing? Otherwise bearer instruments may be encased over the counter of paying Bank and the customer concerned may be defrauded. There are such instances.
- (vii) There should be no free access to the Cash Dept) for other than Cash Dept. staff. Cash should not be allowed to be handled by other than Cash Dept. staff. There are numerous instances of frauds for handling cash by other than Cash Dept. staff.
- (viii) There should be effective control for bringing and lodging clearing instruments with clearing house.

Advance Department

(Term Loan, Demand Loan, Cash Credit, Over Draft A/c etc.)

- (i) Project report, technical viable reports etc. in respect of advance of large amounts are duly scrutinized and followed up with the borrowers.
- (ii) For advance accounts whether pre-sanction and post sanction inspections are carried out and reports are made available for scrutiny.
- (iii) In respect of advance made to the companies, search before sanction of advance and charge with the Registrar of Companies are made within one month of disbursement. For vehicle financing charge is registered with the Road Transport Authority relative charge certificates are held on branch records.
- (iv) As per stipulated terms of sanction, whether all the terms viz creation of equitable mortgage is created or not. In case of creation of equitable mortgage, whether lawyers non encumbrance, valuer's valuation reports etc. were taken and held on records. If stipulated in the proposal, whether state-

ment of hypothecated/pledged stocks are submitted at the stipulated interval of time i.e Monthly/bi Monthly/Quarterly etc. collateral deposits, if stipulated, are lodged in the form of Term Deposit receipt, NSC, Kisan Vikas Patra etc. In case of equitable mortgage, oral assent attendance register is duly signed by the mortgager/s.

For all types of advance accounts, all documents stipulated in the proposal are executed and these are fully filled in. Blank documents are not acceptable in the court of law. As far as information goes in some banks, it is obligatory for all the documents executed by the borrowers, "Document Checked" stamp is to be affixed on it and it is to be signed by the official in whose presence the documents are executed/signed by the borrower/s.

Stocks/assets financed by banks are duly insured against the risk of fire, riot, strike and malicious damage etc

Post sanction inspections are carried out as per stipulated terms of sanction time to time and the flaws/irregularities pointed out in the reports are duly followed up with the borrowers for redressal measure/s.

- (v) In case of these advance accounts which are stagnant I immediately after disbursement or after 2/3 transactions, the possibility of some of these accounts are that of fictitious nature can not be ruled out.

Bills Advance

- (i) For regular advance facility, status report of both the Drawers & Drawees from the bankers should be held on branch records.
- (ii) Specific limit are generally granted against documents against Payment (D/P) and Documents against Acceptance (D/A) Some times limits are also sanctioned against Hundis only and these bills are not accompanied by Documents to title to goods viz. Railway Receipts , Bill of Loading (B/L), Motor Transport Receipts etc.

Clean limits (Bills not accompanied by title to goods) may be D/A or D/P bills and generally Clean limits are sanctioned to the borrowers of high integrity and of very large means. Casual limits for bill advance are also granted to the parties of sound financial means.

- (iii) In case of documentary bills, documents to title to goods i.e. R/R, B/I, MTR or Lorry Receipts (L/R) should invariably be drawn in favour of Bank or "Drawer of bills" i.e. self. Under no circumstances bills should be drawn in favour of Drawees of bills as Drawees can retire bills without making payment to banks. For "Self" drawn bills Drawer will endorse the bill in favour of Bank.
- (iv) Banks have encountered huge amounts of fraud on a/c of bill business. It is to be verified that bills are drawn out of genuine trade transactions. This is not an accommodation bill. Accommodation bill is that bill where there is no trade transaction and bills are generally retired by drawees on having money from the drawers of the bills.
- (v) In case of huge amounts of outstanding bills, the possibility of fraudulent transactions can not be ruled out. Overdue bills are retired by purchase/discount of fresh bills in such cases.
- (vi) In case of MTR/LR, it is necessary to be examined as to whether the transportation operator concerned is on the approved list of Indian Bank's Association and relative number is mentioned in the consignment note of the Lorry Receipts.

Other Departments

- (i) Inter-branch reconciliation - Whether inter-branch reconciliation statement is being attended to time to time and the relative file is made available for scrutiny. It is to be ensured that there is no long outstanding entry pending for unusually long period. Long outstanding entry may be of any fraudulent nature of transaction as instances of frauds have very often come to the surface through outstanding inter

branch reconciliation statement. Controlling office may be contracted in case of non-availability of full information in regard to above.

(ii) **Suspense, Sundry Deposit, Sundry Credit -**

These are highly sensitive fraud-prone registers/ledgers. These registers are generally monitored by the managerial staff. Any unusual entry requires full investigation and if long outstanding entry is there, the chances of the same as fictitious can not be ruled out. There are such instances.

(iii) **Opening and negotiation of bills under Letter of Credit are well within the delegated authority of the branch and if not whether permission/sanction of higher authority was available on records. In case of long outstanding bills under L/C investigation is necessary. There are instances of issuing L/C without accounting it for in branch books.**

(iv) **For guarantee issued, whether guarantee was issued within the delegated authority and if not permission/sanction from higher authority was available on records. In case of invocation of any guarantee, any amount paid is duly reported to the higher authority. There are instances of issuing guarantee (Fake) by branch management without accounting it for the branch books.**

(v) **On analysis of Profit and Loss Register, it is required to be determined as to whether there are due controls on purchase of stationery/furniture and fixture and these are well within delegated authority of the branch officials. There are due verification/ checking of items of income and expenditure and vouchers are generally signed by authorized signatory/signatories.**

(vi) **Vouchers of the branches are counted and total number of vouchers is kept written at the top of voucher lot. Total number of vouchers tallies with that of total number of vouchers recorded in the cash centre book. In respect of fraudulent transaction, sometimes the relative voucher is found missing.**

Credit Card Transactions

- i. Whether recommendation for issue of cards were made after thorough verification of antecedence, income. Wealth of the card holders.
- ii. Whether payments received by card holders were repaid. If there is outstanding amount due from card holders is it being followed up and for long outstanding amounts, recovery measures are being initiated whether higher authorities are informed of outstanding amounts of defaulting card holders.
- iii. Whether hot list of credit card members prohibiting use of cards are being duly filed and available for scrutiny.
- iv. Considering incidence of frauds through internet, is there any dispute over the amount of reimbursement claimed for from card holders and is it reputed to the higher authority.

An indicative list of suspicious activities

- A) Activities not consistent with the customer's business
 - i) Corporate accounts where deposits or withdrawals are, primarily in cash rather than Cheques.
 - ii) Corporate accounts where deposits & withdrawals by Cheque telegraphic Transfers/foreign inward remittances/any other means are received from/ made to sources apparently unconnected with the Corporate business activity /dealings.
 - (vi) Unusual applications for DD / TT/ PO against cash.
 - (vii) Accounts with large volume of credits through DDT/PO whereas the nature of business does not justify such credits.

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- (viii) A single substantial cash deposit composed of many high denomination notes.
 - (ix) Frequent exchanges of small denomination notes for large denomination notes or vice versa.
 - (x) Retail deposit of many Cheques but rare withdrawals for daily operations.
- B) Attempts to avoid reporting/record-keeping requirements
- i) A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed
 - ii) Any individual or group that coerces/induces or attempts to coerce/induce Bank employee, not file any reports or any other forms.
 - iii) An account where there are several cash deposits/withdrawals below a specified threshold level to avoid filing of reports that may be necessary in case of transaction above the threshold limit, as the customer intentionally splits the transaction into smaller amounts for the purpose of avoiding the threshold limit.
- C) Unusual activities
- i) An account of a customer who does not reside/have office near the branch even though there are Bank branches near his residence/office.
 - ii) A customer who often visits the safe deposit area immediately before making cash deposits - especially deposits just under the threshold level
 - iii) An account that has frequent deposits of large amounts of currency bearing the labels of other banks

Internal Control for Preventive Vigilance

- iv) Funds coming from the list of countries/centers which are known for money laundering.
- D) Customer who provides insufficient or suspicious information
 - i) A customer/company who is reluctant to provide complete information regarding the purpose of the business, prior banking relationships, officers or directors, or its locations. In this case account need not be opened.
 - ii) A customer/company who is reluctant to reveal details about its activities or to provide financial statements
 - iii) A customer who has no record of past or present employment but makes frequent large transactions.
- E) Certain suspicious funds transfer activities
 - i) Sending or receiving frequent or large volumes of cross border remittances.
 - ii) Receiving large TT/DD remittances from various centers and remitting "the consolidated amount to a different account center on the same day leaving minimum balance in the account.

PART – III

Various Other Audits (Other Than Concurrent Audit) Assigned to Chartered Accountants Firms

Chapter-1

Revenue Audit, Stock and Debtors Audit and Credit Audit

Revenue Audit

1.1 The objective, scope of the revenue audit has been discussed in preceding Chapters. The checklist of conducting the audit is given below: -

- i. Verify all the sanction files for all types of Advances made since the commencement of Concurrent Audit and see that Processing Charges are duly realized.
- ii. Verify that Godown Supervision Charge, Stock Inspection Charge as per Bank's circular are realized from the Borrowers enjoying Cash Credit limit.
- iii. Verify whether Penal Interest has been charged and realized for non/late submission Stock Statements as per Bank's circular.
- iv. Verify whether Penal Interest has been charged and realized for non/late submission in QIS statement from eligible borrowers enjoying Cash Credit limit.
- v. Verify whether Penal Interest has been charged and realized in case of excess drawing, *adhoc* limit in borrowal accounts enjoying Cash Credit limit as per Bank's circular.
- vi. Verify whether Incidental Charges are realized in inoperative *S/B* and *C/O*, accounts.
- vii. Verify whether Interest has been charged for falling less than minimum balance in *C/D* and *S/B* accounts as per Bank's circular.

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- viii. Verify whether Incidental Charges has been realized for renewal of C/C accounts, Cheque Book issue charges, issue of Solvency Certificate / other certificate as per Bank's circular.
- ix. Not only the calculation of products and arithmetical accuracy of interest (in case of non computerized Branches) but the accuracy of interest rate applied by the Branch in respect of different advance accounts in the computer.
- x. Application of interest on drawings allowed against uncleared effects, cheques returned unpaid, protested accounts etc.
- xi. Revenue Leakage in DDs / Bills purchased which is one of major areas of revenue leakage.
- xii. Realization of Commission on issue of Letter of Credit / Bank Guarantees as per Bank's circular, verify whether Commission has also been realized for extension of Letter of Credit and Bank Guarantee.
- xiii. Interest/Commission and Remuneration in lieu of Foreign Exchange Business.
- xiv. Payment of onetime interest on deposit accounts particularly Term Deposits, Those Term Deposits which have been paid before maturity must invariably be checked thoroughly.
- xv. Provision for interest made by the Branches to be checked.
- xvi. Recovery of Telephone/Telex/Telegram/Postage expenses for customers employees and wide variations on account of expenses on Telephone/Postage and Telegram.
- xvii. Salary paid to staff on a test check basis with emphasis on increments, LFC/Medical reimbursement and officiating allowances.
- xviii. For doing Revenue Audit the Latest Service Charge Book must be obtained.

Credit Audit

1.2 The objective, scope of the Credit Audit have been discussed in the preceding Chapters. The procedure and checklist of conducting the audit is given below: -

Procedure

1.3 Normally controlling office provides a copy of each of: -

- Sanction letter
- Appraisal note/processing sheet or memo
- in respect of all eligible accounts sanctioned during a specified period.

1.4 Credit audit shall be conducted on site i.e., at the branch which has appraised the advance and where the main operative limits are made available to the borrowers.

1.5 Conduct of accounts shall also be examined besides documentation, disbursement and compliance with various guidelines issued for proper follow-up and monitoring of advance.

Checklist

1.6 The credit audit should normally cover:

- i. Appraisal and approval process to ensure that all relevant risks in a proposal is captured.
- ii. Adherence to Bank's loan policy.
- iii. Compliance with terms and conditions of sanction.
- iv. Post-disbursement monitoring and follow-up.
- v. Accuracy and timelessness of the credit rating assigned to the borrowal account and integrity of rating process.
- vi. Recommendation for improvement in loan administration and credit risk management.

Stock and Debtors Audit

1.7 The objective, scope of the Stock and Debtors' Audit has been discussed in preceding chapters. The checklist for conducting this audit is given below.

1.8 Auditor shall look into following aspects amongst others: -

- i. Utilization of Bank finance/end use of Bank's fund for the purpose of your business.
- ii. Percentage coverage (which would be preferably be 100%) of physical stocks (raw materials, work-in-progress, finished goods, consumables stores, spares & parts etc.).
- iii. Identification of slow moving/non-moving/obsolete stocks segregated including verification of stock/un-saleable stock.
- iv. Shortfall/surplus of physical stock with reference to books of accounts.
- v. Whether stock register/purchase register/sales register item-wise ledger and other book of accounts are maintained on daily basis and made upto-date.
- vi. Monthly production and sale (both quantity & value) for the last six months.
- vii. Basis of valuation of stock, work-in-progress, finished goods including whether stock has been computed on the basis of the principle of "stock at market price or cost price whichever is lower" against proportionate appropriation for finished and semi-finished goods.
- viii. Paid and unpaid stocks would preferably be segregated item-wise and in calculation of the drawing power, the value of unpaid stock, trade creditors to be excluded alongwith the exclusion of slow moving/non-moving/obsolete stocks.

Revenue Audit, Stock and Debtors Audit and Credit Audit

- ix. Age-wise classification of book debt on the date of stock audit and the reasons for outstanding over six months, and also the amount of advance payment received/adjustable in respect of book debts.
- x. Age-wise outstanding of trade creditors as on the date of verification.
- xi. Utilization of fund and/or coverage of adhoc sanction released recently.
- xii. List of outstanding dues and dues for more than three months and six months as is shown separately.
- xiii. Drawing Power (DP) as on the date of verification alongwith monthly DP during the period of last stock audit and upto the date of present audit.
- xiv. In case of calculation of DP, please ensure particularly whether the pre-shipment packing credit is well covered by physical stock at your godown/possession.
- xv. Whether the irrevocable power of attorney furnished to the Bank has been registered with all the customers of the borrower for ensuring the payment of the bills/book debts through the borrower's cash credit accounts with us.
- xvi. It is also to be ascertained whether the borrower is maintaining any account with branch(es) with our/other banks and is so the statement for the last one year for such maintenance of account with item.
- xvii. Whether the stocks are covered by adequate comprehensive insurance policies with appropriate Bank clause against all sorts of foreseeable risks and the validity of the policies.
- xviii. Whether all the items, specified in the sanction letter for the computation of drawing power are covered by the policy e.g. stock of raw materials, work-in-progress, finished goods, stores, packing materials, etc.

- xix. Item wise value as shown in the periodical stock statement submitted to the financial institutions by the borrower i.e. stock of raw materials, work-in-progress, finished goods, stores, packing materials etc. is to be compared with the item wise value of risks covered by the policy. If it is observed that the item wise stock value appearing in the said periodical stock statement exceeds the value of risks covered by the policy, it is to be identified as 'underinsured' and will attract 'average clause' for the purpose of settlement of claim, if any.
- xx. Address of the insured godown as specified in the policy must be same as mentioned in the periodical stock statement and the terms of the sanction of the credit facility availed by the borrower.
- xxi. Ensure that the 'Bank clause' has been specified in the policy in favour of the concerned financial institution.
- xxii. Risk covering period specified in the concerned policy has not expired.
- xxiii. Any other particulars/information necessary for the purpose of credit arrangement.

Chapter-2

Risk-based Internal Audit

Introduction

2.1 The evolution of financial instruments and markets has enabled banks to undertake varied risk exposures. In context of these developments, the progressive deregulation and liberalization of the Indian financial sector, having an effective risk management and internal control systems has become crucial to the conduct of the banking business. This is also significant in view of proposed introduction of the New Basel Capital Accord under which capital maintained by a Bank will be more closely aligned to the risks undertaken and RBI proposed move towards risk-based supervision (RBS) of banks. Under the proposed RBS approach, the supervisory process would seek to leverage the work done by internal auditors of banks.

2.2 A sound internal audit function plays an important role in contributing to the effectiveness of the internal control system. The audit function should provide high quality counsel to management on the effectiveness of risk management and internal controls including regulatory compliance by the Bank. Historically, the internal audit system in banks has been concentrating on transaction testing, testing of accuracy and reliability of accounting records and financial reports, integrity, reliability and timeliness of control reports, and adherence to legal and regulatory requirements. However, in the changing scenario such testing by itself would not be sufficient. There is a need for widening as well as redirecting the scope of internal audit to evaluate the adequacy and effectiveness of risk management procedures and internal control systems in the banks.

2.3 To achieve these objectives, banks will have to gradually move towards risk-based internal audit. In addition, to selective transaction testing an evaluation of the risk management systems

and control procedures prevailing in various areas of a Bank's operations. The implementation of risk-based internal audit would mean that greater emphasis is placed on the internal auditor's role in mitigating risks, while focusing on effective risk management and controls. appropriate transaction testing, the risk-based internal audit would not only offer suggestions for mitigating current risks but also anticipate areas of potential risks and play an important role in protecting the Bank .

2.4 The functions of the Risk Management Committee/ Department (RMC/ RMD) and the role of risk-based internal audit need to be distinguished. The RMC/RMD focuses on areas such as identification, monitoring and measurement of risks, development of policies and procedures, use of risk management models, etc. The risk-based internal audit, on the other hand, undertakes an independent risk assessment *solely for the purpose of formulating the risk-based audit plan* keeping in view the inherent business risks of an activity / location and the effectiveness of the control systems for monitoring the inherent risks of the business activity. It needs to be emphasized that while formulating the audit plan, every activity /location of the Bank, including the risk management function, should be subjected to risk assessment by the risk-based internal audit.

Policy for Risk-based Internal Audit

2.5 Under risk-based internal audit, the focus will shift from the present system of full-scale transaction testing to risk identification, prioritization of audit areas and allocation of audit resources in accordance with the risk assessment. Banks will, therefore, need to develop a well defined policy, duly approved by the Board, for undertaking risk-based internal audit. The policy should include the risk assessment methodology for identifying the risk areas based on which the audit plan would be formulated. The policy should also lay down the maximum time period beyond which even the low risk business activities/ locations should not remain un-audited.

Functional Independence

2.6 The Internal Audit Department should be independent from the internal control process in order to avoid any conflict of interest

and should be given an appropriate standing within the Bank to carry out its assignments. It should not be assigned the responsibility of performing other accounting or operational functions. The management should ensure that the internal audit staff performs their duties with objectivity and impartiality. Normally, the internal audit head should report to the Board of Directors/Audit Committee of the Board.

2.7 The Board of Directors and top management will be responsible for having in place an effective risk-based internal audit system and ensure that its importance is understood throughout the Bank. The success of internal audit function depends largely on the extent of reliance placed on it by the management for guiding the Bank's operations.

Risk Assessment

2.8 As indicated, the risk-based internal audit undertakes risk assessment solely for the purpose of formulating the risk-based audit plan. The risk assessment would, as an independent activity, cover risks at various levels (corporate and branch; the portfolio and individual transactions, etc.) as also the processes in place to identify, measure, monitor and control the risks. The internal audit department should devise the risk assessment methodology, with the approval of the Board of Directors, keeping in view the size and complexity of the business undertaken by the Bank.

2.9 The risk assessment process should, *inter alia*, include the following :

- a) Identification of inherent business risks in various activities undertaken by the Bank.
- b) Evaluation of the effectiveness of the control systems for monitoring the inherent risks of the business activities ('Control risk').
- c) Drawing up a risk-matrix for taking into account both the factors *viz.*, inherent business risks and control risks. An illustrative risk matrix is shown as a box item mentioned below:-

Inherent business risks indicate the intrinsic risk in a particular area/activity of the Bank and could be grouped into low, medium and high categories depending on the severity of risk. Control risks arise out of inadequate control systems, deficiencies/ gaps and/ or likely failures in the existing control processes. The control risks could also be classified into low, medium and high categories. In the overall risk assessment both the inherent business risks and control risks should be factored in. The overall risk assessment as reflected in each cell of the risk matrix is explained below:-

- High Risk-Although the control risk is low, this is a High Risk area due to high inherent business risks.
- Very High Risk-The high inherent business risk coupled with medium control risk makes this a Very High Risk area
- Extremely High Risk-Both the inherent business risk and control risk are high which makes this an Extremely High Risk area. This area would require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the Bank's top management.
- Medium Risk-Although the control risk is low this is a Medium Risk area due to medium inherent business risks.
- High Risk-Although the inherent business risk is medium this is a High Risk area because of control risk also being medium.
- Very High Risk-Although the inherent business risk is medium, this is a Very High Risk area due to high control risk.
- Low Risk-Both the inherent business risk and control risk are low.

- Medium Risk-The inherent business risk is low and the control risk is medium.
- High Risk-Although the inherent business risk is low, due to high control risk this becomes a High Risk area.

2.10 Banks should also analyze the inherent business risks and control risks with a view to assess whether these are showing a stable, increasing or decreasing trend illustratively. If an area falls within cell 'B' or 'F' of the Risk Matrix and the risks are showing an increasing trend, these areas would also require immediate audit attention, maximum allocation of audit resources besides ongoing monitoring by the Bank's top management (as applicable for cell 'C'). The Risk Matrix should be prepared for each business activity/location.

2.11 The basis for determination of the level (high, medium, low) and trend (increasing, stable, and decreasing) of inherent business risks and control risks should be clearly spelt out. The risk assessment may make use of both quantitative and qualitative approaches. While the quantum of credit, market, and operational risks could largely be determined by quantitative assessment, the qualitative approach may be adopted for assessing the quality of controls in various business activities. In order to focus attention on areas of greater risk to the Bank, an activity-wise and location-wise identification of risk should be undertaken.

2.12 The risk assessment methodology should include, *inter alia*, the following parameters:

- Previous internal audit reports and compliance
- Proposed changes in business lines or change in focus
- Significant change in management/key personnel
- Results of latest regulatory examination report
- Reports of external auditors
- Industry trends and other environmental factors

- Time lapsed since last audit
- Volume of business and complexity of activities
- Substantial performance variations from the budget.

2.13 For risk assessment to be accurate, it will be necessary to have in place proper MIS and data integrity. The internal audit function should be kept informed of all developments such as introduction of new products, changes in reporting lines, changes in accounting practices/policies etc. The risk assessment should invariably be undertaken on a yearly basis. The assessment should also be periodically updated to take into account changes in business environment, activities and work processes, etc.

Risk Matrix				
Inherent business risks ↑	High	A High	B Very High Risk	C Extremely High Risk
	Medium	D Medium Risk	E High Risk	F Very high Risk
	Low	G Low Risk	H Medium Risk	I High Risk
	Control Risks →			

2.14 All Bank need to put in place an independent risk assessment system in the internal audit department for focusing on the material risk areas and prioritizing the audit work. The methodology may change from a simple analysis of why certain areas should be audited more frequently than other in case of small size banks undertaking traditional banking business, to more sophisticated assessment systems in large sized banks undertaking complex business activities.

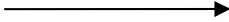
Audit Plan

2.15 The annual audit plan, approved by the Board, should include the schedule and the rationale for audit work planned. It should also include all risk areas and their prioritization based on the level and direction of risk. Illustratively, the areas or activities identified as high, very high or extremely high risk (based on risk matrix) may be audited at shorter intervals as compared to medium or low risk areas, which may be audited at longer intervals subject to regulatory guidelines, as applicable.

Scope

2.16 The primary focus of risk-based internal audit will be to provide reasonable assurance to the Board and top management about the adequacy and effectiveness of the risk management and control framework in the banks' operations. While examining the effectiveness of control framework, the risk-based internal audit should report on proper recording and reporting of major exceptions and excesses. Transaction testing would continue to remain an essential aspect of risk-based internal audit. The extent of transaction testing will have to be determined based on the risk assessment. Illustratively, the Bank should undertake 100 per cent transaction testing if an area falls in cell "C- Extremely High Risk" of the risk matrix. The Bank may also consider 100 per cent transaction testing if an area falls in cell "B- Very High Risk" or "F- Very High Risk", and the risks are showing an increasing trend. The banks may also consider transaction testing with an element of surprise in respect of low risk areas which would be audited at relatively longer intervals.

2.17 The banks may prepare a Risk Audit Matrix as shown below:

Risk Audit Matrix				
 Magnitude of Risk (M)	High	High M Low F	High M Medium F	High M High F
	Medium	Medium M Low F	Medium M Medium F	Medium M High F
	Low	Low M Low F	Low M Medium M	Low M High F
		Low	Medium	High
		 Frequency of Risk (F)		

2.18 The Audit Plan should prioritize audit work to give greater attention to the areas of:

- (i) High Magnitude and high frequency
- (ii) High Magnitude and medium frequency
- (iii) Medium magnitude and high frequency
- (iv) High magnitude and low frequency
- (v) Medium Magnitude and medium frequency.

2.19 The precise scope of risk-based internal audit must be determined by each Bank for low, medium, high, very high and extremely high risk areas. However, at the minimum, it must review/report on:-

- i) process by which risks are identified and managed in various areas;

- ii) the control environment in various areas;
- iii) gaps, if any, in control mechanism which might lead to frauds, identification of fraud prone areas;
- iv) data integrity, reliability and integrity of MIS;
- v) internal, regulatory and statutory compliance;
- vi) budgetary control and performance reviews;
- vii) transaction testing/verification of assets to the extent considered necessary
- viii) monitoring compliance with the risk-based internal audit report
- ix) variation, if any, in the assessment of risks under the audit plan vis-à-vis the risk-based internal audit.

2.20 The scope of risk-based internal audit should also include a review of the systems in place for ensuring compliance with money laundering controls; identifying *potential* inherent business risks and control risks, if any; suggesting various corrective measures and undertaking follow up reviews to monitor the action taken thereon.

Communication

2.21 The communication channels between the risk based internal audit staff and management should encourage reporting of negative and sensitive findings. All serious deficiencies should be reported to the appropriate level of management as soon as they are identified. Significant issues posing a threat to the Bank's business should be promptly brought to the notice of the Board of Directors, Audit Committee or top management, as appropriate.

Performance Evaluation

2.22 The Internal Audit Department should conduct periodical reviews, annually or more frequently, of the risk-based internal

audit undertaken by it *vis-à-vis* the approved audit plan. The performance review should also include an evaluation of the effectiveness of risk-based internal audit in mitigating identified risks.

2.23 The Board of Directors/ Audit Committee of Board should periodically assess the performance of the risk-based internal audit for reliability, accuracy and objectivity. Variations, if any, in the risk profile as revealed by the risk-based internal audit *vis-à-vis* the risk profile as documented in the audit plan should also be looked into to evaluate the reasonableness of risk assessment methodology of the Internal Audit Department.

Audit Resources

2.24 The Internal Audit Department should be provided with appropriate resources and staff to achieve its objectives under the risk-based internal audit system. The staff possessing the requisite skills should be assigned the job of undertaking risk-based internal audit. They should also be trained periodically to enable them to understand the Bank's business activities, operating procedures, risk management and control systems, MIS, etc.

Outsourced Internal Audit Arrangements

2.25 The Board of Directors and top management are responsible for ensuring that the risk-based internal audit continues to function effectively even though it is outsourced. The following aspects may, *inter alia*, be kept in view to prevent any risk of breakdown in internal controls on account of outsourcing arrangements:

- (a) Before entering into an outsourcing arrangement for risk-based internal audit, the Bank should perform due diligence to satisfy itself that the outsourcing vendor has the necessary expertise to undertake the contracted work. The contract, in writing, should at the minimum, specify the following:
 - the scope and frequency of work to be performed by the vendor.

- the manner and frequency of reporting to the Bank the manner of determining the--cost of damages arising from errors, omissions and negligence on the part of the vendor.
 - the arrangements for incorporation of changes in the terms of contract, should the need arise.
 - the locations where the work papers will be stored.
 - the internal audit reports are the property of the Bank and that all work papers are to be provided to the Bank when required.
 - the employees authorized by the Bank are to have reasonable and timely access to the work papers.
 - the supervisors are to be granted immediate and full access to related work papers.
- (b) The management should continue to satisfy itself that the outsourced activity is being competently managed.
- (c) All work done by the vendor should be documented and reported to the top management through the internal audit department.
- (d) To avoid significant operational risk that may arise on account of a sudden termination of the outsourcing arrangement, the Bank should have in place a contingency plan to mitigate any discontinuity in audit coverage.

Expectations

2.26 Risk-based internal audit is expected to be an aid to the ongoing risk management in banks by providing necessary checks and balances in the system. However, since risk-based internal audit will be a fairly new exercise for most of the Indian banks, a gradual but effective approach would be necessary for its implementation. Initially the risk based internal audit may be used as a management/ audit tool in addition to the existing internal audit/inspection. Once the risk-based internal audit stabilizes and

the staff attains proficiency, it should replace the existing internal audit/inspection. The information systems audit (IS Audit) should also be carried out using the risk-based approach.

Task Force

2.27 Banks should form a Task Force of senior executives and entrust them with the responsibility to chalk out an action plan for switching over to risk-based internal audit, identifying and addressing transitional and change management issues, implementing the plan and monitoring the progress during the transitional period and report to the Board of Directors, periodically.

Bank's Policy on Risk Based Internal Audit (RBIA)

Parameters	Bank's Policy
1. Meaning & Concept of RBIA	Risk Based Internal Audit (RBIA) is a new technique for the Bank's interest audit which is conducted based on Risk assessment of various Business and Control Risk of the branch/ business Unit. RBI advised the Banks to adopt RBIA which will facilities implementation of Risk Based Supervision of the Banks. It is a basically a system based audit where the audit plan is prepared with reference to the Risk Profile of the branch and audit resource are directed towards high risk areas. The RBI expects to leverage the findings of the RBIA for the purpose of Risk Based Supervision.
2. Basic Objective	(i) RBIA reviews the companies of Bank's laid down systems and procedures and

	also reviews the processes by which risk are identified analyzed and managed and control environment of the branch as a whole. (ii) To undertake an independent risk assessment solely for the purpose of formulating the risk-based audit plan and determining the periodicity of audit. (iii) To carry out transaction testing to the extent necessary based on level and direction of risk in a particular risk area.
3. Coverage	Presently RBIA will be conducted at all branches concurrently with existing Inspection process except specialized branches like recovery branch, treasury branch, Currency chest, Service branch, etc.
4. Scope	▪ The primary focus of risk-based internal audit will be to assess the effectiveness of the risk management and control framework in the Bank's operations. ▪ While examining the effectiveness of control framework, major exceptions and excesses will also be reported. ▪ The reliability and timeliness of information / reporting system will be assessed. ▪ The auditor will also examine whether proper system is followed for accounting fair value of all assets (financial or others) and all safety measures to safeguard the assets (including furniture & fixture or other Bank's property). ▪ In case of computerized branches, the physical & system controls on the branch will be assessed.

	▪ The auditors will also evaluate the accomplishment of corporate goal and level of resource utilization (including human resources) for the same. ▪ To ensure the compliance with KYC norms & anti money laundering measures.
5. Organization & Functional Independence	As existing, the Internal Inspection and Audit Department will remain functionally independent from the internal control process in order to avoid conflict of interest and will be given an appropriate standing within the Bank to carry out its assignments.
6. Risk Assessment Process	The risk assessment of underlying Business and Control risk at the branches constitute central aspect of RBIA which will include: (a) Identification of Inherent Business Risks in various activities undertaken by the branches. (b) Assessment of effectiveness of the control systems (control risk) for monitoring the inherent risks of the business activities in the branch. (c) Making an assessment of level & direction of various risks areas as also assess the level & direction of overall Business & control risk. (d) Drawing up of the risk matrix taking into account both factors viz. Risk of Branch
7. Risk Identification	Risk profile at Bank level is based on an assessment of inherent Business Risk and Control Risk in key areas of Bank's functioning.

Business Risks are considered inherent in the activities undertaken by Bank irrespective of whether the controls are in place. Business Risk assessment at Bank level cover eight (8) risk areas – (a) Capital (b) Credit risk (c) Market risk other than liquidity (d) Earnings (e) Liquidity Risk (f) Business strategy & environment risk (g) Operational risk and (h) Group risk.

Control Risk arises out of inadequacy the system absence of controls or possibility of failure / breakdown in the existing control process. Control Risk assessment cover four (4) risk areas – (a) Internal control risk (b) Organisation risk (c) Management Risk and (d) Compliance risk.

As some of the risk areas, as stated above, may not be applicable to the branches, risk assessment at branch level will presently by undertaken in respect of following **risk areas on onsite basis:**

RISK CATAGORY			
Business Risk		Control Risk	
Assessm ent Area	1. Credit Risk 2. Busi- ness Strategy Risk 3. Operati onal Risk	Assessm ent Area	1. Internal Control Risk 2. Complia nce Risk

The inspector/Audit official will, inter-alia take into consideration the under noted factors for

	making on-site assessment in individual risk area: ▪ Latest internal audit and inspection report and RBI inspection report and its compliance, ▪ Reports of the statutory and other external auditors and its compliance, ▪ Performance variations from budget, ▪ Changes in the business strategy / focus ▪ Volume of business and complexity of operations /activity.									
8. Major Components for assessment of Risk areas under Risk Category	Each risk area under Business Risk category will be assessed based on an assessment of major components as under: <table><tr><th>Risk Areas</th><th>Objective</th><th>Major Components for assessment</th></tr><tr><td>Credit risk</td><td>To determine the quality of credit (both on and off balance sheet)</td><td>Credit growth, Composition & credit concentration in the credit portfolio, Credit quality, Credit risk on Off Balance Sheet exposure and other relevant information relating to Credit management.</td></tr><tr><td>Business Strategy Risk</td><td>To determine the level of performance in relation to business plan, profitability and earning of the branch.</td><td>Performance of the branch vis-à-vis target, Analysis of income & expenditure and other key financial ratios relating to earnings prospect of the branch.</td></tr></table>	Risk Areas	Objective	Major Components for assessment	Credit risk	To determine the quality of credit (both on and off balance sheet)	Credit growth, Composition & credit concentration in the credit portfolio, Credit quality, Credit risk on Off Balance Sheet exposure and other relevant information relating to Credit management.	Business Strategy Risk	To determine the level of performance in relation to business plan, profitability and earning of the branch.	Performance of the branch vis-à-vis target, Analysis of income & expenditure and other key financial ratios relating to earnings prospect of the branch.
Risk Areas	Objective	Major Components for assessment								
Credit risk	To determine the quality of credit (both on and off balance sheet)	Credit growth, Composition & credit concentration in the credit portfolio, Credit quality, Credit risk on Off Balance Sheet exposure and other relevant information relating to Credit management.								
Business Strategy Risk	To determine the level of performance in relation to business plan, profitability and earning of the branch.	Performance of the branch vis-à-vis target, Analysis of income & expenditure and other key financial ratios relating to earnings prospect of the branch.								

	Operational Risk	To assess the risk arising out from the operation.	Various operational losses occurred in the branch due to failure of people, process and systems in compliance of norms.
	Risk areas under Control Risk category will be assessed based on assessment on following major components:		
	Risk Areas	Objective	Major components assessment
	Internal control risk	To determine the adequacy of the internal control framework.	Risk mitigation system adopted in managing the credit risk with focus on Credit sanction process, Post sanction, NPA Management and Recovery, Operational risk Mitigation with focus on House keeping & Internal control system, Compliance of laid down norms in Forex transaction, etc.
	Compliance risk	To evaluate the statutory and regulatory compliance	Compliance of statutory & regulatory guidelines and rectification of various audit and inspection reports/ findings
9. Risk Assessment Methodology	Assessment of risk will be a score based approach. Each risk area will be assessed based on assessment of relevant major component as stated in 8.1 above. Each major component is assessed based on an number of elements which are qualitative or quantitative in nature. Each element will be assigned a risk impact (as 1,2,3 etc.) depending on its		

	significance. Risk under each element will be assessed under four level of risk as Low, Moderate, Fair and High Risk depending upon level of compliance/ performance and specific benchmark. The four level of risk as Low Moderate, Fair High Risk carry a risk weight of 1, 2, 3 & 4 respectively. The assessment of levels of risk will be on the principal that higher level of compliance – lower the risk- Lower the weight. Score awarded for a particular element will be calculated / arrived at by multiplying applicable risk weight with allotted risk impact of the element i.e. $SCORE = R.I \times R.W$. Each risk areas is allotted a maximum marks being aggregation of maximum marks for each elements under the risk areas. If any particular element or component is not relevant / applicable in a particular branch under audit, total eligible marks for the risk area will be arrived by deducting the maximum score for that particular element / component. Score awarded for all the elements under a particular risk area will be aggregated and percentage (%) of the aggregated score to total eligible score will determine the level of risk of the particular risk area as Low Medium High based on following benchmarks: <table border="1"> <thead> <tr> <th>% of Aggregated score to total eligible score</th><th>Level of risk</th></tr> </thead> <tbody> <tr> <td>Above 75%</td><td>High</td></tr> <tr> <td>45%-75%</td><td>Medium</td></tr> <tr> <td>Below 45%</td><td>low</td></tr> </tbody> </table> The overall Business Risk and Control will be assessed by weighted aggregation of the Score (%) of the relevant risk areas as under:	% of Aggregated score to total eligible score	Level of risk	Above 75%	High	45%-75%	Medium	Below 45%	low
% of Aggregated score to total eligible score	Level of risk								
Above 75%	High								
45%-75%	Medium								
Below 45%	low								

	Risk Weight Assigned					
	Business Risk					Control Risk
	Category of Branch	Credit risk Score (%)	Business Strategy Risk Score (%)	Operational Risk Score (%)	Internal Control Risk Score (%)	Compliance Risk Score (%)
	ELB/VLB	70%	20%	10%	90%	10%
	Other Braches	60%	20%	20%	90%	10%
	The Business and Control risk of the branch will be assessed as LOW MEDIUM and HIGH bases on aggregated weighted score as per benchmark stated above para.					
10. Composite Risk/ Risk Matrix	The overall Business and Control Risk will be plotted in the following Risk Matrix of the branch:					
	Risk Matrix					
	Business Risk ↑	High	A High Risk	B Very High Risk	C Extremely High Risk	
		Medium	D Medium Risk	E High Risk	F Very High Risk	
		Low	G Low Risk	H Medium Risk	I High Risk	
			Low	Medium	High	
		Control Risk →				

	The overall risk assessment as reflected in each cell of the risk matrix as above is explained below:		
	Cell	Composite Risk	Explanation
	A	High Risk	Although control risk is as low, this is a High-Risk area due to high inherent business risks.
	B	Very High Risk	High inherent business risk and control risk is high which makes this an extremely high-risk area.
	C	Extremely High Risk	Both the inherent business risk and control risk is high which makes this an extremely high-risk area.
	D	Medium Risk	Although the control risk is low, this is a medium risk area due to medium inherent business risk.
	E	High Risk	Although the Business Risk is medium, this is a high risk area because of control risk also being medium.
	F	Very High Risk	Although the inherent business risk is medium, this is a very high-risk area due to high control risk.
	G	Low Risk	Both business risk and control risk is low.
	H	Medium Risk	Business risk is low and control risk is medium.
	I	High Risk	Although business risk is low risk, due to high control risk this becomes a high risk area.

11. Direction of Risk	The inherent business risk and control risk as assessed should be qualified by a likely direction of risk for the next year. The direction may be identified as “Stable”, “Increasing” or “Decreasing” based on past trend and likely movement of risk over one year time horizon. The trend of the direction will be carried out based on the overall score of the branch for two or more years/ period as under:-				
	Risk Area	Score Awarded in previous year	Score Awarded in current year	Variation in score	Direction of risk
				See note below	
	(a)	(b)	(c)	(d) = c-b	(e)
	Business Risk				
	(i) Credit Risk				
	(ii) Business Strategy Risk				
	(iii) Operational Risk				
	Overall Business Risk (i + ii + iii)				
	Control Risk				
	(i) Internal Control				
	(ii) Compliance				
	Overall Control Risk (i + ii)				
	NOTE: (a) Variation of score in the same risk area over last assessment upto <u> </u> (+) 10 or (-) 10				

	marks will be considered as “ STABLE” and (b) Variation of score in the same risk area over last assessment by more than (+) 10 or (-) 10 marks will be considered as “INCREASING/ DECREASING” as the case may be.												
12. Audit /Inspection Plan	Since presently RBIA is envisaged to be conducted concurrently with the regular inspection process, the audit periodicity will be the same as per the existing inspection policy of the Bank as under: <table><tr><th>SI No</th><th>Category of the Branch</th><th>Periodicity</th></tr><tr><td>1</td><td>Exceptionality Large Branch (ELB) and Very Branch (VLB) irrespective of last inspection rating</td><td>Once in 12 month</td></tr><tr><td>2</td><td>Branch under Concurrent Audit and having last inspection rating.....</td><td>Once in 18 month</td></tr><tr><td>3</td><td>All other Branch</td><td>Once in 12 month</td></tr></table> Transaction Testing 100% transaction testing under the present inspection system will continue till complete switchover to RBIA.	SI No	Category of the Branch	Periodicity	1	Exceptionality Large Branch (ELB) and Very Branch (VLB) irrespective of last inspection rating	Once in 12 month	2	Branch under Concurrent Audit and having last inspection rating.....	Once in 18 month	3	All other Branch	Once in 12 month
SI No	Category of the Branch	Periodicity											
1	Exceptionality Large Branch (ELB) and Very Branch (VLB) irrespective of last inspection rating	Once in 12 month											
2	Branch under Concurrent Audit and having last inspection rating.....	Once in 18 month											
3	All other Branch	Once in 12 month											
13. Role, Duties & Responsibilities of the Auditor	The Auditor/ Inspector are required to scrutinize, examine and verify, among others, whether or not: ▪ Assets and Liabilities of the branch/ office are correctly and accurately recorded in the books of accounts maintained at the branch / office. ▪ The assets shown in the books physically exist or other wise identifiable and their												

	condition and reliability are satisfactory. ▪ The documentation formalities in respect of advances and other assets have been properly completed and that the Bank had a legally enforceable right on the basis thereof. ▪ All incomes are correctly and realized as per terms of sanction/ circularized instruction. All expenditure is reasonable and is supported by documentary evidence and is within the delegated power of the manager or is covered by the sanction of the competent higher authority. Income & Expenditure are within the approved budget plan. ▪ Various discretionary authorities delegated to the line functionaries have been judiciously exercised and in doing so proper appraisal made/ safe guard taken. ▪ Laid down system and procedures are adhered to in day to day business transactions. Internal checks and controls including risk managements systems are adequate, effective and standard of housekeeping is satisfactory. ▪ The irregularities noticed during the course of audit should be discussed with the Manager / departmental head, there by affording them an opportunity to rectify such irregularity as far as possible on the spot. However, the serious/ major irregularities noticed during the audit should be brought to the notice of the Controlling Officer/Zonal Manager and Head Office through detailed reporting of the transactions.
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14. Allotment of Mandays	As because the RBIA will be done concurrently with internal inspection, it is proposed that this exercise should be completed within the allotted days of inspection. However, as and when we dispense with the existing internal inspection and switch over finally to RBIA, allotment of mandays will be decided afresh.
15. Summary Risk Profile /Rating of the Branch	On completion of the audit of the branch and risk assessment under different risk areas on various parameters , branch will be rated separately under “ Business Risk ” and “ Control Risk ” and “ COMPOSITE RISK ” rating as per the RISK MATRIX will be awarded as LOW, MEDIUM, HIGH, VERY HIGH, EXTREMELY HIGH Risk.
16. Exit Meeting	There is a system of discussion between the inspection team and branch head on completion of the inspection. In the said meeting findings on risk assessment will also be discussed.
17. Periodical Meeting of FIO and Zonal Heads	The system of discussion of inspection reports between FIO Head and Zonal Heads in Zonal Inspection Committee meetings has been introduced in the system w.e.f 01.06.05 in which the issue of risk perception branch-wise will also be discussed.
18. Submission of RBIA Reports	While conducting RBIA of branches, the auditors (FIO Inspecting Officials) will submit their reports as per format provided for this purpose. The auditor will prepare four (4) copies of his/ her report along with comments and submit the same to the Branch, Field Inspection Office (FIO), Zonal Office and Head Office along with the main Inspection report within 7 days from the date of completion of inspection/ audit.

	RBIA-report will cover five risk areas and review/ report particularly on points having serious impact on the functioning and overall risk profile of the branch.
19. Compliance of RBIA Report	The report under RBIA would focus the High-Risk area of the branch incorporating suggestions for mitigating /controlling those risks. The Zonal head will guide / monitor the branches to take care of the vulnerable/ high-risk areas and ensure compliance of all risk management system and procedures and strengthen control system. The branch will rectify all the irregularities / deficiencies pointed out under the existing inspection report which will be deemed as rectification of RBIA report. Moreover, branch will submit the comments on the risk assessed under RBIA and steps taken for its mitigation. The concerned Zonal Office will constantly follow up with the branch for timely submission of compliance / rectification report and will ensure the closure of file within stipulated four month period.
20. Communication Channel	On receipt of summary reports along with risk profile / composite rating of the branch / office from the FIO, HO, Inspection and Audit Department will place a structured note on the risk areas based on the summary report to the top management as per the following table:

	<table><tr><th>Category of Branch/ Office</th><th>Overall Risk Profile/ Rating</th><th>Report to be placed to</th></tr><tr><td>Exceptionally Large Branch (ELB) and Very Large Branch (VLB)</td><td>Irrespective of Risk Profile/Rating</td><td>The General Manager (Insp./Audit)</td></tr><tr><td rowspan="2">All other Branches exception ELB & VLB</td><td>Extremely High Risk, Very High Risk</td><td>The General Manager (Insp./Audit)</td></tr><tr><td>High, Medium & Low Risk</td><td>The AGM/CM (Insp./ Audit)</td></tr></table> Depending on the contents of the reports, the GM (Insp./Audit) may, at his discretion, refer the same to the higher authority.	Category of Branch/ Office	Overall Risk Profile/ Rating	Report to be placed to	Exceptionally Large Branch (ELB) and Very Large Branch (VLB)	Irrespective of Risk Profile/Rating	The General Manager (Insp./Audit)	All other Branches exception ELB & VLB	Extremely High Risk, Very High Risk	The General Manager (Insp./Audit)	High, Medium & Low Risk	The AGM/CM (Insp./ Audit)
Category of Branch/ Office	Overall Risk Profile/ Rating	Report to be placed to										
Exceptionally Large Branch (ELB) and Very Large Branch (VLB)	Irrespective of Risk Profile/Rating	The General Manager (Insp./Audit)										
All other Branches exception ELB & VLB	Extremely High Risk, Very High Risk	The General Manager (Insp./Audit)										
	High, Medium & Low Risk	The AGM/CM (Insp./ Audit)										
21. Development of skill for undertaking RBIA	The Internal Audit & Inspection Department, Head Office will take initiative and maintain liaison with the Human Resources Department (HRD), Head Office in the matter of imparting training to the existing inspection / audit officials as well as field functionaries as on-going to build up requisite skills for smooth transition to Risk Based Internal Audit (RBIA).											
22. Review of the Policy	As stated above, RBIA will continue to be conducted concurrently with existing inspection at all branches, as per existing inspection / audit plan. On the basis of feedback received and experience gained, the policy will be reviewed from time to time to incorporate required modifications.											
23. Risk assessment Format	Two separate risk assessment format namely RBIA/RPT/01 for the ELB/ VLB branches and RBIA/ RPT/02 for the Small/ Medium/ Large branches will be in place. The risk assessment formats will be reviewed from time to time as per the changing needs and suitable modifications, wherever required, will be incorporated with the approval of the Chairman and Managing Director.											

PART – IV

Model Manual of Instruction with Various Reports and Checklist

NOTE

The matter published hereinafter do not form part of the Statement. These are intended for the ease of reference to the readers.

These matter, among other things, also contain reproduction of texts of various sections of relevant statutes and notifications issued by the Government of India. While every effort has been made to avoid errors or omissions in reproduction, some errors are likely to creep in. It is, therefore, suggested that to avoid any doubt, the reader should cross-check all the facts, law and contents of the publication with original Government publication or notifications.

NOTE

Appointing Bankers normally provide Manual of Instruction, Checklist with various Formats of reports to be made. A model of such format is given in this division in Annexure A with sub annexure as indicated in the index. It may be noted that all these formats are only suggestive and/or illustrative and it is for the Concurrent Auditor to modulate/change the same as per the necessity of the auditee bank. A chapter containing various checklists is incorporated in Part-II. The format of reporting itself is designed on the pattern of the checklist and hence this is also incorporated in the model. Some items may be repetitive and reader is advised to refer both. There is some mandatory requirement. But appointing bankers may enlarge the assignment according to their management decision. The model may serve the purpose of acquainting the auditor with audit universe and conducting the audit. This may ultimately lead to standardization of format and scope of assignment with coverage.

The periodicity of checking is normally as per RBI guidelines and those as decided by the respective banks. However concurrent audit is planned in such a way that transactions/ vouchers is checked within shorter possible interval facilitating the rectification/regularization in least possible period by the Concurrent Auditor and the actual position should be reported to the authority.

Periodicity of reporting and those of time of submission as mentioned in the format are given following the standard norms. Cutoff amount means an amount as per RBI guidelines and those as decided by the respective banks.

Concurrent Auditors are also assigned revenue audit/income and expenditure audit, stock & debtors' audit, credit audit, depository participants' audit. The respective format of the reporting are also given and marked as Annexure B to E. The format of Computer System Audit, and System Audit are given in Annexure F to G.

Actual reporting format may however vary from bank to bank. The format given hereunder is an illustrative model only.

ANNEXURE A/A**Concurrent Audit – Weekly Report To Branch**

Name of the Branch:

Date:

Name of the Auditor:

S. NO.	OBSERVATION BY AUDITOR	RECTIFICATION BY BRANCH	REMARKS OF AUDITOR
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Date:

(Signature of representative audit firm)

NOTE:

1. Duplicate set of report to be handed over to the Branch head for rectification under his signature. Branch will return original after rectification. Non - rectified observations will be reported in subsequent monthly and quarterly report till it is fully rectified.
2. The weekly report should cover irregularities in respect of day to day operations in all functional areas of the branch and the report should enable the branch to rectify the irregularities on spot or soon after.

Specimen Format Of Monthly Report

Name of Branch:

Month:

Name of the Controlling Officer:

Name of the Manager:

Name of the Audit Firm:

Date:

(Signature of representative of audit firm)

NOTE:

Monthly Report should include all irregularities mentioned in the weekly report but not rectified by the branch. In addition, it should also include irregularities in respect of following items:

A. Revenue Leakage :

(Cumulative position for the month regarding revenue leakage in respect of commission, exchange and other income and various expenses as also position of earlier months in prescribed formats already given along with appointment letter)

B. Cash :

- i) Daily cash transactions with particular reference to any abnormal receipts and payments.
- ii) Proper accounting of inward and outward cash remittance.
- iii) Expenses incurred by cash payment involving sizeable account.

C. Deposits :

- i) Ensure that KYC norms have been complied with
- ii) Check the transactions about deposit received.
- iii) Percentage check of interest and repaid on deposit may be made including calculation of interest on large deposits. Check new account opened particularly current accounts. Operations in new Current/SB accounts should be verified in the initial periods to see whether there are any unusual operations. Check & verify whether the deposits accounts are opened as per Bank's extant guidelines. Each transactions of substantial amount say Rs.10.00Lac and above in any account should be examined carefully and in case of doubt of any nature the same should be reported in the monthly report for its verification by the controlling office.

D. House Keeping :

- i) Maintenance of various registers/subsidiary records.
- ii) Irregularities observed in monthly physical verification of cash, stamps, blank security forms, safe custody items etc.
- iii) Position of arrear in balancing of books
- iv) Age wise outstanding in entries in various miscellaneous accounts i.e. various suspense accounts, sundry deposit accounts, Fund in transit, Sundry Creditors, bills payable account. (No of entries and amount a) less than 3 months, b) more than 3 months, but less than one year and c) more than one year.

- v) Position of reconciliation of accounts with other banks i.e. RBI, SBI and other banks and age – wise details of entries pending in reconciliation statement for adjustment (No. of entries and amount) – (No. of entries and amount - Outstanding for less than one month and more than one month)
- vi) Position of intra branch reconciliation position of reconciliation of clearing A/c and details of outstanding entries in Clearing Suspense/Adjustment Account (No. of entries and amount – Less than 3 months, more than 3 months but less than one year and more than one year).
- vii) Check govt. business transaction

E. Foreign Exchange Transactions :

(Irregularities in respect of export, import, foreign exchange remittances, opening of LCs and forward contracts etc) reconciliation of entries in NOSTRO/VOSTRO Accounts, if any.

F. Advances :

- i) Comments on pre-sanction process/selection of the borrower/appraisal of new borrowal accounts including non-funded facilities sanctioned during the month. Whether mortgaged property has been visited by the Manager and photograph thereof is kept in Branch records.
- ii) Instances of exceeding delegated power by Branch Officers and whether Daily List(s) has been sent to the next Controlling Office.
- iii) Post sanction process: Following points should be checked
 - a) Compliance of terms of sanction and documentation.
 - b) Verification of end use of funds within one month of disbursement of fund.
 - c) Checking of Stock Statements & regulation of Drawing Power.

- d) Checking of unit visit register. (Whether Branch Official has been undertaking visit of the borrowal units and checking the hypothecated assets are to be clearly mentioned)
 - e) Report on visits of units by the Auditor accompanied by branch officials during the month.
 - f) Irregularities in all existing borrowal accounts and their follow up (viz. Follow-up of overdue bills of exchange etc)
 - g) Ensure that securities and documents have been received and properly charged/registered.
 - h) Check whether the loans sanctioned and disbursed by the branch are within the delegated power and ensure that they are genuine trade transactions.
 - i) Check the Bank guarantee issued, whether they have been properly worded including automatic cancellation clause and restriction amount clause and recorded in the register of the Bank. Whether they have been promptly renewed on the due dates if desired by customers.
 - j) Risk gradation of borrowal accounts as per extant guidelines and its validation
 - k) Comments on legal audit and legal compliance certificate and compliance of legal audit findings if applicable.
 - l) Submission of pre-disbursement report to controlling office.
 - m) Position of review of accounts.
 - n) Position of stock audit if applicable.
- G. Other irregularities which may need immediate attention for rectification of the branch (if any)

ANNEXURE-A/B

Specimen Audit Certificate

We have audited the books of accounts of branch of
Bank for the month/quarter ended on in terms of your
Letter no dated and certify that we have conducted
Concurrent Audit in terms of the check-list provided by the Bank.

We further certify that:

- (a) Applicable rate of interest in all borrowal accounts as per Bank circularized instruction is being charged.
- (b) Calculation of interest, commission & exchange has been correctly done.
- (c) All penal interest, service charges etc have been fully realized and revenue leakage, if any, has been detected in full.
- (d) Proper accounting procedure towards adjustment of outstanding Liabilities & Income realized for unexpired period etc. have been followed.
- (e) Interest provision on Term Deposit, Saving Bank Deposit etc. has been made as per existing norms of the Bank.

We also certify that the discrepancies as stated in the enclosed report have been discussed with the Manager of the branch and these have been since rectified.

Place

Date

Signature with seal of Auditor

**Certificate To Be Given By Link Branches
Authorised To Deal In Govt Business Alongwith
Statement Of Claim Of Turnover Commission**

We hereby certify that all the necessary records of
..... Branch have been checked & verified
by us to arrive at the number of transactions and the amount
reported in the claim for turnover commission for the quarter
ended and have been found to be in order.”

Date: Signature of the Authorized person of the Concurrent
Auditor with Seal

ANNEXURE-A/C

Concurrent audit- To

Cumulative revenue leakage statement

Branch:-

Controlling Office:-

Auditor:-

Quarter	Revenue leakage detected (Rs in lacs)				
	Detected	Reco- vered	Could not be recovered	Pending	Reasons for non recovery
TOTAL					

Signature of Controlling Officer

Signature of Auditor with Seal

Date :

Note :

1. The cases of revenue leakage, if any, in Retail Banking & Extension Counters attached to the branch are also to be checked & reported by the Concurrent Auditor.
2. Figures reported above should be for total quarter)

ANNEXURE- A/C1**Branch:****Controlling Office:****Quarter:****Auditor:****Statement/Summary Sheet of Revenue Leakage (In Rs)**

Particulars	Interest/ revenue short charged	Amount of int/ revenue recovered	Amt of int/ revenue to be Recovered	Remarks (including reasons for non recovery)
	No. of A/c Amt.	No. of A/c Amt.	No. of A/c Amt.	
A)DEPOSITS :				
i) Retail Deposit				
ii) Other Deposit				
Total (A)				
B)ADVANCE A/Cs				
i) Retail Loans				
ii) Other Loans				
Total (B)				
C)OTHER INCOME				
i) Non Fund Credit				
ii) Other Services				
Total (C)				
GRAND TOTAL (A+B+C):				

Note :

1. The reasons of revenue leakage are to be analyzed with a view to find out whether the mistake is genuine or deliberate. If instances of revenue leakage are detected every time in some specific accounts, the same should be reported with full details.
2. Care should be taken whether debits in Income account have been permitted by the competent authority.
3. Retail Deposits means “Deposits other than Institutional Deposits “& Bulk deposits (i.e. deposits above cutoff point).
4. Retail Loans means advances allowed under various lending schemes of Retail Banking.
5. locker rent & turnover commission on govt. business & interest receivable on securities held by the branch on behalf of head office are not to be shown here.
6. Please check whether debits in Income account have been permitted by the competent authority.

ANNEXURE A/C2**Summary Sheet- Borrowal Account-**

Branch:

Controlling Office:

Borrowal Accounts

Sl. no	Name of party	Type of account	Leakage nature & reason	Interest actually charged	Correct interest	Interest short charged	Amount re-covered	Pending for recovery	Reasons for non recovery
1	2	3	4	5	6	7	8	9	10

Deposit Accounts-A/C3

Sl. no	Name of party	Type of account	Leakage nature & reason	Interest actually charged	Correct interest	Interest short charged	Amount re-covered	Pending for recovery	Reasons for non recovery
1	2	3	4	5	6	7	8	9	10

Date :

ANNEXURE-A/D1

Branch:

Month :

**Irregularities In Advances Account Already
Reported But Not Yet Rectified**

Sl. no	Nature of irregularities	Reported earlier in the report for the month of	Financial effect/ impact	Remarks

Date :

Signature of Auditor with seal

ANNEXURE-A/D2

Branch:

Month:

Irregularities regarding other areas already reported but not yet rectified.

Sl. no	Nature of irregularities	Irregularities earlier in report for the month of	Financial effect/ impact	Remarks

Date:

Signature and seal of auditor

ANNEXURE-A/D3

Branch:

Month:

**Irregularities Regarding Advances-Noticed
during the month**

Sl.no	Nature of irregularity	Reported earlier in report for the month of	Financial impact	Remarks

Date :

Signature and seal of auditor

ANNEXURE-A/D4

Branch:

Month:

**Irregularities Regarding Areas other than
Advances- Noticed during the month**

Sl.no	Nature of irregularity	Reported earlier in report for the month of	Financial impact	Remarks

Date :

Signature and seal of auditor

ANNEXURE A/E1

**Specimen Format Of Summary Report
(Quarterly)**

Branch:

Controlling Office:

Name of Controlling Officer:-

Name of Auditor:-

Branch profile

(Rs in lacs)

Particulars	At end of last quarter	At end of present quarter
a) Term deposit		
b) S/B Deposit		
c) Current Deposit		
d) Total deposit (a+ b+ c)		
e) Advances		
f) Business (d+ e)		

The Concurrent Auditor should give executive summary highlighting the salient features on the following operational areas of the branch.

- a) Opening of New Accounts vis-à-vis operations
- b) Quality of Credit Appraisal:
- c) Follow up of Loan accounts:
- d) Recovery of NPA accounts:

- e) Position of Balancing of Books, attending proof sheets, Inter Branch Reconciliation with reference to old entries.
- f) Comments on Suit Filed Accounts/decreed A/c
- g) Rectification of irregularities pointed out in the earlier reports and reasons for non rectification.

(A) REVENUE LEAKAGE FOR THE QUARTER

(Rs. in lacs)

DETECTED	
REALISED	
NOT POSSIBLE TO RECOVER	
PENDING FOR RECOVERY	

(B) POSITION OF REVENUE LEAKAGE (CUMULATIVE)

(Rs./lacs)

	Detected	Recovered	Could not be recovered *	Pending
TOTAL				

* If not recoverable, reasons should be given

REASONS FOR LEAKAGES

2. LOCKER RENT IN ARREAR: (Rs./lac)

NO.OF LOCKERS ARREAR AMOUNT

At end of last quarter:

At end of present quarter:

Amount more than one year old:

Irregularities in Locker operations:

Comments of Auditor regarding steps taken for recovery of arrears:

3. TURNOVER COMMISSION:-

Whether branch is doing Govt. business:

If yes, whether lodgment of claims is regular:

If not, details of pendency:

HOUSE KEEPING:

4. Discrepancies, if any , observed during physical verification (Cash, foreign currency, security forms i.e. blank draft cheques etc):

5. Cash balance :

a) Cash Retention limit:

b) Cash in hand exceeded retention limit-----times in last quarter

c) Other Irregularities in cash management:

6. Compliance of KYC guidelines in opening of new accounts & Anti Money Laundering norms

a) Whether the guidelines are being observed by the branch in terms of circular of the respective Bank Details of account-wise irregularities observed, if any, are mentioned in return	
b) i) Whether branch is exercising reasonable due caution while permitting operations particularly large value instruments deposited and subsequent withdrawals thereof in newly opened deposit account i.e. vouchers/withdrawals in new accounts are marked "New Account" by the Ledger-keeper ii) Whether in computerized branches, system flashes caution signal "New A/C" at the time of feeding of cheques and/or deposit/withdrawal for a period of six months of account opening	
c) Whether record of individual cash deposits & withdrawals for cutoff amount & above are maintained by branch & reported to controlling office regularly on fortnightly basis:	
d) Whether particulars of terms deposits of cutoff amount, if any, are reported by the branch to controlling office	
e) Whether Cash Transaction report/Suspicious Transaction report are submitted by branch to controlling office on monthly basis in terms of the instruction of respective banks	

Accounts with RBI/SBI has been reconciled up to.....

Details of outstanding entries are as follows:-

Rs. in lacs

Number of entries outstanding beyond 1 month

Name of the Bank	Position as per last Qtr.		Position as per Present Qtr.		Of which >3Mths	
	No of entries	Amount	No of entries	Amount	No	Amount

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8. Position of reconciliation of clearing accounts with link branch/Service branch/Main branch account :

Comments of Auditors:

9. POSITION OF BALANCING OF BOOKS:-

NAME OF ACCTS	NO OF LEDGERS (Only Manual Br)	TALLIED UPTO	ARREAR IN MONTHS	DATE OF LOCK-UP	AMT OF LOCK-UP	REMARKS

(For computerized branch, please verify from the system generated report/viewing from the computer that each module-wise total (account wise total) are in agreement with respective head in GL (Trial balance)

Comments:

10. Position of old balances in flabby assets/impersonal accounts:

(Rs. in lacs)

	Position as per last Qtr		Position as per Present Qtr.		Of which >3month	
	No. of entries	Amount	No. of entries	Amount	No. of entries	Amount
1. Suspense a/cs						
i) Revenue						
1. Capital						
2. Recoverable						
2. DD Cancellation						
3. POB /ROB						

4. Draft Ex –advice						
5. D/Note Rec.						
6. Fund In transit						
7. Forex Settlement						
8. Other Heads (specify)						

11. Following control registers not introduced

a)

b)

c)

d)

12. Following registers are not being maintained/updated properly

a)

b)

c)

d)

13. Irregular debit balance In Deposit A/Cs

(Other than regularly sanctioned limits in Savings & current accounts)

(Rs. in lacs)

	As at the end of last quarter		As at the end of present quarter	
	No. of A/Cs	Amount	No. of A/Cs	Amount
SAVINGS A/C				
CURRENT A/C				

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14. List of records/statements not shown for audit, if any, despite requisition by the auditors

15. **TDS:** Whether TDS is deducted correctly from Salary/interest on deposits etc .and deposited timely with Government?

Deviation observed if any:

16.SERVICE TAX:

Whether branch is ensuring compliance of Instruction circular No.....dated.....

If no, the details of default may be advised

17. Banking cash transactions tax : Irregularities, if any :

18. Fringe Benefits: Irregularities, if any :

19. Debits allowed in inoperative accounts without permission of the competent authority:

20. Complaints (if in the terms of appointment)

a) No. of Complaints received by the branch during the quarter	
b) Out of (a), No. of complaints pending for redressal	

21. Checking of G L Trial Balance/weekly return

a) Whether GL trial balance & the related weekly return are generated only from application system software (not to be generated by created text file or any other means)	
b) Whether reconciliation of weekly return figures with GL trial balance has been done	
c) Whether correct tagging i.e. linking of GL heads with the individual heads of Weekly Return has been done	

Deviations, if any, are as under:

(The above exercise is to be undertaken by the Concurrent Auditor at least once in a month (not on a fixed date & other than the date of Weekly Return i.e. Friday)

22. Serious Irregularities

- (a) Fraud and Fraudulent transactions (Give details)
- (b) Clean facilities beyond authority
- (c) Shortage of cash or any other irregularities which may cause financial loss to Bank.

Details of Irregularities:

23. Major irregularities in computer operation:

24. Any other irregularity in operational matters not covered above pertaining to systemic gaps if any requiring urgent attention of the higher authorities:

ANNEXURE A/E2

Summary Of Concurrent Audit Report (Advances Part)

Quarter:

branch:

Name of present officer:

period:

AUDITORS: M/S

1) Pre -Sanction Scrutiny/Appraisal Of Borrowal Accounts Irregularities Observed In Following Accounts

(Balance above cutoff amount to be reported account wise and below cutoff amount to be clubbed highlighting systematic gaps with detailed list to BM for rectification During 1st quarter, position of existing accounts to be reported and from next quarter only new accounts to be reported):

Name of account	Limit	Balance outstanding	Details irregularities (in Brief)

2) Irregularities/Defects In Documentation/Non-Compliance of Terms of Sanction

(Balance above cutoff amount to be reported account-wise and below cutoff amount to be clubbed highlighting systemic gaps with detailed list to BM for rectification During 1st quarter, position of existing accounts to be reported and from next quarter only new accounts to be reported) :

Name of account	Limit	Balance outstanding	Details irregularities (in Brief)

3. Whether audited statements are being obtained from non-corporate borrowers enjoying credit limit beyond cutoff amount. Names of the defaulting account holders with limits are as under:

Name of account	Limit	Balance outstanding

4. VISITS: Units not visited in last quarter by Branch Official for verification of stock, equipments etc in terms of controlling office instruction

Under Authority of	UNITS NOT VISITED IN QUARTER		
	UPTO CUT OFF AMOUNT	CUT OFF AMOUNT	> CUT OFF AMOUNT
Controlling office			
Branch			
Total			

(A list of defaulter accounts having limit/Dr. balance above cutoff amount, containing name of account & limit is to be mentioned hereunder)

Comments of Auditor on Unit visit reports:

5. non submission of stock statement in prescribed format:

TOTAL STOCK STATEMENT DUE:

STOCK STATEMENTS RECEIVED:

Under Authority of	Stock statements not received		
	UPTO CUT OFF AMOUNT	CUT OFF AMOUNT	> CUT OFF AMOUNT
Controlling office			
Branch			
Total			

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Whether penal interest recovered for default?

Whether Drawing power is calculated correctly?

Stock statement not analysed in ----- no of cases.

Deficiencies observed in Stock Statements:

(Note: In cases where the auditor has observed deficiencies in the stock statements or the Stock Statements are not forthcoming, in that case the auditor must undertake unit visit alongwith branch officials to check and verify the end use of Bank's fund. The format of physical verification of stocks from cutoff amount is given. The Concurrent Auditor must undertake physical verification of stock for above funded limit of cutoff amount as per guidelines of respective banks).

(A list of defaulter accounts having limit/Dr. balance above cutoff amount, containing name of account & limit is to be mentioned hereunder)

6. Inadequate/Non Insurance Of Stock:

TOTAL NO OF ACCOUNTS INSURANCE DUE :

CASES OF UNDER/NON INSURANCE (No & Amount):

Under Authority of	Total cases of under insurance		
	UPTO CUT OFF AMOUNT	CUT OFF AMOUNT	> CUT OFF AMOUNT
HO			
ZO			
Branch			
Total			

(A list of defaulter accounts having limit/Dr. balance above cutoff amount, containing name of account & limit is to be mentioned hereunder)

7. FRS statement are not being submitted regularly by _____ borrowers (list enclosed)

FRS statements on receipt have not been analyzed in case of borrowers.

8. Review Of Accounts

Total Number of Accounts due for Review during the quarter:

Accounts pending for review at end of the quarter.

Under Authority of	Pending for review		
	UPTO CUT OFF AMOUNT	CUT OFF AMOUNT	> CUT OFF AMOUNT
Controlling Office			
Branch			
Total			

(A list of defaulter accounts having limit/Dr. balance above cutoff amount, containing name of account & limit is to be mentioned hereunder)

9. Cases of Overdrawing permitted during quarter without sending daily list to Controlling Office:

No. of involved accounts:

No of Instances Overdrawing allowed beyond discretionary authority:

Whether daily list is being submitted by branch in case of overdrawing:

Cases of Overdrawing not regularized by end of the quarter
(Please give full details)

Account	Limit/DP	Dr. Balance-at end of Qtr.	Securities held.

10. TIME BARRED ACCOUNT

	NUMBER	AMOUNT(RS)
At the end of quarter		
A/Cs which will become time-barred in next 6 Months		

1. POSITION OF NPA AS ON:

Movement of NPA	No of A/Cs	Amount
------------------------	-------------------	---------------

a) NPA as on Last quarter:

b) Fresh addition:

c) Recovery by

(i) compromise,

(ii) up gradation

(iii) Write off

(iv) Transfer to recovery
branch

d) NPA as at end of
present quarter:

Comments on recovery efforts:

12. LIST OF POTENTIAL NPA A/CS

		(Rs. in Lacs)
	No. of Accounts	Amount
a) Total PNPA		
b) Out of (a) above,		
Accounts with outstanding below cutoff amount		
Accounts with outstanding cutoff amount & above		

Comments on recovery efforts:

13. Position of Legal Audit (for borrowal accounts >cutoff amount) :

No of accounts where legal audit was due during the quarter:

No of accounts where legal audit undertaken during the quarter:

No of accounts where legal audit pending at end of the quarter:

(Account-wise details of pending cases as under)

Name of accounts	Limit	Balance
------------------	-------	---------

Comments on compliance of legal audit reports:

14. Position of credit audit(borrowal accounts of aggregate exposure cutoff amount and above)

No of accounts where credit audit was due during the quarter:

No of accounts where credit audit undertaken during the quarter:

No of accounts where credit audit pending at end of the quarter:
(details as under):

Name of accounts	Limit	Balance
------------------	-------	---------

Comments on compliance of Credit audit reports:

15. no of cases where ecgc cover not taken as per sanction:

(List enclosed)

no of cases where claim for ecgc not filed despite eligibility
(Details enclosed)

16. Irregularities relating to foreign dept of the branch:-

17. Serious irregularities:

(a) sanction of loan beyond authority of the manager:-

(b) loan sanctioned to fictitious units/ borrowers:

Name of A/c	Category	Amount (Rs.in lacs)
-------------	----------	---------------------

(c) **Loans above cutoff amount slipped to NPA category within one year of sanction:**

Name of A/c	Category	Amount (Rs.in lacs)
-------------	----------	---------------------

18. submission of post sanction/report to higher authority:

No of Accounts where submission was due during the quarter:

No of Accounts submitted:

No of accounts pending at end of the quarter:

Account wise details:

Name of A/c	Purpose	Limit	Amount (Rs.in lacs)
-------------	---------	-------	---------------------

19. NON FUND BUSINESS:

	Number	Amount (Rs/lac)	Value of security
Letter of Credit devolved during the quarter:			
Bank Guarantee invoked during the quarter:			

EXPIRED BANK GUARANTEES/LETTER OF CREDIT AS PER RECORDS:

20. Other irregularities (Overall position of irregular borrowal accounts which requires immediate attention of higher authorities & areas regarding advances not covered above.) are as under :

Date

(Signature of Auditor with Seal)

ANNEXURE A/F

Reporting Format For Verification Of Stock & Book- Debts Of Borrowal Accounts

(The Concurrent Auditor are required to conduct verification of stocks & Book Debts once in a year and submit the report on the basis of the following format)

NAME OF BRANCH:-

NAME OF CONTROLLING OFFICE:-

NAME OF BORROWER

DATE OF LAST STOCK STATEMENT:-

a. POSITION OF INVENTORY AS ON

	place of storage	quantity	value	observation
1. Description of material (Major item to be specified individually (a) Indigenous (b) Imported				
2. Work in process				
3. Finished Goods				
4. Stores & Spares				
5. Sub Total (A+B+C+D)				
a) Stocks purchased under DA/LC, BG but not paid for				
b) Other unpaid for stocks (under creditors/ Suppliers credit				
c) Stocks received against Co-acceptance/Job-work				

d) Total unpaid for stocks (1+2+3)				
e) Slow moving/Dead Stock.				
f) Stocks earmarked for P/C(Only paid for)				
g) Stocks not eligible for computation of D.P.				
h) Paid for stock (E- 7)				

b. POSITION OF BOOK DEBTS AS ON

	CURRENT BOOKDEBTS UPTO90DAYS	90 DAYS TO180DAYS	ABOVE 180 DAYS
a) Amount of Book Debts			
b) Other information:			
a) Bills negotiated/ discounted with banks/ FIs			
b) Books debts older than days			
c) bills drawn on associate concern			
d) Books debts assigned to factors			
e) Book debts secuterised with other institutions.			
f) Total book debts not eligible for DP. B = (a+b+c+d+e)			
c) Book debts eligible for drawing power (a – b)			

c. CALCULATION OF DRAWING POWER (RS IN LACS)

	STOCK	BOOKDEBTS	OTHERS	TOTAL
a) AMOUNT ELIGIBLE FOR DP.				
b) LESS: MARGIN AS PER SANCTION LETTER				
c) DRAWING POWER (I- III)				

d. DEBIT BALANCE(AS ON)

FACILITY	LIMIT	DR.BALANCE	TURNOVER SINCE	VALUE OF PRIMARY SECURITIES

e. COLLATERAL SECURITIES:

f. POSITION OF INSURANCE

g. REMARKS OF AUDITOR

Date : **OFFICIAL OF BRANCH**

WHO VISITED THE UNIT

AUDITOR .

ALONGWITH AUDITOR

Note:

- i) A comprehensive statement of Book debts (Party-wise) should be submitted by the borrower.
- ii) Reconciliation statement of inventories during the reporting period should also be submitted (i.e. Opening stock, purchases, sales/ consumption, closing stock)
- iii) Copy of the report to be submitted to Head Office of the respective banks, Monitoring Cell separately.
- iv) The above report must be submitted as part of quarterly report.

ANNEXURE-A/F1

CONTROLLING OFFICE: BRANCH: QUARTER:

**STATEMENT OF TOTAL NO OF IRREGULARITIES REPORTED
IN AUDIT REPORT:**

S. No	Nature of irregularity	No. of irregularities
1	Revenue Leakage pending for recovery	
2	Locker Rent in arrears	
3	Turnover Commission pending for recovery	
4	Discrepancies on Physical verification of cash, security stationery etc	
5	Non-maintenance of Registers	
6	Reconciliation of RBI/SBI accounts	
7	Adjustment of entries in Flabby Asset A/Css	
8	Non observance of norms for opening of a/cs (KYC)	
9	Non-submission of return of cash transaction for Rs.10 lac & above	
10	Non-compliance of norms of Term Deposit for Rs.1 Crore & above	
11	Balancing of Books : Arrears	
12	Pending reconciliation of Clearing a/c	
13	Non-Observance of TDS norms	
14	Non-Observance of Service Tax norms	
15	Non-Observance of Transaction tax norms	
16	Non-Observance - Fringe Benefit norm	
17	Defects in Pre sanction appraisal	
18	Defects in documentation	
19	Non submission of Stock Statements	
20	Inadequate/ Non- insurance of Stocks	
21	Non-submission of QIS statements	

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22	Non visit of Borrowal units	
23	Pending cases Review of accounts	
24	Overdrawn Advance accounts a) No. of account overdrawn continuously up to 45 days b) No. of account overdrawn continuously more than 45 days	
25	Non conduct of Credit audit	
26	Non obtention of audited statements	
27	Non obtention of ECGC cover	
28	Irregularities in Foreign Deptt.	
29	Non conduct of Legal Audit	
30	Non submission of Post sanction Monitoring report	
31	Non regularization of Devolved LC/Invoked BG	
32	Other irregularities	
	TOTAL NO.OF IRREGULARITIES	

Date: (Signature of Auditor with Seal)

(The list is only illustrative and not exhaustive. The non-applicable points may be deleted & other irregularities, if any, may be added.)

ANNEXURE A/F2**CONTROLLING OFFICE:****BRANCH :****STATEMENT OF RECTIFICATION OF IRREGULARITIES
POINTED OUT IN AUDIT REPORT OF LAST QUARTER i.e.**

S. No	Nature of irregularity	No. of irregularities pointed out in return Q5(a) of last quarter	No. of irregularities rectified subsequently
1	Revenue Leakage pending for recovery		
2	Locker Rent in arrears		
3	Turnover Commission pending for recovery		
4	Discrepancies on Physical verification of cash, security stationery on monthly basis etc		
5	Non-maintenance of Registers		
6	Reconciliation of RBI/SBI accounts		
7	Adjustment of entries in Flabby Asset A/Cs		
8	Non observance of norms for opening of a/cs (KYC)		
9	Non-submission of return of cash transaction for cutoff amount & above		
10	Non-compliance of norms of Term Deposit for Rs.1 Crore & above		
11	Balancing of Books : Arrears		
12	Pending reconciliation of Clearing a/c		
13	Non-Observance of TDS norms		
14	Non-Observance of Service Tax norms		
15	Non-Observance of Banking cash Transaction tax norms		
16	Non-Observance - Fringe Benefit norm		
17	Defects in pre sanction process/appraisal.		

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18	Defects in documentation		
19	Non submission of Stock Statements		
20	Inadequate/ Non- insurance of Stocks		
21	Non-submission of FRS statements		
22	Non visit of Borrowal units		
23	Pending cases Review of accounts		
24	Overdrawn Advance accounts a) No. of account overdrawn continuously up to 45 days b) No. of account overdrawn continuously more than 45 days		
25	Non conduct of credit audit		
26	Non conduct of Legal Audit		
27	Non obtention of audited statements		
28	Non obtention of ECGC cover		
29	Irregularities in Foreign Deptt.		
30	Non submission of Post sanction Monitoring card		
32	Non regularization of Devolved LC /Invoked BG		
33	Other irregularities		
	TOTAL NO.OF IRREGULARITIES		

(Signature of Controlling Officer)

(Signature of Auditor
with Seal)

Date:

Note:

Where immediate rectification is not possible, irregularity may be treated as reckoned as rectified if adequate steps have been taken for rectification

ANNEXURE A/G

**Matters requiring immediate attention of the higher
authorities**

(Inclusive of violation of KYC & PML Norms)

Quarter:-

Branch:-

Auditor:-

Sl.no	Nature of irregularities	Remarks

Date :

Signature of the auditor with
Official seal

POSITION OF COMPLIANCE OF KYC NORMS
Branch:- **Controlling Office:** **QUARTER** **ANNEXURE A/H1**

S. No.	A/C No.	Proper identification of customer obtained	Document for proof of address obtained	PAN/GIR No. or form no.60 / 61 obtained	Photo of Account holder		Whether account opening form is duly authenticated by branch officials	Introduction obtained from Introducers having more than 12 months old satisfactory A/C	Letter of thanks sent under registered post with AD to Account holder	Letter of thanks sent to introducer by registered post with AD or under U C P When introduced before Manager/officialer	A/C Indexing register main-tained	Receipt of A/D card noted in prescribed Register & filed properly	Before receipt of A/D card	
					Obtained	Attested							Cheque book issued for collection	Before receipt of A/D card

Date:

Signature of Auditor

ANNEXURE A/H2

BRANCH : FOR THE QUARTER ENDED:

Debits Allowed In The Inoperative Accounts Without The Order Of The Compepent Authority (Branch Head)

Name of depositor	Nature & of accounts	Date of last debit/operation	Date from which the a/c became inoperative	Date of present debit allowed unauthorized	Name of official who passed this debit	Auditors comments

Date

Signature of auditor with seal

ANNEXURE A/H3

BRANCH:

QUARTER ENDED:

DETAILS OF CASH BALANCE & CASH TRANSACTIONS

A) CASH RETENTION LIMIT: SINCE THE DATE OF LAST AUDIT REPORT

CASH RETENTION LIMIT FIXED BY CONTROLLING OFFICE -

SL NO	DATES	CASH BALANCE	MAXIMUM CASH BAL DURING THE MONTH
1			
2			
3			
4			
5			
6			

B) LIST OF ENTRIES UNDER CASH REMITTANCE OUTSTANDING FOR MORE THAN 10 DAYS.

Date of Remittance	Particulars	Amount	Reasons/ follow up action

C) To confirm whether record of individual cash deposits & withdrawals for cutoff amount & above are maintained by branch & reported to Controlling Office regularly on fortnightly basis

D) Comments on handling of Cash including violation of relevant systems & procedures, if any:

E) Whether “Inter branch Cash Movement Statement“ is being sent to the next Controlling Office regularly in every month:

F) Whether the Branch is following the pre- scrolling norms:

G) Whether the Branch is following Clean Note Policy :

Signature of the Auditor with date

ANNEXURE A/H4

Branch:

Quarter:

Arrear Of Balancing Of Books For 3 Months & Above

Account heads carrying arrears	Reconciled without any difference up to	Total arrear in months/ Quarter (as applicable)	If Reconciled with Lock up difference	
			Date of lock up	Amount of lock up
1	2	3	4	5

	Month	Quarter
	(As applicable)	
Total arrears at the end of the present quarter		
Total arrears at the end of the last quarter		

(Please submit the above data after verification of the system generated reports / viewing the computer)

Signature of the Controlling Officer

Signature of the Auditor

Date :

Date :

ANNEXURE A/H5**BRANCH:****QUARTER ENDED:****RECONCILIATION OF ACCOUNT WITH OTHER BANKS
(RBI, SBI, AND OTHER BANKS)****(Rs. in lac)**

Name of banks	<u>Total unadjusted entries</u>		Unadjusted entries for one month Or more	
	No	Amount	No	Amount
1	2	3	4	5
RBI----- (Reconciled up to-----) debited by RBI credited by Bank credited by RBI debited by Bank/s				
SBI ----- (Reconciled up to-----) debited by SBI credited by Bank credited by SBI debited by Bank/s.				
Other Bank ----- (Reconciled up to -----) debited by other Bank credited by Bank credited by other Bank debited by Bank/s.				

Total No & amount of outstanding entries > 3 months old out of 4 & 5 above

At start of the quarter:

At end of quarter:

Signature of the Manager

Signature of Auditors

Date :

Date :

ANNEXURE A/H6a

Details of Outstanding Entries in Debit Note Receivable Account

Position As on :

Branch Name

Sr. No	Date of Entry	Amount Outstanding	Name of Bank/Branch From Whom the Amount to be recovered	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6b**Details of Outstanding Entries in Draft
EX-Advice Account (if any account
maintained in branch)****Position As on :****Branch Name:**

Sr. No	Date of Entry	Amount Outstanding	Name of the issuing Branch	Draft No	Date	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6c

Details of Outstanding Entries in Pension Recoverable Account

Position as on :

Branch Name:

Sr. No	Date of Entry	Amount Outstanding	Name of the Link Branch	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6d**Details of Outstanding Entries in Demand Draft
Cancellation Account****Position As on :**

Branch Name :

Sr. No	Date of Entry	Amount Outstanding	Name of the Drawee Branch	Demand draft No	Date	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6e

Details of Outstanding Entries in Fund in Transit Account

Position as on :

Branch Name:

Sr. No	Date of Entry	Amount Outstanding	Name of the Remitted Branch	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6f**Details of Outstanding Entries in Recoverable Suspense
Account****(Telegraphic Transfer, If Applicable)****Position as on :**

Branch Name:

Sr. No	Date of Entry	Amount Outstanding	Name of the Remitted Branch	Serial No & Date of T.T.	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6g

Details of Individual Entries of Above cutoff amount/and Outstanding for the period Above 6 months in Suspense Account, Revenue Expenditure & Capital expenditure etc

Position as on :

Branch Name:

Sr. No	Account Head	Date of Entry	Amount Outstanding	Particulars of the entry	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6h**Details of Individual Entries of above cutoff amount/and
Outstanding for the period above 6 months in Sundry
Creditors Account****Position as on :**

Branch Name:

Sr. No	Account Head	Date of Entry	Amount Outstanding	Particulars of the entry	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6i

Details of Outstanding Entries in POB Agency Account
(Debit)

Position as on :

Branch Name:

Sr. No	Date of Entry	Amount Outstanding	Instruments Issued by	Instru-ment No.	Date	Name of the Link Branch	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H6j**Details of Outstanding Entries Head Office Adjustment
Account****Position as on:**

Branch Name:

Sr. No	Date of Entry	Amount Outstanding	Particulars of Transaction	From Whom Amount To be recovered	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H7

Details of Outstanding Entries in Forex Settlement
Recoverable Account

Position as on:

Branch Name:

Sr. No	Date of Entry	Amount Outstanding	Branch Where Claim Sent	Serial No of Claim	Date of Claim	Reason for non adjustment

Signature of the Manager

Signature of the Auditor

Date

ANNEXURE A/H8

Branch:

Quarter:

**STATEMENT SHOWING PARTICULARS OF EACH ADVANCE
WHICH IS TIME-BARRED AT THE CLOSE OF THE QUARTER**

Name of the party	Nature of facility	Amt of limit sanctioned	Outstanding balance	Account Time barred on	Action taken for revival
1	2	3	4	5	6

Date :

Signature of Auditor with seal

ANNEXURE A/H9

Branch:-

Quarter ended on:

STATEMENT SHOWING PARTICULARS OF SUCH ADVANCES

WHICH WILL BE GETTING TIME BARRED IN NEXT 3 MONTHES?

Name of party	Nature of facility	Amt of loan	Outstanding balance	A/c time barred on	Action taken
1	2	3	4	5	6

Date :

Signature of Auditor

ANNEXURE A/H10

Branch:-

Quarter ended on:

STATEMENT OF EXCESS DRAWINGS/ OVERDRAWINGS
ALLOWED IN CASH CREDIT & OVERDRAFT ACCOUNTS
WHICH IS NOT REGULARISED AT END OF THE QUARTER

Name of the borrower	Sanctioned limit	Drawing power	Debit balance	Date of overdrawing	Whether Daily List submitted
1	2	3	4	5	6

Date :

Signature of Auditor

ANNEXURE A/H11

Branch:-

Controlling Office:

POSITION OF LARGE ADVANCES AS ON

Please report position of Top ... numbers (nos) of borrowal accounts of the branch having aggregate limit/outstanding of cutoff amount and above in this format.

- a. Nos. of borrowal accounts having limit/outstanding above cutoff amount:
- b. If the account having limit/outstanding above cutoff amount the following are to be provided:

S. No.	Particulars
1	Name of Borrower : a) Present Classification b) Limits (with date of sanction & authority) c) Debit Balance d) Security nature & value (primary & collateral) e) Present position including irregularities ** f) Unrectified irregularities of last inspection report g) When the unit was last visited.
2.	
3.	
4.	

Signature of the Auditor

** Full details of irregularities of each account should be reported. In case, there exists no irregularity, the fact should be clearly stated. Observations like "Good"/"Satisfactory" should be avoided.

ANNEXURE A/H11a

Additional Information for borrowers enjoying Working Capital Limit of cutoff amount & above

Sl No.	Name of the Borrowers	Last date of Acknowledgment of debt (to be obtained from the borrowers once in two years in form)	Last Date of Search Report of ROC record (to be done once in two years)		Stock Audit carried out in terms of HO circular no dated		Last date of Credit audit carried out in terms of HO circular no dated		Legal audit carried out in terms of HO circular no dated		Whether Security Register as per the revised format in terms of I.C. No. is dated is maintained and the same is posted up to date.
			Date of Search	Any short coming observed and position of rectification thereof	Date	Position of rectification of irregularities pointed, if any	Date of Report	Category	Date	Position of rectification of irregularities pointed, if any	

Signature of the Auditors

Branch :

Controlling Office :

Quarter :

ANNEXURE A/H12

Potential NPA Accounts as on _____

(Rs. in Lacs)

No. of Amount
Accounts

- a. Total PNPA
- b. Out of (a) above,
 - i. Accounts with outstanding below cutoff amount
 - ii. Accounts with outstanding cutoff amount & above

Potential NPA Accounts having Debit Balance of cutoff amount & above

Sl. No.	Name of Borrower with A/c No.	Date of Sanction	Purpose	Sanctioning Authority	Limits (Funded & Non-funded)	Debit Balance as on	Security nature & value (Primary & Collateral)	Amount of Overdues

Signature of Branch Head

Signature of Concurrent Auditor

Date:

ANNEXURE A/H13**Branch:-****Controlling Office:****OVERDUE IN STAFF LOAN ACCOUNT**

(Rs. in lacs)

Name of advance scheme	Name of employee	OVERDUES				
		No of Installments	Overdue installment amount	Overdue interest amount	Total overdue amount	Whether monthly installment is being realized from salary

Name of the Auditor

ANNEXURE A/H14

RETAIL CREDIT SCHEMES

(To be submitted for branches having Retail Credit Products)

Name of Branch: -

Auditor:

Quarter:-

Name of the scheme	Total outstanding		Total overdues		Amount of NPA		% of NPA to total outstanding	Deviation observed in no of cases	Remarks if any.
	No of a/cs	Amt	No of a/cs	Amt	No of a/cs	amt			
a) Car Loan									
b) Housing Loan									
c) Saral Loan									
d) Educational loan									
e) Pensioner Loan									
f) Rental advance									
g) Personal Loan to Doctors									
h) Loan against NSC/ KVP									
i) Furnishing Loan									
j) Other Loan									
Total									

Annexure

We have checked documentation & position of compliance of prescribed guidelines while sanctioning advances, overdue in all advances sanctioned under the aforesaid schemes in terms of appointment letter. The position of account wise overdue, irregularities observed in documentation & deviation from the prescribed norms are enclosed.

Signature with seal

ANNEXURE A/H14a

Name of Branch

Controlling Office:

Auditor:

Quarter:

SCHEME: CAR FINANCE

Name of borrower	Date of sanction	Amt sanctioned (Rs)	Amt of Inst. Monthly / qrtly	Total debit Bal.	No of overdue Inst.	Amt Over-due (Rs)	Irregular-ities in Documen-tation and other deviations	Asset classi-fication.
1	2	3	4	5	6	7	8	9

Comments:

While giving the summary position in SR-14, the auditor should keep in mind to give the position of overdues in respect to total outstanding in loan accounts.

No Amount

Total outstanding:

Total overdues:

Amount of NPA:

% of NPA to total outstanding:

PNPA:

ANNEXURE A/H14b

Name of Branch

Controlling Office:

Auditor:

Quarter:

SCHEME: EDUCATION LOAN SCHEME.

Name of borrower	Date of sanction	Amt sanctioned (Rs)	Amt of Inst. Monthly/ qrtly	Total debit Bal.	No of overdue Inst.	Amt Overdue (Rs)	Irregularities in Documentation and other deviations	Asset classification.
1	2	3	4	5	6	7	8	9

Comments:

While giving the summary position, the auditor should keep in mind to give the position of overdues in respect of total outstanding in loan accounts.

No Amount

Total outstanding:

Total overdues:

Amount of NPA:

% of NPA to total outstanding:

PNPA:

ANNEXURE A/H14c

Name of Branch

Controlling Office:

Auditor:

Quarter:

SCHEME: SARAL LOAN

Name of borrower	Date of sanction	Amt sanctioned (Rs)	Amt of Inst. Monthly/ qrtly	Total debit Bal.	No of overdue Inst.	Amt Overdue (Rs)	Irregularities in Documentation and other deviations	Asset classification.
1	2	3	4	5	6	7	8	9

Comments:

While giving the summary position, the auditor should keep in mind to give the position of overdues in respect of total outstanding in loan accounts.

No Amount

Total outstanding:

Total overdues:

Amount of NPA:

% of NPA to total outstanding:

PNPA :

ANNEXURE A/H14d

Name of Branch

Controlling Office:

Auditor:

Quarter:

Scheme : Housing Loan

Name of borrower	Date of sanction	Amt sanctioned (Rs)	Amt of Inst. Monthly/ qrtly	Total de bitBal.	No of over-due Inst.	Amt Over-due (Rs)	Irregularities in Documentation and other deviations	Asset classification
1	2	3	4	5	6	7	8	9

Comments:

While giving the summary position, the auditor should keep in mind to give the total position of overdues in respect of total outstanding in loan accounts.

No Amount

Total outstanding:

Total overdues:

Amount of NPA:

% of NPA to total outstanding:

PNPA :

ANNEXURE A/H14e

Name of Branch

Controlling Office:

Auditor:

Quarter:

Scheme: Personal Loan Scheme .

Name of borrower	Date of sanction	Amt sanctioned (Rs)	Amt of Inst. Monthly/ qrtly	Total debitBal.	No of overdue Inst.	Amt Over-due (Rs)	Irregularities in Documentation and other deviations	Asset classification.
1	2	3	4	5	6	7	8	9

Comments:

While giving the summary position the auditor should keep in mind to give the total position of overdues in respect of total outstanding in loan accounts.

No Amount

Total outstanding:

Total overdues:

Amount of NPA:

% of NPA to total outstanding:

PNPA :

ANNEXURE A/H14f

Name of Branch

Controlling Office:

Auditor:

Quarter:

Scheme: ALL OTHER SCHEMES (IF ANY)

Name of borrower	Date of sanction	Amt sanctioned (Rs)	Amt of Inst. Monthly / qrtly	Total debit Bal.	No of over-due Inst.	Amt Over-due (Rs)	Irregularities in Documentation and other deviations	Asset classification.
1	2	3	4	5	6	7	8	9

Comments:

While giving the summary position the auditor should keep in mind to give the total position of overdues in respect of total outstanding in loan accounts.

No	Amount
----	--------

Total outstanding:

Total overdues:

Amount of NPA:

% of NPA to total outstanding:

PNPA :

ANNEXURE A/H15

Branch:

Controlling Office:

Quarter:

SUBMISSION OF SCHEDULES, DAILY STATEMENTS & IBR

(Also to be submitted to the Controlling Officer)

Following points are to be verified & reported	Auditor's comment
Statement & schedules on Head Office account are submitted to the respective Z.O. on weekly basis. Continuity in Head Office balance is maintained in the daily statements i.e. there should not be any missing schedules or any missing date in schedules. Control file (daily statement) is in conformity with the schedule file and there should not be any closing balance error. Opening and closing balances in Head Office Account reported in daily statement should reflect the General Ledger balance of Head Office Account. There should not be any discrepancy. IBR data of computerised branch is extracted directly from the system. Correspondence file regarding IBR should be maintained separately and there should not be any delay in giving reply to any query made by Controlling Office regarding IBR. The Concurrent Auditor are also required to verify/certify whether the Proof-sheets containing debit entries only which are sent to the branches through their respective Controlling Office, seeking therein information regarding details of credit entries against which those debit entries have been generated by them are duly attended by the concerned branches.	

Date :

Signature of Auditor

ANNEXURE A/I**GUIDELINES FOR CHECKING OF REVENUE LEAKAGE****LIST OF ITEMS TO BE CHECKED:****b) INCOME:**

a)	Interest charged in all advance accounts	
b)	Interest/Discount on Bills purchases and discounts on a. Inland Bills b. Export Bill c. Import bill were ever applicable.	
c)	Commission on i. letters of credit and ii. Guarantee (both inland & foreign)	
d)	Commission on bills for collection (both inland and foreign)	
e)	Rent on lockers	
f)	(a) Exchange on TT and DD sold on inland and Foreign remittance (b) Interest/Commission on any type of foreign exchange business.	
g)	(a) Commission on safe deposit and safe custody (b) Commission earned on transaction in respect of government accounts.	
h)	House and godown rent realized.	
i)	Interest on (a) Temporary overdrafts exceeding cutoff amount (b) Overdrawn cash credit accounts	
j)	Clean advance	
k)	(a) Supervision incidental charges on Current Account & Cash Credit A/C. (b) Processing fees and lead Bank charges.	
l)	Panel interest should be charges on irregular advances in case of: -	

Manual on Concurrent Audit of Banks

d) Default in payment of installments of Term Loan. e) Default in timely payment of installments of working capital term loan. f) Other defaults/irregularities such as irregularities in cash credit /overdraft accounts, Late/non submission of stock statements, defaults in borrowing convenients etc. g) Non submission of Current Balance Sheet within time for which review can not be done etc.	
m) Payment against Clearing:	
a) No payment should be made against cheque deposited but not cleared. In case of payment made against Cheques deposited in any account before effects are cleared, interest should be charged as per circularized instruction. (Branch should include / report such action in Daily Dist) b) In case where transfer is made from the uncleared effects of the cheques from one account to another, and payment is made from the account where uncleared effects have been transferred, interest should be charged in the manner stated above.	
n) Whether stipulated agency com-mission & handling charges have been realized.	
o) Income Recognition, Asset classification & Provisioning for loans & Advances as per RBI guidelines, while scrutinizing the interest earned on advances, it should be seen that the Head Office guidelines are meticulously followed by the Branch.	
p) Commitment charges for under utilization of limits.	

c) EXPENDITURE:

a. Interest paid on various deposits.	•
b. Interest provision on various deposits	•

The auditor should pay special attention while calculating the interest taking into account the application of interest, S/B Interest Provision, RD Interest Provision & FRD/DDP Interest Provision. The auditor should give their comments indicating whether interest rate/ S/B interest is correctly applied or not

ii) All other items of revenue nature like (a) Telephone, (b) telegram, (c) Stationery Purchased (d) Entertainment, (e) Conveyance, (f) traveling expenditure (g) other revenue expenses.	
1. If any expenditure is done on behalf of borrowers, whether the same have been realized from their accounts. This includes postage and out of pocket expenses.	
2. If there is any abnormal variation in these heads auditor should check & report with reasons thereof to us.	

Notes:

1. It is to be confirmed that leakage, if any, reported in the earlier revenue/ Concurrent Audit Report have been realized with compounding interest thereon.
2. Verification of interest includes checking of
 - a) Rate of interest
 - b) Calculation of Decimals.
 - c) Frequency/ periodicity in charging of interest
 - d) Whether calculations are being checked, rechecked, and authenticated by officials of branch as per Head Office guidelines.

All instances of non-charging /late charging of interest in all borrowal accounts (excluding NPA accounts) should be reported.

Manual on Concurrent Audit of Banks

3. In case of bills, audit must include checking of
 - (a) Discount rate.
 - (b) Collection charges.
 - (c) Interest on Usance Bills.
 - (d) Overdue interest for delayed receipts of proceeds of bills.
4. in case of packing credit advances, Following points should be checked.
 - (a) Interest rate & calculation of interest.
 - (b) Interest on delayed liquidation of such advances.
 - (c) If any P/C advance is not liquidated out of export bills whether interest as applicable to C/C advance plus penal interest has been realized.

ANNEXUE A/J

INVESTMENT: CHECKLIST

a. Physical verification of Securities held at branches on behalf of head Office:

Shares, debentures, Bonds etc, if any held by the branches in their safe custody on behalf of Head Office as at the end of very quarter should be physically verified and detailed list thereof, as per proforma given hereunder should be certified under your signature and official seal and submitted alongwith your quarterly reports.

PROFORMA

SL. No.	Particulars of Securities	Rate Of interest	Amount (Face Value) Rs.	Maturity date	No. Of Script (in pieces)	Interest payable on	Interest/ Dividend Collected Upto	Securities held in the form of SGL/BRS/ Bonds/ Allotment Letters Entry A/C, Acknowledge-dgement Receipt etc	Remarks **
1	2	3	4	5	6	7	8	9	10

Note:

- (A) Securities sent to other branches/ issuing authorities for collection of interest, registration etc. should be mentioned under this column.
- (B) Whether securities mentioned above are in agreement with Branch records. If not, variations should be advised. **(Physical verification of securities must be done once in each quarter)**
- (C) Please make a special reference regarding branch performance on collection on interest on various securities as per the following format.

Sl. No	Details of Security	Rate of interest	Face value	Interest due on	Gross Interest Rs.	TDS amount Rs.	Interest Cheque Rs.	H.O. A/C credited collected on	TDS Certificate sent to HO on	Remarks
1	2	3	4	5	6	7	8	9	10	11

Reasons for non-realisation of interest & TDS certificate on due date should be furnished alongwith steps taken by the branch in remark column.

- (D) in case of BR's issued/ received, the details including date be given.
- (E) Details of securities matured during the quarter:

Sl No	Details of Securities	Rate of interest	Face Value Rs.	Maturity date	Maturity Details Value Collected sent to Rs. on HO on	Remarks

Reason for non-realization /collection of maturity value should be furnished along with steps taken by the branch in the remark column.

ANNEXURE A/K

FOREIGN EXCHANGE

Bank's dealing room and back up department handles large volume of Bank's funds. It is therefore put under concurrent audit.

Main objectives of the dealing are:

- a) to give service to customer by quoting competitive exchange rates;
- b) to closely monitor and cover the open foreign exchange position at a profit;
- c) to closely monitor and reduce maturity mismatch (gaps) in forwards;
- d) to earn profit for the Bank through trading activity;
- e) to maintain adequate balance in the NOSTRO accounts;
- f) to hedge the foreign exchange assets-liability portfolio;
- g) to hedge gold price;
- h) to fund vostro accounts.

An illustrative check-list of various irregularities likely to occur in dealing room and back up department is as under:

Comments of Auditor

General

- a. Dealing and back up department are not separated.
- b. Dealers and back up personnel are not properly trained.
- c. Proper infrastructure, viz, phone with STD facility/fax/Internet/Reuter screen not available.

- d. Hot line with brokers not available.
- e. Dealers not conferring before start of work on the trend in the overnight market.
- f. Dealing room provides access to outsiders.

Dealing Room:

- Lack of control on Nostro balances.
- Dealers' pad not written up immediately when a business is reported.
- Dealers sign broker note.
- Delay in sending the deal-slips/position slips to back up department.
- Open position held beyond limit not reported to the higher authorities.
- Bank-wise exposure limits not adhered to.
- Rate quoted to customers or at which inter-Bank deal is done not properly recorded.
- Proper value date not mentioned for merchant forward rates.
- While quoting finer rates, approval of the higher authority is not taken.
- Loss making deals are not reported to the higher authorities.
- Deal is done through brokers who are not in the Bank's approved panel.
- Trading statements are not submitted to Foreign department regularly.

Back up department

- Delay in sending confirmation of deals to counter-party Bank;
- Not keeping track of receipt of broker's note and not verifying the same;
- Month-end list of outstanding contracts not being sent to the counter party Bank;
- Proper record of overdue interest claims payable and receivable not maintained. Proper follow up for the claims not done;
- Wrong debit/credit in NOSTRO accounts not taken up immediately for rectification during reconciliation of accounts.
- Dealer's position and back up department's position not reconciled from time to time.
- Incorrect delivery of foreign currency in case of sale transactions.
- Non-receipt of funds in nostro accounts in case of purchase transaction.
- Not keeping proper control on receipt and payment of rupee fund in case of sale and purchase of foreign currencies;
- Expired merchant contract not cancelled.
- Exchange rates applied by the reporting branches not checked in NSTRs received.
- Delay in sending various returns;
- Branches not reporting business properly and the dealers also not mentioning this aspect in dealer's pad (viz. delivery of funds under forward contract must be so indicated).
- Daily position consolidation (currency-wise) does not tally.

- Foreign currency balances in various accounts e.g. Mirror, Mirror Retention, Suspense etc. do not agree with balances as per position consolidation sheet.
- Rupee balances of Mirror, mirror retention, suspense accounts do not agree with rupee balances as per General Ledger.
- Daily printout of all statements not taken.
- Not checking brokerage claims from the deal slips.
- Revaluation of open position.
- Management of vostro accounts.
- Rate quoted to customers or at which inter-Bank deal is done not checked.

The above list is not exhaustive. During the course of audit if any other irregularities are found, the same must be reported.

The Concurrent Auditor will peruse the check points and wherever deviations are observed should comment on the same and provide a detailed list of the same for subsequent action.

Illustrative Check Points	Auditor's Comments
Export: of Goods & Services Refer To: Regulation of Foreign Exchange Management (Export of Goods & Services) Regulations 2000 Notified Under Notification No FEMA 23/2000 Dated 3rd May, 2000 as Amended from Time to Time & Master Circular No RBI 2007-2008 /25 Master Circular No. 9/2007-2008 dated July 02,2007.	
Documentary Bill (Collection/Purchase/Negotiation) (a) Branch is having a system of verifying the Importer Exporter Code No. issued by the DGFT and a copy of the code number is obtained and held in records. If 'No', please furnish details of such accounts and details of documents handled.	Yes/NO

(b) Branch is ensuring and verifying that the exporters are submitting Documentary bills within the prescribed period of 21 days from the date of shipment or within the validity period of order/ credit. (c) In case of deviations whether the branch is obtaining satisfactory reasons from the exporter in writing and acceptance of the same by the Branch is on record. (d) Whether the Branch has handled any export document of an exporter appearing in the caution list of the RBI without production of evidence of receipt of full value of export in advance/ receipt of an irrevocable L/C for the full shipment value (e) GR (Duplicate) form contains 10 digit number affixed by the Customs Authority (Part Code 2 Digits, Year Code –2 Digits & Running Serial No.-6 Digits) In case of any deviation whether the same has been referred to Customs for verification. (f) SDF Forms are accompanied by Exchange Control Copy of Shipping Bill. In case these are not available whether the branch is taking steps for rectification of the same. (g) GR/SDF etc Forms are assessed for the value of the Export and also passed for Shipment by the Customs Authority in the Spaces earmarked for the purpose. (h) PP Form Original & Duplicate have been certified by the Branch only after verification of i) Export Value ii) Parcel is being dispatched to the overseas correspondent and the duplicate is retained for submission of the documents by the exporter after dispatch of the parcel (i) Proper records are being maintained for receipt of Duplicate PP and other forms (j) Statutory Declaration Form in terms of FEMA 1999 has been obtained. (k) Export documents containing shipping document, invoice, duplicate GR/SDF/SOFTEX/PP etc once received from the exporter, are not returned to the exporter except for rectification and re-submission. (l) All the Export Documents handled (Collection/ Purchase/Negotiation) during the period have been properly scrutinized as regards the consistency with reference to the original export order/accepted sale.	
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contract/letter of credit. Office Note is prepared pointing out the discrepancies, if any, and signed by authorized official, authorizing to handle the documents	
Export Bill Register (m) All types of export transactions are recorded in Export Bill Register recording all the relevant particulars as prescribed by RBI. (Physical/ Electronically Maintained) Export Bills are numbered serially according to uniform numbering system on a Financial Year basis. Export Bill Register, inter- alia, contains the following information; - Details of GR /PP / SOFTEX Forms, - Due Date of Payment - The fortnight of R-Return in which the transaction is reported to the RBI through ENC statement, - Date of Realisation - Short realization if any, - Remittances e.g. Agency Commission Export Claim etc, made, if any etc	
Change of Buyer (n) In case of default by the buyer after shipment is made, change of buyer has been permitted by the Branch in case of default by the buyer and in cases where reduction in value has been permitted which does not exceed 25% of the original value along with change in buyer. The realization period is within six months from the date of export.	
Reduction in Invoice Value (o) Reductions in Invoice Value permitted by the Branch during the period do not relate to commodities subject to floor price stipulations. The exporter has surrendered export incentives, if any, proportionate to the amount of reduction (p) Reduction in invoice value permitted by the Branch for pre-payment of usance bill is proportionate to the period of pre-payment and at the rate of interest included in invoice and if it is not mentioned in the invoice, at the prime rate LIBOR of the currency of the bill.	

(q) In other cases of reduction in Invoice Value, the Branch has ensured: a. Reduction is not more than 25% of invoice value b. The percentage ceiling is waived only for exporters who are exporting for at least three years having a good track record and their outstanding exports does not exceed 5% of average export realization for the last three financial years.							
Follow Up of Overdue Export Bills (r) Auditors may furnish age wise, outstanding export bills as a separate annexure. Whether the branch is following up promptly with the overseas correspondent/ exporter for recovery. <table><tr><td>No. Advance bills</td><td>Amt</td><td>Outstanding for Collection</td></tr><tr><td></td><td></td><td></td></tr></table> (s) All cases where the exporter has failed to repatriate export proceeds within six months from the date of export and failed to apply for extension of time, are reported to the Regional Office of the RBI (t) Follow-up action with defaulting exporters is systematic and vigorous and there is no laxity in such action	No. Advance bills	Amt	Outstanding for Collection				
No. Advance bills	Amt	Outstanding for Collection					
Extension of Time Period of Realisation (u) Extension of time period for realization beyond six months from the date of export has been permitted by the branch on compliance of the following i. Extension is not more than six months at a time ii. Non repatriation within the time period prescribed, is beyond control of the exporter and in-spite of his best efforts iii. The exporter has undertaken to repatriate the proceeds within the extended period. iv. The export transaction is not under investigation by the Enforcement Directorate.							
(v) Extension beyond 1 year (in aggregate) has been allowed by the Branch, on completion of the following 1. Total export outstanding of the exporter does not exceed USD 1 million or 10 % of average export							

realization during the last three financial years, whichever is higher. 2. For export bills outstanding beyond six months from the date of export and not covered above, the exporter has applied in form ETX in duplicate to the Regional Office of the RBI through the Branch. 3. All export bills outstanding beyond six months from the date of export, are reported in XOS statement with the date upto which extension is allowed by the branch mentioned under Remarks column.	
Export Write Off (w) Auditors shall verify whether the branch has been permitting Writing Off of export outstanding on compliance of the following: 1. bill is outstanding for 1year or more 2. The exporter is not under adverse notice of the Enforcement Directorate/CBI 3. Satisfactory documentary evidence is produced by the exporter to show that outstanding is inspite of his best efforts for realization 4. Aggregate amount written off amount in a financial year is not more than 10% export realization during the preceding financial year 5. The exporter has surrendered proportionate amount of export incentive, Documentary proof is obtained) 6. Goods have been destroyed/auctioned/the buyer is untraceable/ declared insolvent/cost of re-import is not beneficial etc. 7. GR/PP/Softex etc forms are appropriately certified by the Branch for written off cases 8. Verify the certifications and proper compliance. Comment on deviations, if any. 9. All the cases written off by the Branch during half-years (ended March & September) are reported to the Regional Office of The RBI in EBW statement	

Agency Commission on Exports (x) Agency commission on exports allowed by the Branch, either by deduction from bill value or by remittance after realization, had been declared in the Export declaration form (GR/PP/Softex etc) form and accepted by the Customs/appropriate authority. (y) Where the agency commission was not declared in the export declaration form, satisfactory reasons for non-declaration is offered by the exporter and a valid agreement is existing between the exporter and the beneficiary of the commission (z) All cases of reduction/remittance/write off allowed by the Branch are within the authority delegated. Furnish total number of cases in each category and verify from the certification by the Branch on the duplicate of export declaration form.	
Software Exports (aa) The auditors will verify whether the branch is adhering to the following by the branches at the time of handling software exports 1. For long standing contracts, periodic billing, at least once a month, is done. 2. For single shot shipment and also for the concluding shipment under long-standing contract, bill/invoice is raised within 15 days of transmission/completion of contract. 3. Valuation of the SOFTEX Form submitted by the exporter (may be a combined one for all the invoices raised on a particular buyer, including advance remittances received during a month) is made by designated official of the Government of India. Amendments in invoice value are made if necessary. 4. For export of Computer/Audio/Video/Television software, the SOFTEX Form is valued by the concerned designated official of the Government of India in the concerned EPZ/SEZ/STPI/FTZ within thirty days from the date of invoice/the last invoice raised in a month.	

Part Drawing/Undrawn Balances (bb) In cases, where adjustments for difference in weight, quality etc made by the buyer after the arrival of shipment at the buyer's country, a small part of invoice value is left un-drawn. The auditors should ascertain whether such undrawn balances, does not exceed 10% of invoice value. Auditors shall also verify that the undrawn balances against the invoices are in conformity and as per prevalent practice for such line of exports.	
(cc) A declaration on the duplicate GR/SDF/PP form has been obtained from the exporter to the effect that the undrawn balance shall be repatriated/accounted for within the prescribed period of realization. (dd) If the exporter fails to repatriate, even after best efforts, to realize the undrawn balances, within one year from the date of shipment, the Branch has to ensure that at least the full Original invoice value or 90% of the value declared in the GR/SDF/PP form, whichever is higher, has been repatriated.	
Consignment Export (ee) Documentary Bill drawn under consignment sales are forwarded by the Branch to overseas correspondent with instructions to deliver the same only against Trust Receipt/Undertaking. The overseas party in the undertaking confirms to surrender sale proceeds/Accounts Sales within a specified date within the prescribed period of repatriation of export proceeds. (ff) Under the present guidelines, branches are required to ensure that: - A. Marine Insurance and Freight for shipments on Consignment basis are arranged in India. In case of deviations whether branch has obtained approval from RBI. B. Accounts Sales received from the Agent/Consignee, are properly scrutinized by the branch under a confirmation of the Branch's authorized official. C. Deductions in Accounts Sales are supported by Bills/Invoices and in respect of petty expenses e.g. postage, cable charges, stamp duty etc, the expenses are reasonable. D. The deductions are properly checked with reference to the bills etc.	

Purchase (gg) The exporter has submitted documents under cover of the Bank's prescribed format with specific request for purchase of the documents and 'with recourse' clause under signature of authorized person of the exporter. (hh) The branch is adhering to their Circular in respect of various procedures to be followed in respect of Whole Turnover Pre-shipment & Post-shipment Policies of ECGC issued is complied with. (ii) The branch has a system of verification by Specific Approval List (SAL) of ECGC and they ensure that the exporter is not under 'SAL'. (jj) The branch has to ensure that all the terms and conditions of the sanctioned limit have been complied with Deviations if any, have been approved by an appropriate authority. (kk) Normal transit period as per FEDAI Rule 2A.4 and usance period has been considered and interest has been computed correctly in terms of the revised interest rates. In case of accounts falling under revised interest subvention circular, the auditors should ensure that the branch has calculated the interest subvention claim properly and submitted the same to their respective Zonal Offices. (ll) Position has been reported to appropriate 'A' category branch and appropriate exchange rate (sight/usance) is obtained and recorded under authorized signature. (mm) The bill is entered in Due Date Diary and the Notional/Calculated Due Date is recorded thereat. On receipt of accepted due date from overseas Bank (in case of usance bill), the notional due date is amended in the Due Date Diary after striking off the previous entry. Interest is charged as per the revised due date. (nn) The Documentary Bill is forwarded to Nostro Correspondent only. (oo) Despatch of documents to buyer's Bank must be under specific written instructions of the exporter and at their risk and responsibility. Under no circumstances, purchased documents are dispatched direct to the buyer.	
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(pp) Crystallization of Foreign Currency liability is made as prescribed in rule 2A.2 of FEDAI and due date diary for this purpose is maintained by the branch meticulously. Notional Sale 'Position' is reported to the concerned 'A' category Branch on the date of crystallization.	
Negotiation (qq) The exporter are submitting documents under cover of the Bank's prescribed format with specific request for negotiation of the documents and 'with recourse' clause under signature of authorized person of the exporter. (rr) Documents negotiated are under L/C s issued by Prime Banks only. (ss) In case of Non prime Banks, whether approval has been obtained from Controlling Office. (tt) Branch has ensured that the Negotiation are done only on submission of relevant documents and on complying presentation in terms of the L/C issued by the issuing Bank under UCPDC (ICC Publication No 600) (uu) 'Position' has been reported to appropriate 'A' category branch and appropriate exchange rate (sight / usance) is obtained and recorded under authorized signature. (vv) Reimbursement claims are being lodged properly on negotiation if the L/C provides for lodgement of such claim. Alternatively, there is a system to follow up whether the issuing Bank is forwarding reimbursement instructions to the reimbursement Bank. (ww) Cases of delay during the period of audit may be separately indicated. (xx) Payment instructions (in reimbursement claim or bill forwarding) clearly indicate the name of the Nostro correspondent, its SWIFT Code, Nostro A/C No., Currency, Amount Tenor of the Bill, correct reference no. etc (yy) Documents are dispatched as per terms of the L/C on the same day of negotiation.	

(zz) Normal transit period as per FEDAI Rule 2A.4 and usance period has been computed properly and interest has been recovered for the applicable period. (aaa) Maintenance of due date as indicated against purchase of bills is being followed in these cases also. (bbb) Discrepancies in documents pointed out by the L/C issuing Bank, if any, have been intimated to the exporter in writing immediately against acknowledgement and mentioning the right of recourse of the Bank. (ccc) Foreign Currency Liability is crystallized on the 30th day from due/ notional due date as prescribed in rule 2A.2 of FEDAI and due date diary is consulted on regular basis for this purpose.	
Advance Payment Against Export (ddd) Advance payments incorporating shipment terms extending beyond one year from the date of receipt are accepted only after getting prior approval of the RBI . (eee) In case of deviation observed in the following terms branch is obtaining prior approval of RBI. 1. Rate of interest payable on advance payment, if stipulated, is not in excess of LIBOR plus 100 basis points. 2. Refund of advance payment/residual part of advance payment interest thereon, after the expiry of one year from its receipt is made only after obtaining prior approval from the RBI . (fff) The auditor will verify whether the branch is adhering to the following: - i) FIRC has been issued in all cases of advance payments and these are serially numbered and maintained in a Register or properly through the system. Auditor may furnish details of the remittances where FIRC was not issued. ii) Export documents are routed through the same Bank through which advance payment was received.	

iii)	Original FIRC has been produced with export documents and the bill amount is endorsed on the original FIRC and also in the FIRC numbering Register.	
iv)	Purchase of Foreign Currency from market for refund of advance payment credited earlier to the exporter's EEFC account is allowed only after balances in EEFC account of the exporter with all branches/banks have been fully utilized.	
ECGC (ggg) Auditors will verify whether the branch is following all the procedures laid down in banks' circular letter		
i)	Notification of limits (fresh, adhoc, renewal and enhancement), if the limit sanctioned is within the discretionary limit of the Bank.	
ii)	Approval of limits(fresh, adhoc, renewal and enhancement has been obtained in respect of accounts which fall beyond discretionary limit	
iii)	In case of accounts which are substandard, Doubtful or Loss assets, prior approval of ECGC has been obtained before extending credit.	
iv)	Monthly declarations have been submitted and premium paid promptly.	
v)	Packing credit premium is paid to debit of Exporter's account and post shipment policy's premium is paid to debit of branch's charges account.	
vi)	Any nursing proposal approved by the branch/ Bank should be got approved by ECGC before giving effect to the proposal.	
vii)	Any deviation in sanction terms should be properly taken up with the sanctioning authority for modification/ amendment.	
viii)	Exporters have obtained shipments policies as per sanction and premium and declaration under the policy is up to date and also through our Bank assurance schemes.	
ix)	In respect of post-shipment advances covering exports to Restricted Cover Countries, 'Revolving Limit' and / or 'Specific Approval' has been obtained from ECGC as applicable.	

x)	All the extensions of due date of advance for valid reason up to 180/360 days from the date of shipment/date of advance under WTPSG/WTPCG respectively, have been intimated to ECGC	
xi)	For extension of due date beyond 180/360 days for advances covered under WTPSG / WTPCG respectively, prior approval of ECGC has been obtained.	
xii)	Fresh pre-shipment advances are not made without prior approval of ECGC when there is overdue outstanding pre-shipment advances of the exporter	
xiii)	Fresh post-shipment advances are not made against shipment to a buyer when there is overdue outstanding post-shipment credit on the same buyer.	
xiv)	No compromise arrangement has been entered into with a borrower without prior approval of ECGC.	
xv)	Report of default is filed to ECGC within 4 months of due date/ extended due date or within 1 month from the date of recall of the advance, whichever is earlier.	
xvi)	Payment of premium on the advance, for which report of default is filed, is discontinued from the subsequent month.	
xvii)	Claim is lodged with ECGC (complete in all respects along with stipulated documents) within 6 months from the date on which the report of default was filed.	
xviii)	Claims lodged with ECGC are followed up regularly for early settlement.	
xix)	Claims rejected by ECGC are resubmitted at the earliest after rectification/compliance of deficiencies/irregularities pointed out.	
(hhh)	Concurrent Auditor is requested to check and verify the computation of ECGC premia and monthly payment to ECGC within the stipulated time period. They should submit a certificate as per following proforma.	

"We hereby confirm that the branch of Bank has correctly computed the ECGC premia for the months of..... The premium on Pre-shipment credit has been debited to the exporters' account and that on Post-shipment to the banks' account. The premium has been remitted to ECGC in time" Authorised Signature with Seal	
IMPORTS (iii) Concurrent Auditor should verify whether the branches are having the following policies/circulars while handling import transactions and they refer to the same while handling transactions. a) Foreign Trade Policy of DGFT b) Foreign Exchange Management (Current Account Transactions) Rules 2000 of Government of India & Notification No GIR 381 (E) Dated May 03,2000, c) Master Circular RBI 2007-2008/24 Master Circular No 08/2007-2008 Dated July 02,2007 d) Directions under FEMA Issued by the RBI from Time to Time. a. The Branch has followed strictly, KYC norms for all import transactions. b. The customer has Importer-Exporter code number for any transaction relating to import(except for private import) c. Application in appropriate Form-A1 has been obtained from the importer for all the import transactions of over USD 500. d. The Branch has verified the commodity being imported is not under negative list e. For import of items in the negative list the Branch has obtained the Exchange Control Copy of the Import Licence. f. Special conditions attached to the Import Licence, if any, have been adhered to by the Branch for import under the Licence. g. Exchange Control Copy of the Licence is endorsed for the value of import properly (Column 3 only at the time of opening I/C and	

both columns 3 & 4 at the time of remittance, as the case may be)	
Receipt of Import Documents / Bill (jjj) Remittances and acceptance of bills have not been made for import bill / documents received directly by the importer except where 1) Amount involved is not over USD 100,000/ or, 2) Import bill is received directly by wholly owned Indian subsidiary from their foreign principals/Status Holder Exporter/100% EOU/ Units in FTZ/Public Sector Units/Pvt. Ltd or Ltd Companies. 3) Branch is satisfied about the financial standing, track record and bonafides of the importer customer. 4) Satisfactory credit report is obtained for each individual supplier from overseas banker or a reputed rating agency, where the amount involved is USD 100000/ or more. (kkk) In all other cases remittances are made only for documents/bills received directly by the Branch from the banker of the overseas supplier (lll) The Branch has complied with Income Tax Act wherever applicable, for all the import transactions (mmm) Auditors should verify the endorsed License and all the Licenses utilized during the period, have been verified and found in order in all respects (nnn) Permitted methods of payment, as per notification of RBI have been followed by the branch	
Time Limit for Import Remittance (ooo) The auditors should verify the branch is ensuring that in case of normal import remittances have been completed within six months from the date of shipment except for amounts deferred for performance guarantee. (ppp) The auditors should verify Deferred Payment arrangement including Suppliers' Credit/Buyers' Credit , have been completed within a period of less than 3 years from the date of shipment and payment is made within the period.	

(qqq) The auditors should verify that Remittances beyond 6 months from the date of shipment if any, have been permitted by the Branch only in cases of import of Books or where the importer has explained the delay satisfactorily as due to financial difficulties/disputes etc	
Remittance of Interest on Imports (rrr) Overdue/usance interest remitted by the branch, if any, is for a period of less than 3 years. (sss) The rate at which interest (all in cost ceiling) is remitted as above does not exceed 6 months LIBOR plus 50 basis points for period upto 1 year and LIBOR plus 125 basis points for period of over 1 year upto less than 3 years.(LIBOR of the currency of invoice or benchmark rate)	
Pre-Payment of Usance Import Bill (ttt) Pre-payment has been allowed by the branch only on written request and acceptance from both the importer and supplier and after deduction of interest for the unexpired period (uuu) Deduction of interest for the unexpired period for pre-payment has been done at the following rate: 1.At the same rate at which usance interest is claimed in the invoice/bill or LIBOR of the currency of invoice, as applicable. 2.Where usance interest is not expressed, at the existing LIBOR of the currency of invoice.	
Advance Remittance Against Import (vvv) Advance remittance has been permitted by the Branch only direct to the supplier as per contract and not to any agent or to any numbered account (www) For other procedures fresh guidelines are being issued shortly. Auditors may refer to the fresh guidelines for future verification.	
Opening of Import L/C (xxx) The auditors should verify that the Branch has complied with all the terms and conditions of the sanction before opening of L/C.	

(yyy) The branch is obtaining a L/C application along with relative order. The application furnishes full details and complete in all respects, duly signed by the authorized signatory of the applicant. (zzz) Form A1 and declaration of FEMA compliance have been received (aaaa) The auditors should verify that the Branch has verified the terms and conditions of the underlying merchant contract and there is no clause violating any of the provisions of FEMA1999, Trade Policy of DGFT or any of the Rules and Regulations of the Country / Bank (bbbb) The Branch has verified that the item being imported is either under OGL or if under restricted/negative list, appropriate import Licence is obtained and endorsed for the L/C opened. (cccc) The auditors should verify that all the L/C are being issued indicating that it is subject to the provisions of UCPDC (ICC Publication No 600) (dddd) L/C is serially numbered in chronological order and all the particulars of the L/C are recorded in the L/C opening Register (eeee) The Branch ensures passed L/C liability voucher at appropriate exchange rate (Bill Selling) on opening of L/C and Customer wise L/C Liability Register is maintained up date	
Import Bill under L/C (ffff) The auditor should verify that the branch strictly verify the documents received against the letter of credit opened by them and received from the nominated or confirmed Bank within 5 banking days. (gggg) In case of discrepant documents, the Branch has informed the overseas negotiating Bank/presenting Bank within five banking days following the date of receipt, all the discrepancies and stating whether the documents are being returned or being held for waiver of discrepancies from the applicant. (hhhh) The Branch has simultaneously advised all the discrepancies to the applicant and sought their waiver.	

(iii) The Concurrent Auditor should ensure that Documentary bills are recorded in Import Bill Register and in case of non payment of due date it are followed up. The bills are crystallized on the due date for usance bills and on the 10th day for sight bills from the due date. (jjjj) Sale 'Position' is reported to the 'A' category branch on retiring/ crystallization of the Bill and bill selling rate is obtained unless it is under Forward Contract (kkkk) For bills under Forward Contract, the matter of delivery under the Forward contract is reported to 'A' category Branch on the date of payment/ crystallization, whichever is earlier.	
Evidence of Import (llll) The auditors should verify that there is a system at the branch to obtain evidence of import and in respect of transactions of USD 100000 or more, the Branch obtains within 3 months from the date of remittance 1. Exchange Control Copy of Bill of Entry for Home Consumption or 2. Exchange Control Copy of Bill of Entry for Warehousing for 100% EOU or 3. Customs Assessment Certificate or Postal Appraisal Form for imports by post (mmmm) For Import Bills on DA basis, Evidence of Import is obtained at the Time of Remittance (nnnn) In case of non submission of Bill of Entry, branch should obtain satisfactory reasons from the importer. In such cases, Bill of entry is not submitted at the time of remittance due to following reasons e.g. non-arrival of the consignment/delay in Customs clearance etc. However, the importer provides an undertaking to submit the same within a period not exceeding three months from the date of remittance. (oooo) For imports in non-physical form, e.g. import of Software, Data through Datacom channel, drawings and designs through e-mail/ internet, the Branch should obtain a certificate from the Chartered Accountant that the data etc. have been received, as evidence of import. The importer has been advised in writing to inform the Customs Authorities about of the import.	

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(pppp) The Branch issues acknowledgement containing all the details to the importers on receipt of evidence of import. (qqqq) The Branch has checked the evidence of import and verified that goods equivalent to the value of remittance have been imported. (rrrr) The Branch has recorded all the particulars of the Evidence of Import in the Import Bill Register against the particular Bill/Remittance (ssss) The Concurrent Auditor are required to verify all the evidence of import and after verification certify the verification in the import bill register and submit a certificate to the effect. (tttt) The Branch has followed up vigorously for submission of Bill of Entry in respect of import of goods for USD 100,000/- or above, including issuing Registered Letter, with the importers who have failed to submit evidence of import within 3 months from the date of remittance. (uuuu) The Branch has included in the half yearly BEF statement (June & December) all the remittances/imports of value exceeding USD 100000 and where the importer has not submitted evidence of import within 6 months from the remittance. (vvvv) The Branch has realized all charges as applicable as per the Bank's Schedule of Charges.	
Forward Contract (RBI 2007-2008/22 Master Circular No 6/2007-2008 Dated July 02, 2007 on Risk Management & Interbank Dealings, Notification No FEMA 1/2000RB, Regulation 4 (2) of Notification FEMA 3/RB 2000 and 25/RB 2000 dated May 03,2000 and FEDAI Rule) (www) he auditors should verify that the Branch has booked forward contract on behalf of its customers. The branch obtains documentary evidence for the underlying exposure and proper application form is obtained for booking forward contract. (xxxx) The branch is required to record full particulars of the forward contract on the documents evidencing the underlying exposure. A copy thereof is retained at the Branch for verification	

(yyyy) The auditor should ensure that the branch at the time of booking the forward contract is ensuring: - - Tenor of the forward contract booked does not exceed the tenor of the underlying exposure. - The total outstanding exposure on account of a customer is within the customer exposure limit prescribed by the Bank. - Unutilised merchant contracts have been cancelled on the 15th day from last date of delivery Forward contract booked against EEFC account balances are not cancelled by the Branch. Extension may however be permitted.	
Booking of Forward Contracts on Past Performance & Declaration of Exposure (zzzz) Branch has booked forward purchase/sale contracts on account of its exporter/importer customers on the basis of their declaration of existence of exposure (without production of documentary evidence) subject to fulfillment of the following conditions: - Amount booked in aggregate during the financial year and outstanding at any point of time, is up to the average of the last three financial years or the last financial year's actual export/ import turnover, whichever is higher. - In case of exporter customer overdue outstanding is not more than 10% of the turnover - Importer/exporter customer produces a declaration regarding forward bookings with other Authorized Dealers. - Amounts booked in excess of 75% of the above limit, shall be on deliverable basis, i.e. can not be cancelled. - An undertaking is obtained to the effect that documentary evidence shall be produced at the time of cancellation/ before due date. The Branch has submitted the monthly statement of limits sanctioned and utilized under the facility direct to the RBI Foreign Exchange Department Central Office, Mumbai	

Outward Remittance Refer To : Rules framed by the Government of India U/S 5 of FEMA 1999 Foreign Exchange Management (Current Account Transactions) Rules 2000 Notification No GSR 381 (E) Dated 03.05.2000(Rules) and RBI Master Circular 05/2007-08 (RBI 2007-08/21) On Miscellaneous Remittances from India – Facilities for Residents The auditor will verify that the branch is obtaining proper application for remittance and they ensure the following: - (aaaaa) The Branch has not permitted drawing of foreign currency for transactions under Schedule I of the Rules. (bbbbb) In case of transactions under Schedule II of the Rules, the branch had obtained permission from the Department/Ministry of Government of India drawal of Foreign Exchange has been obtained by the applicant. (ccccc) Prior approval of the RBI has been obtained for remittances above the specified amounts for transactions under Schedule III to the Rule. (ddddd) Where specific approval is obtained from , RBI foreign currency is sold within the validity period of the approval and up to the value approved and the sale is endorsed under stamp and signature on the original approval. (eeeee) No foreign exchange is sold to travelers to Nepal/Bhutan or for transactions with these two countries (fffff) The auditor may at random verify issuance of Travelers cheques and whether the branch is ensuring that the traveler signs personally at the time of taking delivery of the cheques. (ggggg) The auditor may verify whether the branch is not issuing out of their total entitlement, Currency Note of Foreign Exchange sold to travelers to Iraq or Libya did not exceed USD 5000 or equivalent and for other countries up to USD 2000 or its equivalent. In respect of travelers to Islamic Republic of Iran. Republics of Commonwealth of Independent States and Republic of Russia, the full amount may however be issued in foreign currency notes.	
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(hhhhh)	The auditor may verify that the branch is not accepting cash beyond Rs 50,000/- for drawal of foreign exchange, either on one occasion or on several occasions for a single journey, equivalent to over Rs 50,000/payment has been received by the Branch either by crossed cheque drawn on the applicant's account or on the account of the firm/company sponsoring the travel or by Bankers' Cheque/Demand Draft.	
(iiii)	For remittances under Liberalized Remittance Scheme (USD 100000/ in a Financial Year) the declaration cum application form (as per Annex 3 of the Master Circular), duly filled up and signed by the applicant, has been obtained.	
(jjjj)	For remittances above the permissible limits (Schedule-III), prior approval from the RBI has been obtained	
(kkkkk)	Remittances for permissible purposes to non-residents are allowed only on submission of an undertaking by the remitter regarding Income Tax clearance and a certificate from Chartered Accountants in formats (Annex-4) prescribed by the Central Board of Direct Taxes, Ministry of Finance, Government of India Circular No. 10/2000 dated 09.10/2002 and AP (DIR Series) Circular No 56 dated 26.11.2002	
(llll)	Concurrent Auditor to verify whether there are any instance of refusal by the branch in case any customer had approached the branch to surrender of unused/unspent foreign exchange beyond the prescribed period of 180 days	
(mmmmm)	The Branch has not insisted for documentary proof for remittances by resident Indians, upto USD 100000 or equivalent for purposes of Employment, Emigration, Education, Medical Treatment, and maintenance of Close Relatives Abroad	
(nnnnn)	Auditors may verify whether the branch has obtained the application on appropriate Form A2 and declarations as required for under the various facilities have been obtained from the applicant. The Branch has obtained such documents/declaration/ information from the applicant to reasonably satisfy that the	

	transaction will not involve and/or not designed to contravene any of the provisions of FEMA or any of the Rules/Regulations/Notification/ Direction issued there under from time to time	
	Inward Remittance Refer To DBOD. AML.BC No. 3/14.08.001/2007-08 Dated July 02 2007 Master Circular on Foreign Contribution Regulation Act 1976) (ooooo) The Branch has ensured that no foreign contribution is credited to the account of any organization of political nature (even though not a political party) actual export/import turnover. (ppppp) The auditors should verify that the branch has handled and credited funds received on account of associations/organizations having definite cultural/educational/economic/social/religious activity are registered with the Ministry of Home Affairs, Government of India specifically for the purpose (qqqqq) No foreign contribution has been accepted and credited by the branch to the account of candidates for election, correspondent, columnist, cartoonist, editor, owner, printer or publisher of any registered newspaper. (rrrrr) The Branch has insisted upon prior permission of the Central Government before accepting foreign contribution on account of entities covered under Section 4 & Section 5 of FCRA 1976. (sssss) Proceeds of cheques/drafts etc are credited to the accounts of associations covered under Section 6 of FCRA 1976 only on obtaining the organization is registered with Ministry of Home Affairs, Government of India. (ttttt) In case the associations etc are not registered with the Ministry of Home Affairs, Government of India, the Branch has insisted upon production of permission from the Ministry of Home Affairs, Govt. of India, for receiving the specific amount of foreign contribution. The Branch has submitted half yearly statement (March & September) of all the foreign contributions received, to the Government of India within two months of expiry of the half year.	

(uuuuu)	Registration numbers allotted by the Ministry of Home Affairs, Government of India, have been noted in the accounts of the associations etc to avoid harassment to the recipients	
(vvvvv)	Payment instructions from NRE/FCNR accounts are also treated by the Branch as foreign source as far as FCRA 1976 is concerned and processed accordingly	
FCNR (B) Deposit Accounts		
Refer	To Master Circular No DBODNo. Dir.BC.8.13.03.00/2007-2008dated July 02,2007 of Instructions Relating to Deposits Held in FCNR(B) Accounts)	
(wwwww)	The Branch has verified residential status of the depositor prior to acceptance of deposit with reference to passport/visa/proof of residence etc and KYC norms have been observed.	
(xxxxx)	The branch has not accepted deposits in currencies other than GBP, USD, EUR, JPY, AUD and CAD. Deposits in any other currency are converted to any of these six currencies at the option of the depositor and at the cost of the depositor.	
(yyyyy)	The Branch has obtained application form for opening the account, complete in all respects and duly signed by the depositor.	
(zzzzz)	The depositor has been advised of the penalty clause for premature closure of the account (i.e. penalty regarding the interest rate and swap charges)	
(aaaaa)	Automatic renewal clause is signed by the depositor	
(bbbbb)	The Branch has obtained a declaration from the depositor to the effect that he shall inform the Bank immediately on change of his residential status	
(ccccc)	FCNR(B) Deposits are accepted only in the form of term deposits of maturity of 1 year and above and up to a maximum period of 5 years.	

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(ddddd)	No FCNR(B) account has been opened by the Branch in the name of Overseas Corporate Bodies(OCB) during the period.	
(eeeeee)	The Branch has passed the entries at Notional Rates as applicable for the currency and passed on the credit advice to the 'A' category Branch	
(fffff)	No FCNR (B) account has been opened in the name of a nonresident	
Jointly with a resident		
(gggggg)	Existing FCNR (B) accounts in the names of OCBs, if any,(since discontinued with effect from 16.09.2003) are allowed to continue till original maturity and payments are made on maturity as per permitted method of payment	
(hhhhh)	Interest is calculated on the basis of 360 a year and compounding is done at intervals of 180 days each and thereafter the actual number of days remaining.	
(iiiiii)	For conversion of FCNR(B) accounts into RFC Accounts on the depositor's return to India prior to maturity of the deposit, penal rate of interest is not applied by the Branch	
(jjjjj)	The Branch has paid interest on conversion as above of FCNR(B) account even if the FCNR (B) deposit has not run for the minimum period as above, at a rate not exceeding the rate applicable for RFC savings account	
(kkkkk)	The Branch has not extended fresh loan/renewed loans exceeding Rs20lakh, either to the depositor or third party against FCNR(B) deposits and no artificial slicing of loan amount has been allowed.	
(lllll)	The Branch has renewed overdue deposits at a rate of interest applicable to the period of renewal prevailing on the date of maturity or on the date of renewal, whichever is less, provided the period of overdue does not exceed 14 days including both the dates of maturity and renewal.	

(mmmmmm) The auditors should verify that the request for renewals beyond 14 days of maturity (both dates inclusive) are treated as fresh deposits and interest on the overdue period is paid at a rate of interest as applicable for Savings Bank Deposits (nnnnnn) In respect of payment of deposits prior to maturity of a deceased depositor, interest is paid at a rate as prevalent on the date of deposit and for the period the deposit has run, without charging penalty on interest rate. (oooooo) In respect of payment of deposit to a deceased depositor after maturity date, the Branch has properly calculated and paid interest for the overdue period at a simple rate as prevailing on the date of maturity.	
Non-Resident Ordinary (NRO) Account Refer To: RBI 2007-08/19 Master Circular No. 03/2007-08 dated July 02, 2007, Subsections (1) & (2) of Section 6 of FEMA 1999, Notification No 5/2000RB dated May 03, 2000. (pppppp) Accounts of Individuals/entities of Bangladesh/Pakistan nationality/ ownership have not been opened without prior approval from the RBI (qqqqqq) The Branch has verified residential status of the depositor prior to acceptance of deposit with reference to passport/visa/proof of residence etc and KYC norms have been observed. (rrrrrr) The Branch has obtained application form for opening the account, complete in all respects and duly signed by the depositor. (ssssss) The branch is ensuring by educating the customers to execute Automatic renewal clause at the time of opening of the term deposits	

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(ttttt)	The Branch has obtained a declaration from the depositor to the effect that he shall inform the Bank immediately on change of his residential status	
(uuuuuu)	Currency Declaration Form has been obtained and endorsed for credit of proceeds of foreign currency notes exceeding USD 5000/ during temporary visit of the depositor to India	
(vvvvvv)	The auditor should verify that the Credits in Indian Rupees are either transfer from NRE account or legitimate dues in India like current income like rent, dividend, pension, interest, legacy, inheritance, immovable property etc.	
(wwwwww)	The auditor should verify that the branch has not allowed outward remittance from an NR(O) account strictly in terms of current RBI guidelines as specified in the master circular. They should also verify that the branch has ensured that the total remittance in one calendar year has not exceeded USD 1 million in a Financial Year (April-March). The other remittances are out of the current income from various investments made by the NRI.	
(xxxxxx)	The Branch has obtained documentary evidence of acquisition/ legacy/inheritance of the properties. They have also submitted an undertaking from the remitter and a certificate from Chartered Accountant as per format prescribed by CBDT (Circ. No 10/2002 dated 09.10.2002) This facility is available for remittances up to USD 1million in a Financial Year out of sale proceeds of inherited immovable property by NRI/PIO.	
(yyyyyy)	The present guidelines do not permit repatriation of funds by citizens of Pakistan, Bangladesh, Nepal, Bhutan, China, Sri Lanka, Afghanistan Iran. Remittance of sale proceeds of other financial assets by citizens of Pakistan, Bangladesh, Nepal and Bhutan has not been permitted by the Branch	

Auditors should issue a certificate on quarterly basis in the following format

Verification of all forex transactions at branch including checking of forms A1, A2 and A3 meant for submission to the RBI alongwith R>Returns upto the fortnight ended has been done by us and we certify about the bonafides of forex transactions undertaken by the branch including the correctness of forms A1, A2, and A3. We further certify that the transactions have been carried out as per Bank's internal guidelines / instructions vis-a-vis FEMA provisions and that due diligence exercise has been carried out while dealing with forex transactions.

Signature of Auditor

Seal

Place

Date

Returns

Auditors are required to verify, ascertain and comment whether all returns/statements related to Forex transactions are submitted by the branch to appropriate authorities within the scheduled time frame.

ANNEXURE B

REVENUE AUDIT

BANK
BRANCH

Income & Expenditure Audit

Period: _____

CERTIFICATE IN REGARD TO

PROFIT & LOSS ACCOUNT

- 1 It is confirmed that the rate of interest applied to various advances and deposit accounts as specified and the calculation of interest earned and paid is correct.
- 2 It is ascertained that the service charges/commission of the prescribed rates are levied for various ancillary services rendered.
- 3 It is also ascertained that all other legitimate Income has been correctly worked out.
- 4 It is ensured that no unauthorized or improper expenditure has been done.
- 5 It is also confirmed that the interest rate and date fed for various borrowal accounts/deposit accounts in the computer are correct.

For _____ & Co.

_____ **BANK**

_____ **BRANCH**

REVENUE AUDIT

Period :

DISCUSSION –CUM-RECOVERY CERTIFICATE

Certify that the Caption Revenue Audit has been discussed with the Controlling Officer Particulars of the Income Leakage and the recovery details are as follows:

Leakage detected

Recovery made

This is also certified that _____ & Co, Chartered Accountants attended the Audit work alongwith _____ Assistant, (if any) since Date _____ and supervised and confirmed the Revenue Leakage Report that is correctly complied with.

For _____ & Co

Chartered Accountants

For _____ Bank

_____ Branch.

_____ **BANK**
_____ **BRANCH**
SPECIMEN

Name of the A/c	L/G.No	Comm. Charged (Rs)	Actual Amount to be charged (Rs)	Amount short charged (Rs)	Amount recovered during the Audit	Remarks

Ref. No.-

Date-

To,

The Chief Manager

Add _____

Sub: – Test Check Audit Report of your _____ Branch for the
period 4 Quarters viz, _____

Ref: Letter No

Dt. _____

Dear Sir,

We are sending herewith one copy Test Check Audit Report of
your _____ Branch

for the period as mentioned above.

Thanking You.

Yours faithfully,

_____ & Co.

Chartered Accountants

ANNEXURE C

STOCK & BOOK DEBT AUDIT

_____BANK

_____BRANCH

_____CONTROLLING OFFICE

PART – 1 [RECORDS AND INFORMATION AVAILABLE WITH THE BRANCH]

a. General Information

Date of visit at	Branch		Audit completed on	
	Factory/Unit		Duration of the audit	
			Date of submission of Report	
Name of the Branch			Region	
Name of the Account			Asset Classification	
Constitution			Nature of Activity/ Products traded	
Address	Office	Factory		
Nature of Stocks	Raw Materials	Work-in-Process	Finished goods	

Name of the Concurrent Auditor firm and the person who Audited	Chartered Accountant Firm	Person who audited with designation
Name of the person(s) who accompanied the auditor	From the branch side	From the borrower's side

b. Borrowing Arrangement

Baking Arrangement	Name of the Leader Bank	Total limit FB NFB	Our Share FB NFB	Last consortium meeting held on	Major decision taken, if any
Sole/Multiple/ Consortium					
Last renewal/ review done on		Sanctioned limit valid upto			

c. Position of the Account (on the date of visit)

(Amount in Rs./lac)

Nature of facility	Sanctioned limit	ROI (% p.a.)	Value of Security	(*) Adv. Value of security	Drawin g power	Outsta nding Debit Ba- lance	Exte nt of irreg u- larity If any
A. Fund based							
1. Working Capital							
i) CC(H)							
ii) BP/BD							
2. Term Loan/DPG							

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	i)							
	ii)							
B.	Non-Fund Based							
1.	BG							
2.	LC							

[(*) Advance value of security = value of security less margin]

d. Compliance of the Terms and Conditions of sanction

Whether all the terms & conditions of Sanction have been complied with?	YES	NO
---	-----	----

If NO, the terms & conditions of sanction which are yet to be complied with reasons of non- compliance and steps taken/proposed for meeting the compliance requirement/irregularity etc.

1.	
2.	
3.	
4.	
5.	

e. Documentation and creation of charge over securities

Date of Documents	Date of last Balance confirmation	Whether documents are properly executed and appropriately stamped and charges on primary and collateral securities created? If not, please furnish the deficiencies found.

The auditor must verify documents obtained by the branch and give comments on the following specific areas :

Whether stipulated in the terms & conditions

of sanction, whether equitable/registered mortgage in respect of specific immovable properties offered as security have been properly created? if non, the nature of deficiency. Wherever required/stipulated, whether charge on assets (1st/2nd/pari-pasu) has been properly created? If not, the nature of deficiencies and reasons thereof.	
--	--

Information on charge registered with ROC within prescribed time limit (where applicable)

Date of filing Form 8/ Form 13.	Date of registration Of charge	Date of certificate Issued by ROC	Value & nature of Charge (1 st /2 nd) Registered
Any deficiency in charge registered with ROC within prescribed time limit? Give details.			

Wherever; required/stipulated, whether draft documents have been approved by the controlling office? If not, the nature of lapses and reasons thereof.	
--	--

Any other irregularity/ Deficiencies observed In documentation	
Particulars of legal audit stipulated and compliance thereof	

f. Particulars of Insurance

Name of Insurance Company	Policy Number & issuing branch	Amount of policy	Validity period (from to)	Risk Covered
Particulars of the assets covered under the policy				Whether the policy contains agreed Bank clause

Any discrepancy/ Inadequacy in the Policy?		YES	NO
--	--	-----	----

g. Information System

Submission of Stock statement regular?	Date of last stock Statement submitted	Submission of Book Debt statement regular?	Date of last book-debt statement submitted
YES NO		YES NO	

Drawing Power (DP) register maintained	DP is being calculated properly & regularly	Auditor's remarks on maintenance of DP Register, computation of DP and deficiencies, If any
YES NO	YES NO	

Submission of QMR/HMR statement regular?	Date of last QMR/ HMR statements Submitted	Are information submitted in QMR/HMR statements as per the books of accounts of the Company? If not, the discrepancies observed
YES S/ NO	Not Applicable QMR HMR	

Submission of MCMR statement regular?		If MCMR statement is not submitted regularly, please ascertain the reasons and record your comments on lapses	Date of last MCMR statement submitted
YES	NO		

Submission of audited accounts/ half-yearly results		Reference of irregularities, if any, pointed out in the concurrent audit report
YES	NO	

h. Accounts and Operations

General

Active account, shows healthy Dr. & Cr. Transactions		Sale proceeds are deposited In the account		Average daily transaction (Rs./Lac)	Average Daily balance	Average utilization the limit
YES	NO	YES	NO			

Dr. Summation	Cr. Summation	Whether Dr./Cr. Summations conform to the business plan projections of the company ? If not, please reconcile the position and give comments.

Whether interest applied as per the norm and serviced promptly by the borrower? If not, the period upto which interest have been serviced and amount of overdue interest. The reasons for non- payment of interest & comments of the auditor.	
---	--

Cash transactions and Cheques return in the account

Cash withdrawals are allowed regularly, occasionally or rarely? Such cash withdrawals are warranted or not? [Apply test check to ascertain this]	Transactions indicating diversion of funds (Apply random test checks on 5% - 10% of debit entries (min. 30 entries))		Cheques returned for Financial reasons	
	Number	Amount	Number	Amount

Large value transactions of Rs. 100 lac and above

Sl. No.	Date	Amount	Comments of the auditor indicating parties to the transaction and whether the transaction relates to business activity of the company

Excess Drawings

No. of times the account is overdrawn	Overdrawings are allowed continuously, occasionally or rarely	Average time taken for regularization

Reasons for allowing overdrawings	Excesses allowed are reported regularly to higher authority	Excess allowed are confirmed by higher authority. If not confirmed, steps taken for adjustment of overdrawing

i. Analysis of the performance under Packing Credit, Bills BG & LC Facilities

Packing Credit	If not, furnish details			For overdue PC if	PC is adjusted by
Is adjusted timely				Extension of time Sought from ECGC And unto which Date it is valid	Local rupee fund/ Export proceeds
	Amount	Last date Of shipment	Overdue since		
YES	NO				

Bills (both inland and foreign) are being realized as per terms & tenor [yes/no]	
Details of overdue bills (inland & foreign)	
Details of bills returned unpaid	
Buyer wise ECGC coverage as per terms of sanction obtained or not	

Devolvement of LCs if any,				
LC Number	Amount	Date of devolvement	Reason for devolvement	How adjusted

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Invocation of Bank Guarantees if any,				
BG Number	Amount	Date of invocation	Reason for invocation	How adjusted

Expired guarantees still outstanding in the books of the branch			
Number	Amount	Reason for keeping outstanding in the books of the branch	Follow up, if any, By the branch

Repayment of Term Loan Installments regular		If repayment of Term Loan installments is not regular	
		Installments have been paid upto (Date)	Number & Amount of overdue Installments (as on date)
YES	NO		

Earnings from the Account [period from to

Interest	Exchange & Commission	Others	Total Income	Other benefits, if any, ancillary business/ Depository benefit etc.

.....BANK

..... BRANCH

..... CONTROLLING OFFICE

PART – II [UNIT VISIT AND PHYSICAL VERIFICATION]**A. General Information**

Name and designation of the person contacted at the unit	Whether sign board indicating Name of the company has been prominently displayed ?	Whether Bank's board indicating notice of hypothecation has been displayed conspicuously?

Godown rented or own	Whether Access to the Godown, is free, if not, comments	Approach road to the godown	General Storage condition	Security arrangement at the godown

Production details	Last Year	This Year
Licensed capacity (please give units)		
Installed capacity (Please give units)		
Capacity Utilisation (please give units)		

Method of valuation of Stocks		
Raw Materials		
Stock in Process		
Finished goods		
Auditors comments, if any, in respect of method of valuation of stocks and resultant effect thereof		

2. Physical Stock and position of receivables and sundry creditors as on

A. Physical Stock

Items	Total Value
Value of stocks as shown in stock statement of	
Raw materials	
Stock in process	
Stores & Spares	
Finished goods	
Total	
Add Purchase (from date of stock statement to date of inspection)	
Less Material consumed/reduction on account of sales (from date of stock statement to date of inspection)	
Total	
Add Stocks given on job work	
Total	
Less Stocks received for job work	
Less Unpaid stocks from sister concern	
Total Value of stock (must tally with books of accounts of the party)	

B. Drawing Power (Stock)

Items	Total Value
Total value of Stock as arrived at in 2A above	
Less unpaid stock (including stocks under DALC/LG/Bills)	
Less Value of obsolete/non saleable stock	
Less Value of stocks not ranking for DP as per terms of sanction (unrelated stock/old stock etc. sale reject stock etc.)	
Total Value of stock available for Drawing Power	
Less stipulated Margin (as per terms of sanction)	
Drawing Power (on Stocks)	

C. Book Debts (Value)

Items	Total Value
Book Debts as on	
Less Book Debts not ranking for DP (BD>90 days etc.)	
Less Book Debts declared doubtful by party's auditors	
Less Book Debts not pertaining to business line of the party	
Book Debts available for Drawing Power	

D. Drawing Power (Book Debt)

Items	Total Value
Book Debts available for Drawing Power	
Less Margin on Book Debts	
Drawing Power (Book Debt)	

Explanatory Notes/Instructions**Stocks**

- a) Gross sales minus gross profit minus sales return should represent reduction on account of sales during the period from the date of stock statement to date of inspection
- b) In case of excisable items the excise register should be checked to find stock position. Otherwise stock register/original invoice to be checked to ascertain the stock position.
- c) Stocks received under LCs or stocks received under bills for which the company has not retired the bills should be excluded for DP computation.
- d) The entire stock should be segregated value-wise into A (high value), B (medium value), and C (low value) categories. The auditor must ensure verification of 75% of A-category, 50% of B-category and 25% of C-category assets at least.

Book Debts

- a) Age-wise and party-wise break up of book-debt to be obtained and party-wise receivables be checked with invoice/sales register to ascertain any discrepancy.
- b) Average time taken for realization of book debt to be compared with past trend/industry trend/trade trend.
- c) Verify excise records/sales tax returns/assessment orders of sales tax.

3. Stock sent out for job work

Date of despatch	To whom sent	Nature of stock	
Value of stock	Proof of despatch	Letter of lien/trust receipt obtained	Letter of free access To stocks obtained

[Note : Movement of such stocks may be counter checked from records pertaining to excise duties/sales tax as the case may be.]

4. Stocks received in for job/work/stocks belonging to sister/allied concern

Date of Receipt	From whom received	Nature of stock
Value of stock	Proof of receipt	Whether such stocks are segregated & kept away from the stocks hypothecated to the Bank

5. Verification of Book Debts

Age-wise classification			Receivables are routed through A/C.	Average time taken for realization	Book debt realization time conforms to industry/trend. If not, the reasons thereof
45d	46d-90d	> 90d			

Comments on quality of Book debts	
-----------------------------------	--

Ratio of value of stock and book debt as on BS date and date of inspection (value & percentage both)	Balance Sheet date (.....)		Date of Inspection (.....)	
	Stock	Book debt	Stock	Book Debt

6. Verification of Stocks

Maintenance of proper books of accounts (stock register, purchase register, production register, excise register, sales, sales tax register etc.)	
Internal control mechanism for verification of stock	
Stocking pattern followed by the company is in conformity with the industry/trade trend/ practice	
Inventory level accepted at the time of assessment is being followed, If not, the	

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reasons thereof.	
Value of stock as per the books of the party and those found physically tally each other. If not, the variations should be analysed & reported.	

Any abnormal variation (increase/decrease) in raw material/stores should be analyzed and reported.	
Any abnormal variation (increase/decrease) in finished goods should be analysed and reported.	

Obsolete stock		Stocks not ranking for Drawing Power	
Nature	Value	Nature	Value

7. Verification of Plant & Machinery (in case of Term Loans

End use of the Bank'	
Verification of invoices/bills	
Plant is in working condition	
Cost over run/time overrun if any and how financed.	

8. Miscellaneous

Particulars of production being suffered due to lock out/closure/strike/labour unrest etc.	
Comments on branch officials visit to the unit and Inspection of stocks regularly. (Date(s) of such visit and major irregularities observed.	

Irregularities pointed out in the last RBI inspection/Statutory Inspection/Internal Inspection/ Concurrent audit on verification of stocks/book debts and steps taken by the branch for Rectification.		
Sl. No.	Irregularities pointed out	Steps taken
i.		
ii.		
iii.		
iv.		
v.		

Any indication revealed through the audit that continuation of the relationship further will not be beneficial for the Bank. (Auditor should give his specific comment on this point)	
Overall observation in the account and detailed comments of the auditor.	

Enclosure(s) :

- 1.
- 2.
- 3.

ANNEXURE D

CREDIT AUDIT

ANNEXURE - A

BRANCH NAME & CODE :

CONTROLLING OFFICE :

BRANCH HEADED BY (Name) :

DESIGNATION OF BM :

SINCE WHEN IN THE BRANCH :

a. GENERAL

a. Name of the Borrowers :

b. Activity of Borrower :

c. a) Latest Sanction date/Authority :

b) Whether sanctioning authority has
used the powers linked to Credit
Rating

d. Classification of Asset

i. As per previous CAR :

ii. As per present CAR :

e. i) Date of last credit audit by :

(Name of the Official)

ii) Date of present credit audit by :

(Name of the Official)

b. CREDIT APPRAISAL

10. i) Whether pre-sanction visit was made to

- a. The unit of the borrower
- b. Premises of the borrower
- c. Immovable property kept as security
- d. Check primary security

ii) Whether the loan limit sanction is as per loan policy in vogue including exposure caps

2. Whether confidential reports were taken from the existing Banker of the party at the time of taking over of the there or at the time of initial sanction?

3. Whether the account with previous banker was standard at the time of its taking over?

4. Has the laid down system/procedures w.r.t. loan appraisal has been followed? If so, then give the details of deviations observed on the following lines

1. Has the branch taken care that the :
name of the party and/or its
associates/sister concerns does not
appear in RBI/ECGC caution
list/defaulters/willful defaulter's list?

2. Has branch taken care of fair :
practices code for lenders/Best
Practices Code?

3. Deviation observed w.r.t. analysis of balance sheets, fund flow/cash flow statements, assessment of MPBF as per Bank's loan policy. :
4. Shortcomings observed, if any, in due diligence exercise undertaken by branch in assessing credit worthiness, integrity and reputation of borrowers/guarantors :
5. Comments w.r.t. wrong assessment of repayment capacity of the borrower vis-à-vis credit facilities sanctioned, including moratorium period. :
6. Comments w.r.t. non-cognizance taken by sanctioning authority on existence of group connections of the borrower. :
7. Comments of audit team w.r.t. non justification of projected sales/turnover in view of past performance of the party. :
8. Observations w.r.t. improper/non assessment of non-fund limits e.g. non consideration of lag and lead period in case of LCs and capacity of borrowers to perform in case of BGs/DPGs including Techno economic viability study. :
9. Observations of audit team w.r.t. non-compliance with credit rating framework (CRF) and its effects on Bank's revenue etc. i.e. pricing of loan vis-à-vis Credit Rating. :

(Please submit specific comments in case of change/migration in Risk category of the account i.e. Credit Rating of the account)

- 10. If no collateral has been stipulated/ proposed, has the same been justified? :
- 11. Observance of exposure ceiling :
- 12. Observance of guidelines in respect of loans to sensitive sectors. :

c. DISBURSEMENTS

- a. Has branch obtained security documents including letter of acceptance of terms and conditions of sanction. :
- b. Has the branch obtained certificate w.r.t. enforceability of these documents in Court of Law from (i) advocate on Bank's panel and (ii) Zonal Inspectorate :
- c. Give the details of deviations observed in Documentation :
- d. If it is consortium account, whether joint documentation has been done? :
- e. Has change been got registered with ROC in case of Company? :
- f. Has branch completed with terms & conditions of sanction/indispensable requirements including promoters' contribution, collateral securities, etc. and legal compliance certificate placed on record? :

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- g. If no, give details of terms and conditions :
not complied with
- h. Whether loan system for delivery of :
credit has been adhered to?
- i. Is/are securities charged to Bank :
primary/collateral are comprehensively
with Bank's clause and policy is alive?

d. CONDUCT OF ACCOUNT AND SUPERVISION :

Sl. No.	Nature of facility	Limit sanctioned	Value of security	Drawing Power	Outstanding balances	Irreg.

a) Comments on Conduct of Account

- Does the operation in A/c. suggest that :
sale proceeds are not routed through
the branch?
- Is party submitting Stock Statement :
regularly alongwith detail of Sundry
Cr. Goods received under un-retired
documents under L/c. Drawee Bills
limit?
- Is branch carrying out meaningful :
scrutiny of stock statement and arriving
at DP correctly?
- Does the debit balance exceed the :
limit/drawing power as a regular
feature?

- Are cheques issued by party returned :
unpaid very frequently for want of
funds?
- Are the bills purchased/ discounted :
returned unpaid?
- Does the party make unusual delay in :
retiring bills received for collection
under LC(s) opened by branch/or
otherwise?
- Has end-use of funds been ensured :
and the a/c does not in any way
indicate diversion of funds?
- Is party submitting export bills promptly :
and within due date of Packing Credit
allowed?
- Is party submitting FRS data/ to :
branch within stipulated Yes/No time
frame?
- Is branch scrutinizing the FRS data/ :
purposefully and Yes/No operating
limits are fixed accordingly?
- Is party submitting its financial papers :
etc. within Yes/No stipulated time for
renewal of limits?
- Data of latest audited balance sheet on :
record?
- Whether all BGs/LCs issued have been :
entered Yes/No in the BG/LC register?

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- Whether usual commission has been :
charged Yes/No and interest recovered
as per terms of sanction?
- Whether in case of performance BGs, :
visit to site has been Yes/No
conducted on quarterly basis as per
guidelines?
- Whether any BGs has been invoked :
during the review Yes/No period?
- If yes, whether payment has been :
made by party promptly?
- Is the party making repayment of :
TL/DPG as per terms of sanction?
- Is branch purchasing accommodation :
cheques/cheques issued to sister
associate concerns in the account?
- Is branch purchasing pay orders/drafts :
issued by or drawn on co-operative
banks?
- Details of any other unauthorized :
accommodation allowed by the branch
to party during period?
- Are consortium meetings held on :
regular basis (if our Bank is leader),
and attended by the BM, if we are not
leader?
- Date of last consortium meetings held :
and gist of deliberation, if any.

- In case of multiple financing has :
branch ensured that securities are properly charged to Bank and or intact?
- In case account was due for :
renewal/review whether the proposal has been submitted to ZO?

b) Any other unusual feature noticed in the conduct of account

Give detailed comments w.r.t. threat posed to slippage of a/c. to NPA (if any) keeping in view all these facts and any other relevant aspect which auditor feel is relevant (e.g. Continued losses, high/rising leverage ratios, decreasing liquidity, repaid or uncontrolled growth specially into new lines of business, slow collection of accounts receive-able, slow turnover of inventories, low/falling margins, untimely submission of financial statements, inadequate financial information and surprise developments)

If account is NPA: (Applicable to those accounts only where Nursing/Rehabilitation/ Restructuring including or Corporate Debt restructuring has been undertaken)

- Since when NPA Memoranda Intt.
- Total outstanding
- (a) Before Restructuring/Nursing/
 Rehabilitation
- (b) After Restructuring/Nursing/
 Rehabilitation

- Total securities available in a/c.
(realizable value)
- Whether terms of restructuring/nursing/
rehabilitation are being honored?
- In case answer to above is no then Steps
taken by branch for recovery of Bank's
dues (including settlement/ proceedings
under securitization act)
- Chances of recovery
- Suggestions to safeguard Bank's interest
 - c) Any other serious irregularity
observed
 - d) Comments upon control exercised by
branch by way of Stock
Inspections/Unit visit/ analysis of
FRS data, follow up and supervision.
 - e) Contentions of BM as informally
discussed on the findings of auditors
 - f) Suggestions for improvement

ANNEXURE - B

CERTIFICATE

This is to certify that credit audit of _____
_____ was undertaken
by _____ on
_____ and completed on _____ in
_____. This is further certified that prior to finalization of the
report the irregularities/deficiencies observed by the auditors in the
report were discussed with the branch managers and the BM has
noted the same for rectification at the earliest.

List of Accounts:

S. No.	Name of the Party
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ANNEXURE E

DEPOSITORY PARTICIPANTS AUDIT

Name & Address of Depository Participant:

DP-ID:

Date of Concurrent Audit:

Period for which internal audit is conducted:

Name, Telephone number and E-mail Id of the Compliance Officer:

Name of the Audit Firm and official appointed by the DP conducting Concurrent Audit:

Total number of branches			
(a) Total number of branches using CDAS for DP operations			
(b) Total number of branches using back office software for DP operations (back office connected branches)			
Details of back office connected branches (Please attach annexure in case of insufficient space)			
Sl. No.	Address of the Branch	Phone Number	Name of authorized persons

Number of account opened during the period under Audit	
Number of account closed during the period under Audit	
Number of active accounts	
Total number of transmissions	

Sampling Plan

Audit Area	Total number	Sample size
Bank office connected branches		
Account opening		
Account modifications		
Account closure		
Dematerialization		
Off market, on market, inter-depository		
Pledge, unpledge, confiscation instruction		
Dematerialization instructions		
Transmissions		

Place of keeping records (The Main DP to submit information for all its Branch DPs)

Type of documents will be either “ALL” or specific type documents like account opening forms, instruction etc.

DP ID	DP Ids at which documents are being stored	Type documents stored	Period (From-To)	Remarks

Concurrent Audit Report for the Month of.....

We have conducted the Concurrent Audit of.....
for the period from..... to We have verified the front office and back office operations of the DP for the month ended on Our observation as well as our report in the prescribed format at given below:

Scope of Audit:

All aspects of the DP operations more particularly the following areas have been covered by us

- a. Account opening & closing
- b. Processing of DRF
- c. Processing of Instruction slip
- d. Back office operation
- e. Maintenance of Physical records & documents
- f. Internal check & control procedures of the DP operation

- g. Dealing system
- h. Compliance of Statutory requirement

- Extent of Audit work undertaken:
- Verification of Account opening Forms & our findings

Date	A/c No	Name	Remarks

- Status of the following reports/documents & dues:
 - i. Annual Report
 - j. Net worth Certificate & Computation Sheet in case of CM DP's RTA DPs & MBFC
 - k. SEBI Annual Fees
 - l. Dues to CDSL
 - m. BO grievance reports along with the grievances received from the collection centre

Manual on Concurrent Audit of Banks**General Audit Observation**

- n. Instances where BOID No. not stamped on DIS-
- o. Signature of BO in DIS not verified by BOI officials

(The checklist points which are not applicable should be marked as 'not applicable')

(1) Account Opening and Account Modifications:

SI No.	Particulars Checked	Comments	No of Instances	Remarks of Internal Auditor (if any)
	Whether proof of identity and residence address is collected from individuals as per SEBI and CDSL requirements and the same are verified against original?	Yes No		
	Whether necessary documents/ information as prescribed by SDSL (as per DP Opening Instructions) have been collected from different types of clients such as individual investors, CMs, Corporate, HUF, NRIs, OCBs, trust etc.?	Yes No		
	Whether special care is taken to check genuineness of the client if disproportionately large number of accounts (say above 20) is opened with the same or similar names and /	Yes No		

	or same address and/or with the same Bank account details? (refer communiqué no. 632 dated 22.12.05)			
	Whether pursuant to communiqué no. 632 date 22.12.05 The DP has checked that all disproportionately high number of existing accounts with same or similar names and/or same address and/or with the same Bank account details were checked for genuineness? Whether any suspicious account was found?	Yes No Yes No		
	Whether agreement is duly executed before account is activated in CDAS?	Yes No		
	Whether DP has executed any supplementary agreement undertaking which has clauses contradictory to CDAS prescribed agreement?	Yes No		
	Whether DP CM agreement has been executed for CVs of BSE and DP-BO agreement for exchanges other than BSE?	Yes No		

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	Whether the procedures prescribed by CDSL for opening & operating the account of illiterate person and disabled persons are being complied with?	Yes No		
	Whether HUF accounts are opened without nominee / joint holder(s) Whether HUF accounts are opened under the stamp of HUF?	Yes No Yes No		
	Whether there is adequate mechanism to ensure that the details of accounts opening forms are entered correctly in the CDAS?	Yes No		
	Whether BO signatures have been appropriately scanned in CDAS?	Yes No		
	Whether nomination is made as per the procedure prescribed in the DP Operating Instruction and nomination form is duly filled, executed and same has been appropriately entered in to the CDAS and updated in nomination register?	Yes No		
	Whether modification to account details is done only after accepting account modification form/letters duly	Yes No		

	signed by the BOs and the same has been updated in CDAS			
	In case of change of address of the BO Whether proof of new address is obtained Confirmation letter is sent to the BO at old as well as at the new address	Yes No Yes No		
	In case of change of signature of the BO, whether procedure as prescribed in communiqué no. 398 dated 16.04.04 is followed?			
	Whether the DP has opened any partnership accounts in the name of the partnership firm except for commodities?	Yes No		
	Whether the DP has opened any account for holding commodities? Whether any security other than commodities was held in such as account?	Yes No Yes No		
	Number of BO accounts pending for opening as on date beyond reasonable time period			

(2) Dematerialization

SI No.	Particulars Checked	Comments	No of Instances	Remarks of Internal Auditor (if any)
	Whether there is a procedure in place to prevent acceptance of securities, which are not admitted in to CDSL and also where the investor has not opened a BO account?	Yes No		
	Whether the demat requests are accepted as per procedure laid down by CDSL along with inward dare and stamp of the DP?	Yes No		
	Whether there is a system to affix a stamp surrendered for dematerialization along with DP name, DP ID and BO ID and mutilate certificates as prescribed by CDSL?	Yes No		
	Whether the DP has an adequate system for keeping the physical securities under safe custody till dispatch to the issuer / RTA?	Yes No		

	Whether demat requests received from BOs are sent to the Issue/ RTA within seven days from the date of receipt of demat request?	Yes No		
	Whether there is a proper procedure for recording of dispatch details such as dispatch ref. No. dispatch date, name of courier etc?			
	Whether any demat requests were rejects due to errors attributable to the DP Whether there is a system in place to analyze the reasons for such demat rejections demat delays and taking corrective actions?	Yes No Yes No		
	Whether the DP has returned the certificates alongwith rejection letters to the concerned BO within reasonable time period?	Yes No Yes		

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	Whether proper records of such despatch such as DRN, dispatch ref. no. dispatch date, name of courier/ signature of BO have been kept?	No		
	Whether transposition form is filled along with DRF in case the BO names in the certificate are not in the same order as per the BO account details in system?	Yes No		
	Whether Transmission-cum-demat requests are processed as per the prescribed procedure?	Yes No		
	Whether any transfer-cum-demat requests are accepted?	Yes No		
	Total number of demate requests pending for dispatch for more than 7 days after the date of receipt?			

(3) Instruction Slip (off market, on market, inter depository and early pay in:

SI No.	Particulars Checked	Comments	No of Instances	Re- marks of Inter- nal Audi- tor (if any)
	- Whether there is proper inventory control mechanism for instruction slip booklets? - Whether physical inventory is tallied with the inventory records at prescribed intervals?	Yes No Yes No		
	Whether the DIS issued to BOs have pre-stamped BO ID and pre-printed serial number?	Yes No		
	Whether there is system to issue delivery instruction booklets to the BOs based ONLY on the requisition slip which forms part of the earlier issued instruction	Yes No		

	slip booklet? Whether such requisition slip had preprinted instruction slip serial number range of the booklet of which it form a part? If any instruction slip booklet is not issued on the basis of requisition slip whether the procedure prescribed under operating instruction no..... is followed?	Yes No Yes No		
	Whether loose delivery instruction slips are issued? If yes, whether they are issued as per the prescribed procedure to the BOs?	Yes No Yes No		
	Whether a system is in place to affix the date and time of receipt stamp on DP's and copy of DIS?	Yes No		
	Whether there is a system in place to suitable stamp the delivery instruction received beyond the	Yes No		

	prescribed deadlines?			
	Whether the control over issue instruction slips to the BOs e.g. proper control of instruction slip serial numbers vis-à-vis account number?	Yes No		
	Whether the instruction slip number is verified against the issue details at the time of the receipt from the BO? If yes. Whether the slip number validation is done manually or from the back office software?	Yes No		
	Whether provision for blocking of DIS sr. numbers which are: ▪ already used - or ▪ reported lost/misplaced/stolen is existing?	Yes No Yes No		
	Whether DP executes instructions only on the basis of duly signed instruction slips and signature are duly verified?	Yes No		
	Whether instruction	Yes		

	slips are checked and signatures are verified by two officials separately for their correctness?	No		
	Whether fax indemnity in prescribed format is obtained from BOs before accepting instructions through fax?	Yes No N.A		
	Whether it is ensured that original instructions are received within two days in case fax instructions are accepted?	Yes No N.A		
	There a system in place to prevent multiple execution of the same instruction, in case fax instructions are accepted?	Yes No N.A		
	If the DP is accepting delivery instructions accompanied by annexures from the BO. Whether the same has been prepared as per the procedure prescribed by CDSL?	Yes No N.A		
	Whether the column for cash transfer is properly filled?	Yes No		
	Whether blank columns have been stuck off?	Yes No		

	Whether the duly reports\ with respect to High Value Transactions (including null report) being generated by CDAS is stored by the Main and branch DPs(communiqué no. 612 dated 30.11.05)?			
	Whether there is a system to ensure that while entering the transactions of value exceeding Rs.5 Lacs, a senior officials verifies the transaction?	Yes No		
	Whether the DP has systems and procedures to double check transactions originating from dormant accounts as a risk containment measure (Communique no. 602 dated 11.11.05)?	Yes No		
	Whether the instructions are being executed in CDAS as per the execution date mentioned by the (execution date is not required to be filled in case of on market and early pay in instructions)	Yes No		

(4) Account Closure:

SI No.	Particulars Checked	Comments	No of Instances	Re- marks of Internal Auditor (if any)
	Whether BO has submitted the Account Closure Form (ACF)/ a letter containing the particulars specified in ACF if the BO initiates closure?	Yes No		
	Is confirmation for closing of account sent to BO?	Yes No		
	In case of account closure initiated by BO, whether the DP has complied with the procedure for closure/ transfer of balances/ rematerialisation within 2 days of receipt of account closure request?	Yes No		
	In case of account closure initiated by DP, whether DP has given 30 days notice to BO before closing accounts?	Yes No		
	In case a BO wants to close an account with			

	pending demat position, whether the DP has followed the procedure prescribed for such cases?			
	If any accounts have been shifted from one DP to another by using Account Transfer option in the Transfer/ Transmission module or waiver has been claimed for inter depository transfer, whether the procedure prescribed in this regard has been followed ? (communiqué no. 638 dated 4.1.06)			

(5) Audit of the other transactions / services:

SI No.	Particulars Checked	Comments	No of Instances	Remarks of Internal Auditor (if any)
	Whether all formats used by the DP are in conformity with CDSL's prescribed format?	Yes No		
	Is there a system for reconciliation for AOF Demat requests, remat request forms etc?	Yes No		

	Whether any indictment or any other orders have been passed against the DP by any competent authority? If yes, whether the same has been notified to the depository within 7 days of passing such order?	Yes No		
	Whether Power of Attorney (POA) documents are notarized, duly executed and the same have been appropriate entered into CDAS?	Yes No		
	Whether any POA with expiry date has been accepted? If yes, whether there is internal control mechanism to monitor expiry of such POA	Yes No		
	Whether POA contains any clauses which are detrimental to the interest of the BOs (communiqué no 631 dated 22.12.05	Yes No		
	Whether the DP has received any complaints for Data entry errors / omissions which may	Yes No		

	cause inconvenience and / or loss to BO / system / DP/ CDSL?			
	Whether the DP has registered itself for easi/ easiest? If yes, whether the procedure prescribed for utilizing easi /easiest services is being followed?	Yes No Yes No		
	Whether pledge, unpledge, confiscation instructions are processed as per procedure prescribed by CDSL?	Yes No		
	Whether transmissions effected, if any, have been done in accordance with the procedure stipulated by CDSL?	Yes No		
	Whether the remat/ repurchase transactions effected , if any, have been done in accordance with the procedure stipulated by CDSL?	Yes No		
	Whether freeze/ unfreeze transactions, if any, have been done in accordance with the procedures stipulated by CDSL?	Yes No		

	Whether there is a system in place to record and redress all the grievances of BOs arising at the main DP or at the branch/ back office connected center within the stipulated time of 30 days?	Yes No		
	Whether Main DP sends the transaction statements at interval as prescribed by CDSL to all its BOs including branch BOs?	Yes No		

(6) Branches (Branch DP) / Back office connected branches

a. Applicable for Main DP report

SI No.	Particulars Checked	Comments	Remarks of Internal Auditor (if any)
	Whether the due diligence procedure has been complied with by DP for opening any branches/ back office connected branches?	Yes No	
	Whether the scope of activity of the branches/ back office connected branches is clearly documented and adhered to?	Yes No	

	Whether all the back office connected branches of the DP display the name of the DP prominently?	Yes No	
	Whether at least one staff member of each of the branch DP is on the payroll of the main DP?	Yes No	
	Whether each back office connected branch employ trained staff commensurate with the type of function allocated?	Yes No	
	Whether branches/ back office connected branches are provided with the relevant and critical information/ circulars like securities admitted to Depository, Bye Laws, Operating Instructions for Depository Participants, format / stationery, methods of feeds back to clients, viz demat rejection, failure of delivery out, credits received, etc.?	Yes No	

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	Whether back office connected branches have adequate infrastructure for the current as well as expected level of operations?	Yes No	
	Whether there is a control, co-ordination and the supervisory set up for reporting events that have occurred at back office connected branches that require management intervention?	Yes No	
	Whether the back office connected branches of the DP have adequate provisions for safety and security of the documents pertaining to the BOs?	Yes No	
	Whether reconciliation between the branches / back office connected branches and main DP takes place for the purpose for maintenance of account opening form, demat request, instruction slips and blank instruction booklets issued by and / or received from the branches back office connected branches?		

	Whether the transaction statements are sent at intervals as prescribed by CDSL to the BOs of all the branch DPs?	Yes No	
	Whether the service of any of the branch has been terminated by the main? If yes, whether the same has been done as per CDSL requirement?	Yes No Yes No	

b. Applicable for branch DP

SI No.	Particulars Checked	Comments	Remarks of Internal Auditor (if any)
1.	Whether the name of the Main DP has been displayed prominently at the premises of the branch of the DP?	Yes No	
2.	Whether the branch employs trained staff commensurate with the functionalities allocated by the Main DP?	Yes No	

3.	Whether there is a control, co-ordination and the supervisory set up for reporting events that have occurred at the branch that require management intervention to the Main DP?	Yes No	
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(7) Back Office Software:

SI No.	Particulars Checked	Comments	Remarks of Internal Auditor (if any)
	Whether statement of transactions are (or any other reports like clients master reports etc.) generated from the back office? If yes, whether the details of the same match with the statement or report generated from CDAS?	Yes No Yes No	
	Whether back office (including web site) is updated regularly for the transactions done on the CDAS?	Yes No	
	Whether the back up of data residing in back office (or any data maintained in electronic form) with respect to depository operations is taken daily?	Yes No	

	Whether back office network connected to Internal? If yes, whether the same is protected by appropriate mechanism like firewalls?	Yes No Yes No	
	Whether back office network is connected to CDS network without permission of DOT and CDSL?	Yes No	
	Whether proper mechanism exists to ensure integrity of files from back office before they are uploaded from DP terminal?	Yes No	

Records and documents to be maintained;

SI No.	Particulars Checked	Comments	Remarks of Internal Auditor (if any)
	Whether the following record are being kept in a manner so that they can be retrieved at any time:	Yes No	
a)	Account opening forms, agreements and supporting documents of all BO	Yes No	

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b)	Register of documents/certificates received and sent for dematerialization	Yes No	
c)	Instruction slip duly signed by BOs for off market, settlement, pledge, inter depository transfer, and account closure forms etc.	Yes No	
d)	Record for transaction statements provided to BO, giving details such as account number, date of dispatch, period for which the statement was dispatched etc	Yes No	
e)	Investor Grievance Register	Yes No	
f)	Back up register	Yes No	
g)	Power of Attorney register	Yes No	
h)	Nomination register	Yes No	
	Whether records are kept separately for each depository?	Yes No	

	Whether there is a system to maintain all the records and written instructions received from BOs for minimum period of 10 years?		
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Centralized Depository Accounting System (CDAS)

SI No.	Particulars Checked	Comments	Remarks of Internal Auditor (if any)
	Number of persons authorized to access CDAS system		
	Is secrecy of passwords maintained at all levels?	Yes No	
	Are the staffs operating the CDAS appropriately trained?	Yes No	
	Whether old reports are being deleted from the system at pre defined interval?	Yes No	
	Whether the DP takes the backup of the CDAS system (Data base folder, Report folder) on daily basis?	Yes No	

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	a. Which media / device is used to take backup? b. Whether such media is stored safely?	Yes No Yes No	
	Whether CDAS is being used for any other purposed?	Yes No	
	Whether any software not prescribed by CDSL has been installed on CDAS?	Yes No	
	Whether the configuration of hardware, software of CDAS is as per CDSL specification?	Yes No	
	Whether releases of CDAS have been properly applied?	Yes No	
	a. Whether the Anti Virus Software have been installed? b. If yes, is the Anti virus Software upgrade regularly on weekly basis?	Yes No Yes No	
	Whether the variable access rights scheme as suggested by CDSL is implemented properly?	Yes No	

	The type of primary connectivity Whether requirement for ISDN connectivity is fulfilled? b. Whether ISDN connectivity is available? c. When was it last used / tested?	LEASESD LINE VAST ETHERNET Yes No	
	Whether the CDAS is adequately protected in a secure area with adequate power supply (UPS or voltage stabilizer)?	Yes No	
	Whether maintenance of the DP terminal (like database purging, applicable of new releases etc.) is being done as per CDSL Operation instructions and communiqués?	Yes No	
	Whether the CDAS is connected to any other network without approval of DOT and / or CDSL?	Yes No	
	Whether the CDAS is connected to the internet?	Yes No	

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Compliance Status of earlier inspection and internal audit reports

SI No.	Report	Observations	Status
1.	Inspection audit a. Mar 05 b. Sep 05 c. Mar 06		
2.	Inspection of 04-05		
3.	Inspection of 04-05		

We here by certify the following:-

Particular checked	Comments	Remarks (if any)
That the required internal control, checks risk management procedure are in place	Yes No	
That the DP operations are being carried out as per the operations are being carried out a per the operating procedures and Bye Laws of CDSL	Yes No	

Particular checked	Comments	Remarks (if any)
That adequate staff, Hardware and Software are available and in existence at the office where the DP operations are being carried out	Yes No	

I/we are not related party to the DP

Stamp/Seal & Signature of the Auditor.

Date:

Management Comments:

Stamp/Seal & Signature of the Depository Participant

Date:

ANNEXURE F

COMPUTER SYSTEM AUDIT

	Checkpoints	Observations
	Status of previous Audit (From Sl. No. 1 to 2) Date Rectification %	
	CONTROL AND SELF ASSESSMENT (CASA) AUDIT	
	a) Concurrent Auditor's quarterly report on system & procedure audit in Computerised branches	
	b) EDP AUDIT	
Application Level Controls and Checks (From Sl. No. 3 to 18)		
	Is system generated transaction numbers noted on the vouchers by the persons entering the same?	
	Whether operators put their initial on the vouchers for having transactions entered in the system?	
	Whether manual vouchers are prepared and duly authenticated for direct General Ledger postings/ system generated entries?	
	Whether officers manually initial the vouchers/transactions, which they authorize on the screen?	

	Checkpoints	Observations
	Whether transfer scroll authenticated by the officers of the respective departments after having tallied with the manual transfer scroll?	
	Whether GL Head-wise totals equal to the corresponding figure in Day Book? (Check at random & mention date)	
	Whether repayments in Loan a/cs are diarised and monitored? (Such as giving position for repayment due date, repayment due, advance collection & List of overdue a/cs?)	
	Whether expired items such as overdue TERM DEPOSITS/LCs are logically segregated & parked in separate heads in GL by the system?	
	Whether the system calculates interest on overdue Term Deposits?	
	Whether General Ledger heads or Sub heads maintained in the computer system is in conformity with the G.L. Heads prescribed by the Bank? (Ascertain deviations from Trial Balance / GL abstract)	
	Whether there are any a/cs with ZERO balance? (If yes, it implies that the a/cs are not properly closed.)	

	Checkpoints	Observations
	Is there any operation on accounts with ZERO balance?	
	Whether any unconfirmed entries (pending for authorization) are existing?	
	Whether cash receipts of the day, as generated by the system, is being tallied with the pre-scrolling register and duly signed by the authorised official maintaining the scroll and the Head Cashier?	
	Is the balance in Suspense A/C reconciled and cleared on timely basis?	
	Does the software accept entries, which are entered and authorized by the same person? Mention such activities which do not adhere to Maker-Checker concept & the system accept without authorization.	
Whether the following important manual/registers are properly maintained (From Sl. No. 19 to 27)		
	Application User manuals supplied by SW Vendor	
	Parameter Change Register	
	User-ID register	
	Complaint Book	
	Day begin and Day End register	
	Cheque Book issue Register	
	Daily movement register for DD/FDR/BC etc.	

	Checkpoints	Observations
	Mistake book	
	Control Record of Reports Register, (Ref Comp. Manual-7.1.1) For ALPM only	
	Whether records of parameter changes in Global change for interest rates are reflected in Audit Trails?	(S/W)
	Whether Global interest for SB public & SB staff is correctly set?	
	Whether global interest rate slab for Term Deposits with effective date is correctly set as per circularised instructions issued from time to time? Must be four categories: General, Staff, Sr. Citizen and Staff/Sr. Citizen (Staff)	
	Whether account level interest rates for OD/CC/PN a/cs are correctly set?	
	Whether the system charges Penal Interest on temporary overdraft (including against clearing) automatically?	(S/W)
	Whether the system charges Penal Interest automatically?	(S/W)

	Checkpoints	Observations
	Whether the parameters for various service charges correctly set? (As per circularised instructions from time to time) From Sl. No. 34 to 45	
	DD/MT/TT (Also against tender of cash)	
	Collection charges in outstation cheques	
	Banker's Cheque / Pay Order	
	EFT in applicable branches	
	Penal Charges for fall in minimum balance	
	Cheque Book Charges for SB/CT/CC/OD a/cs	
	Closure of SB & CT a/cs	
	Handling charges - Cheque return	
	Ledger Folio CT/CC/OD	
	Stop Payment instructions	
	Handling / I/C for inoperative/Dormant SB/CTa/cs	
	Issue of cheque books	
	Report Verification (From Sl. No. 46 to 50)	
	Whether all reports generated are duly checked & authenticated by officials? Are the reports sequentially filed? Is report available from the system for interest debited / credited to an account on periodic basis? Whether such reports are duly authenticated & preserved?	

Checkpoints		Observations
Whether separate report for a/c debited to a/cs at periodic intervals (half-yearly) are generated, checked, authenticated & preserved?		
Whether Exceptional Reports including Financial and Non Financial Audit Trail generated and duly checked & signed by the Branch Head on daily basis?		
Whether the following daily reports are generated from the system	Provision exists	Generated by Branch
From Sl. No.51 to 73 (If provision exists then it should not be treated as software problem)		
Active users list during the day		
Cash Scroll/Transfer Scroll/Clearing Scroll		
DD / Pay Order/ Bankers Cheque issued / paid (number wise)		
Number wise Term Deposit Receipt issued		
Bills lodged & realised, Bill type wise & Bills returned		
Cheque return register		
	Provision exists	Generated by Branch
H.O. Schedule & Daily Statement		
Day Book		

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	Checkpoints	Observations
	GL movement report	
	Abstract of GL(Trial Balance/Weekly HO1)	
	Letter of thanks to a/c holder /introducers on daily basis	
	Cheque book issue/cancelled.	
	Stop Payment Instructions issued/cancelled	
	Standing Instructions executed/not executed/ entered/ deleted	
	Balance of Cash Credit / Overdraft a/c	
	Adhoc debit interest application	
	Temporary Overdraft Report	
	Debit Balance in Deposit Accounts	
	Term Deposit Due-notice	
	Report of CBDT collection a/c (for Govt. a/c, based upon the stand alone package) (There should be no outstanding in this a/c)	
	If LOCKER module is implemented, list of a/cs operated in a day	
	Stop payment Register	
	Transfer scroll	

Checkpoints		Observations
Whether the following monthly reports are generated from the system From SI. No.74 to 82 (If provision exists then it should not be treated as software problem)	Provision exists	Generated by Branch
Module wise balance sheet		
Register of all impersonal a/cs (Bills Payable/ Draft Ex-advice/ Sr. Creditors/ Suspense Revenue/ Suspense Capital/ Suspense Pension/ Bankers Cheque/ POB etc. with outstanding statements		
Charges statement		
Outstanding bills, cheques sent for collection		
Interest product report of CC/OD/TL		
List of interest charged in CC/OD/TL		
Loan repayment notices to the defaulting borrowers & guarantors		
If LOCKER module is implemented, List of a/cs with rental due		
If LOCKER module is implemented, Letter of reminder to customers with rent overdues		

	Checkpoints		Observations
	Whether the following quarterly reports are generated from the system From SI. No.83 to 87 (If provision exists then it should not be treated as software problem)	Provision exists	Generated by Branch
	Cheque Book issue register		
	Stop Payment register		
	Standing Instructions register		
	If LOCKER module is implemented, List of safe deposit vaults		
	If LOCKER module is implemented, list of accounts with no operation after a specified date		
	Whether Daily Audit Trail / Report contain the following information? From SI. No.88 to 96 (If provision exists then it should not be treated as software problem)	Provision exists	Generated by Branch
	Accounts opened / modified / deleted/ frozen/ unfrozen/ closed		
	Signatures newly scanned / deleted		
	Parameter addition / modified/ deleted		
	Credit Limit added/ modified/ deleted		

Checkpoints		Observations
	Drawing power added/ modified/ deleted	
	Whether GL total is tallying with the total of WR-1as on date of checking? (to be resolved with the assistance of local representative of the S/W vendor)	
	Whether balances as on the date of AUDIT tallied with that of the figures reflected in the GL on that date?	
	Whether application of interest through system, at random check, is correct?	
	Whether the branch is carrying out sample checking of interest at the time of application & maintains records thereof every month/ quarter/ half-year?	
System Level Controls and Checks		
Whether the following important manual/registers are properly maintained (From Sl. No.97 to 104)		
	Operating System/RDBMS manual/installation guidelines	
	Computer Manual	
	DIT guidelines/Circulars in separate file	
	Business Continuity & Disaster Recovery Plan	
	Asset Register	

	Checkpoints	Observations
	Back-up register (for off-site/daily/qty/half yearly also)	
	Training register	
	Whether proper records are available in User-ID register with proper authentication regarding addition/ creation/ activation/ change/ updation/ disablement and the same are reflected in Non-Financial Audit Trail?	
	Is access appropriately changed on a timely basis when employee is transferred or is on leave or otherwise?	
	Whether users, listed in the "ACTIVE USERS LIST REPORT", generated through the system, are staff on the payroll list?	
	Whether password expiration period is set upto 30days?	
	Is there any active COMMON /GROUP/GENERIC User ID?	
	Do the Vendors have separate User IDs?	
	Whether copies of backup media/CD of latest version of Application Software, RDBMS, and Operating System are kept at off-site location?	
	Whether monthly and quarterly backups kept at off-site on a regular basis? Mention latest dates up to which the backups are held at off-site.	
	Whether daily back-ups taken on hard disc and also on TWO cartridges/DAT?	

	Checkpoints	Observations
	Whether the Branch Head/Authorised Officer takes one set of cartridge/DAT of daily backup under sealed cover to his/her residence on daily basis?	
	Whether all backups (daily/monthly/quarterly) DAT/media are held on-site i.e. in Fire proof cabinet?	
	Whether labeling of Magnetic media is properly done to identify contents?	
	Whether the fallback reports are captured in media (day-end backup) on daily basis to ensure continuity of operation, in case of any eventuality.	
<i>Signature of:-</i> Concurrent Auditor /DBA / Designated Branch Head Officer Name: Date: Seal:		

ANNEXURE G

SYSTEM AUDIT

S. No	CHECK LIST	AUDITOR COMMENT
1	a) Whether all the account heads in the GL have been opened as per Weekly Abstract under proper authorization (either in manual or in computerized system)? b) Whether any unauthorised head found opened in the GL? (if yes, furnish details) c) Whether GL Trail Balance is generated, checked, authenticated, & kept properly on daily basis? d) Whether statement of Weekly Abstract is generated directly from the system? e) Whether total of GL Trail Balance is tallied with the Weekly Abstract for a particular day?	
2	• Whether daily movement in GL heads or GL Progressive report is generated, verified with that of head-wise totals of daybook & authenticated? • In case of manually maintained GL, whether daily posting of GL is being done, checked & authenticated	
3	• Whether both CR & DR sides of the GL abstract (Trial Balance) is balanced? If not, mention the difference. • Whether GL is checked for data consistency, by means of netting of transactions totals of different modules/ledgers with their respective sum total of GL for a particular period? (A week's data randomly chosen should be checked for correctness) • Whether Conversion Audit (applicable for computerized branches converted from manual system on or after.....) has been conducted?	

	Whether the Controlling Office is conducting CASA Audit every six months & the irregularities are rectified? (in case of branches under concurrent audit, CASA Audit should be every year instead of every six months)	
4	- Whether Day Book is generated and maintained properly and is upto date. - Whether Day Book is signed by the Day Book writer & authenticated by the Controlling Officer/officer concerned indicating closure of the Day Book. - Whether proper certificate is incorporated in the Day Book showing that the Day Book has been checked with the Long Books & vouchers. - Whether a certificate regarding the General Ledger having been checked with the Day Book is also incorporated. - Whether the Exceptional transaction report is regularly generated, checked, & authenticated by the Controlling Officer?	
5	- Whether all ledgers/module wise balance are generated at day end and are being compared on daily basis, issuing an office order to this effect at manual/ computerized branches. - Whether all vouchers (cash, clearing & transfer) are being compared/checked with Logbook/supplementary/ transaction scrolls (cash, clearing & transfer) generated after the day-end on daily basis with proper authentication of the comparing officials. - Whether any office order/job rotation has been effected to take care comparing?	
6	Whether Schedules are daily generated (Through System software)/written as a part of generating/writing Day- book at the day end ensuring export of data to IBR reconciliation module for onward transmission to controlling authorities.	

Manual on Concurrent Audit of Banks

	2. Whether random checking reveals any discrepancies with regard to Head office of respective banks balance in G.L Trail balance, in Daily statements & statement of Weekly Abstract?	
7	1. Whether balance sheets of individual ledgers/modules are taken down/ generated monthly/quarterly intervals? 2. Whether balances are tallied with the corresponding balances in the General Ledgers/Subsidiary Ledgers every month/quarter and authenticated under the initials of the Controlling Officer?	
8	a) Whether the entries outstanding in Bills Payable Accounts, are taken down/generated by system and are balanced every month and appropriate steps taken for adjustment of old entries. b) Whether the clearing account is reconciled periodically. Check clearing statements of last two/three months received from clearing House)	
9	Whether the entries outstanding in Suspense A/C Staff, Suspense A/c General and Sundry Creditors A/c are taken down and tallied with the corresponding balances shown in the General ledgers every month and appropriate steps are taken for adjustment of old entries and appropriate back up subsidiary Registers with full particulars of each entry are being maintained.	
10	a) Whether KYC guidelines are strictly adhered to. (If no, furnish details.) b) Whether specimen signature cards relating to various deposits and other Accounts are properly scanned and maintained in the computer system and the cards are kept overnight in the strong room/Fire Proof Almirah.	
11	a) Whether an officer unconnected with the custody of cash physically verifies cash at least once a month & record thereof is entered in cash balance book?	

	b) Whether clean note policy followed? c) Whether record of cash transactions for cutoff amount & above maintained? d) Whether record of inter-branch cash movement is maintained & monthly statement thereof is submitted to Controlling Office.? e) Whether supporting vouchers are available for such inter-branch cash movement? f) Whether proper procedure is followed in respect of receipt of foreign contributions in any a/c of the Branch with respect to FCRA (Foreign Contribution Regulation Act-1976)?	
12	Whether Daily movement of security item register, stop-payment register, Cheque book issue register, cheque return register, NPA register, DCB register, mistake book, Fixed deposit progressive ledger, Suit Filed Register are properly maintained at the branch.	
13	Whether Cash Balance Book is properly maintained, showing (I) details of denomination of the currency notes and coins held, and (II) cash held in joint custody of the Manager and the Head Cashier/Cashier-in-charge and cash taken out for use on the counter during the day, separately. Whether the cash taken out for use on the counter during the day are signed (full signature) by the Manager and Head Cashier/ Cashier-in-charge.	
14	a) Whether separate Cash payment scroll is maintained by the Manager/Officer/Spl. Asst. and Head Cashier/ Cashier-in-charge and whether the same are tallied daily and signed by them respectively. b) Whether pre-scrolling of cash deposit is being done & whether the Cash Scroll register (showing the name of the depositor, nature & No. of account etc.) is properly maintained and tallied with the receipt scroll of the cashier c) Whether transfer scrolls are being maintained properly under proper authentication.	

Manual on Concurrent Audit of Banks

	d) Whether the totals of cash scroll & transfer scroll being tallied with that of system generated scroll/daybook.	
15	Whether the receipts on the counterfoils of pay-in-slips for cash deposited by the customers are initialed by the receiving cashier and the Head Cashier/Cashier-in-charge or Controlling Officer/Officer concerned, before the same is handed over to the customer.	
16	a) Whether a proper inventory is maintained for the tokens held at the Branch and whether a proper record is maintained for the token issued to the customers and received back from them. b) Whether proper record of lost/missing tokens is kept duly displayed at the Cash Counter.	
17	Whether the Safe Custody Register is maintained properly & upto date by duly recording the Safe custody items (Travelers Cheques, Receipt for deposit of duplicate keys etc) from time to time.	
18	Whether the securities, security documents and safe custody items held at the branch are properly entered in the Security Register and initialed by the Controlling Officer/Authorised Officer in token of having taken over the charge. These Security documents are kept in the Manager's safe and are easily available whenever required.	
19	a) Whether Stamp A/c. Postage, Stamp A/c. Receipts, and Stamp A/c. Impressed are checked and verified at periodic intervals and tallied with the corresponding balances in the General Ledger. b) Whether voucher for the postage consumed are passed daily.	
20	a) Whether the Daily vouchers are properly stitched and sealed and later scrutinized by the Controlling Officer / Authorised Officer b) Whether cover page of the sealed voucher bundles contain total number of vouchers viz. Cash, clearing & transfer?	

	c) Whether the Voucher register is maintained properly & kept up-to-date.	
21	Whether the Attendance Register is maintained properly and upto date and duly authenticated under the initials of the Controlling Officer/Authorised Officer.	
22	Whether leave record is maintained properly and upto date with the entries duly authenticated under the initials of the Controlling Officer/Authorised Officer	
23	Whether all the security items viz. Blank cheque forms Draft books, Fixed Deposit receipts, Forms / Books, Bankers' Cheque Books, etc. are properly recorded and kept under lock and key under dual control and careful check /control is maintained over the issue of such forms	
24	Whether the Cheque Book Issue Register has been examined with the requisition slips and customers' acknowledgements are properly filed.	
25	Whether a proper diary is maintained for submission of the periodical control and statistical returns.	
26	Whether the various circulars received from Head office and Zonal office are properly filed and easily available for ready references when ever required.	
27	Whether the Post Parcels Received Register is maintained properly & up to date by duly recording the receipts & deliveries of the parcels from time to time	
28	Whether the Security Register is maintained properly under proper authentication by the officer holding charge of securities and kept updated by duly recording therein the securities (Govt. Securities, Shares, Fixed Deposit Receipts, etc.) and security documents obtained from the borrowers and delivered to them /cancelled from time to time.	

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29	Whether the Equitable Mortgage/Recital Register is maintained properly and upto date by recording the Recitals and details of the immovable properties/Title Deeds deposited from time to time.	
30	ii) Whether the Drawing Power Register is maintained properly and upto date in respect of all borrowal accounts, where advances have been allowed against securities/ goods pledged or hypothecated to the Bank from time to time. iii) Whether Letter of Credit Register & Bank Guarantee Register are maintained properly	
31	Whether the stocks held in the Godown under pledge and/or hypothecated are checked at irregular intervals and proper record thereof is maintained.	
32	Whether Bills Received for Collection Registers is maintained properly and upto date by recording details of the bills received from branches/banks or upcountry parties from time to time and whether the railway receipts, lorry receipts, etc. are kept in custody of the Controlling Officer or an Officer.	
33	Whether Bills Receivable Accounts and Bills for Collection Accounts vouchers are passed at the Branch promptly and whether the entries outstanding in Bills Receivable for Collection and Bills Sent for Collection Registers are taken down periodically and tallied.	
34	Whether post sanction monitoring card E1, E2 & E3 & Post Sanction Reporting Card are submitted to higher authorities as per norms	
35	Whether documentation, credit process/ legal audit / legal compliance report are done promptly in all eligible advance accounts.	
36	Whether credit risk grading under RAM (risk assessment module)/CRG (Credit Risk grading) are carried out as per Bank guidelines at the time of sanction/enhancement & review	

37	Whether record of lost DDs & security instruments is systematically maintained/recorded in computer system	
38	a) Whether extant guidelines regarding locker operation is complied b) Whether necessary steps have been initiated for realisation of arrear locker rent?	
39	Whether provisions regarding TDS, cash withdrawal tax, service tax are being followed	
40	Whether operations in inoperative accounts are allowed only after proper authorization of the Controlling Officer/Officer concerned.	
41	1. Whether checking of interest rate, interest application, PLR change, penal interest application is being carried out? (To be test checked at random) 2. Whether service charges are being realised as per norms? (To be test checked at random)	
42	Is there any unauthorised User-Id in the system generated User list?	
43	Whether backups are kept both on-site & off-site?	

Appendices

APPENDIX 1

BC. 182/16.13.100/93-94.
October 11, 1993.
Ashwina 19, 1915 (Saka)

The Chairman & Managing Director/
Chief Executive Officer of all
scheduled commercial banks
(other than Regional Rural Banks)

Dear Sir,

Introduction of a system of concurrent audit in banks as recommended by the Ghosh Committee on Frauds and Malpractices in Banks

Please refer to our circular No. DBOD. No. BC. 20/17.04.001/92 dated 25th August 1992 forwarding a copy of the report of the Committee which enquired into various aspects of frauds and malpractices in banks. Banks were advised to implement those recommendations of the Committee which were immediately accepted by the RBI. One such recommendation, contained in paragraph 8.7 of the Committee's report, related to introduction of a system of concurrent audit at large and exceptionally large branches to serve as administrative support to branches, help in adherence to prescribed systems and procedures, and prevention and timely detection of lapses/irregularities. Subsequently, the matter was also discussed at a meeting of the Chief Vigilance Officers of the public sector banks called by Government in October 1992. Having regard to the need for issuing certain clarifications about the precise scope of such audit, the branches to be covered, cost aspect, relationship with other types of internal audit, etc., RBI had also asked a Group to go into the detailed modalities of introduction of an adequate system of concurrent audit in banks. The matter was also, inter-alia, discussed at a meeting taken by the Deputy Governor (Shri D.R. Mehta) on 26

Manual on Concurrent Audit of Banks

June 1993 of the Chairman and General Managers in-charge of inspections and vigilance in certain public sector and private sector banks.

2. Based on the discussions by the Group as also on the other discussions held as mentioned above, a note setting out the broad features of concurrent audit system has been prepared and the same is enclosed for your use. The note broadly defines the concept of concurrent audit, scope of such an audit, coverage of business/branches, types of activities to be covered during the audit and reporting system. The note also details the broad suggestions in respect of the above mentioned aspects of concurrent audit. While, it is basically for the individual banks' managements to decide the details of the concurrent audit system, it is expected that the suggestions in the note would ensure some uniformity in the system to be introduced by different banks. We would suggest, that while framing a concurrent audit system banks may also clearly spell out the linkages between different forms of internal inspections and audits already in existence and the proposed concurrent audit.

3. Banks may take steps to institute an appropriate system of concurrent audit at an early date. As indicated in the meeting held on 26 June 1993 referred to above, it may be ensured that the system of concurrent audit is introduced so as to cover at least 50 per cent of the bank's business operations by 31 October 1993.

4. By early November 1993, we may be furnished with the details of the system of concurrent audit instituted by the bank, along with a note containing details of the system of audit/inspections existing in the bank.

Please acknowledge receipt.

Yours faithfully,

Sd/-

(J.R. Prabhu)
Chief Officer

Endt. DBOD. No. 582(A)/16.13.100/93-94 of date.

Copy forwarded for information to :

The Joint Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Ahmedabad/Bangalore/Bhubaneswar/Bombay Regional Office, Bombay/Guwahati/Jaipru/Madras/Bhopal/Calcutta/Hyderabad/Jammu/New Delhi/Patna/ Lucknow/Thiruvananthapuram/Chandigarh.

(K.V. Pandhare)
for Chief Officer

Introduction of a system of concurrent audit in banks as recommended by the Ghosh Committee on frauds and malpractices in banks.

Introductory

- A High level Committee set up by the Reserve Bank of India (RBI) at the instance of Government of India (GoI) under the Chairmanship of Shri A. Ghosh, the then Deputy Governor, to enquire into various aspects of frauds and malpractices in banks had recommended in its report submitted in June 1992 (paragraph 8.7) that a system of Concurrent Audit (CA) should be introduced at large and exceptionally large, branches to serve as administrative support to branches, help in adherence to prescribed systems and procedures and timely detection of lapses/ irregularities. This recommendation was accepted and the banks were advised to implement it.
- The recommendation on concurrent audit of large and exceptionally large branches was discussed in the meeting of the Chief Vigilance Officers of Public Sector Banks and Financial Institutions convened by the GoI on 12 October 1992 in New Delhi. The members expressed the view that the implementation of the recommendation in the present form would entail substantial financial burden on the banks and also that the precise scope and content of the audit needed to be clarified. The banks were, therefore, advised to send their suggestions on the size of the branches to be covered and the scope for concurrent audit.
- It is observed that the system of concurrent audit is already in existence in most banks. However, there is no uniformity in areas like scope of concurrent audit, criteria for coverage, selection of branches etc. with a view to standardizing the scope of concurrent audit the RBI set up an informal group comprising senior officers of some large banks viz. State Bank of India, Bank of Baroda, Bank of India, Punjab National Bank and the representatives from the Institute of Chartered

Accountants of India (ICAI). The aspects covered by the Group were:

- i) Scope of concurrent audit;
- ii) Types of branches to be covered;
- iii) Types of activities to be covered;
- iv) Agency to carry out the concurrent audit;
- v) Periodicity of reporting and follow-up of the findings of the concurrent auditors;
- vi) Remuneration payable to external auditors and related matters;
- vii) Accountability aspect.

4. The following views emerged in the Group's discussions:

(A) Scope of concurrent audit

Concurrent audit is an examination which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is an emphasis in favour of substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilance internal audit to preclude the incidence of serious errors and fraudulent manipulations.

A concurrent auditor may not sit in judgment of the decisions taken by a branch Manager or an authorised official. The concern was that this is beyond the scope of concurrent audit. However, the auditor will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office, they do not violate the instructions or policy prescriptions of the RBI, and that they are within the delegated authority and in compliance with the terms and conditions for exercise of the delegated authority.

In very large branches, which have different divisions dealing with specific activities, concurrent audit is a means to the in-charge of the branch to ensure on an on-going basis that the different divisions function within laid-down parameters and procedures.

(B) Coverage of business/branches

The suggested coverage is as under :

- (i) The Departments/Divisions at the Head Office dealing with Treasury functions viz. investments, funds management including inter-bank borrowings, bill rediscount and foreign exchange business are to be subjected to concurrent audit. In addition, all branch offices undertaking such business and dealing rooms have to be subjected to continuous audit.
- (ii) Any specialized activities like portfolio management service, credit card business.
- (iii) The audit may initially cover branches which account for not less than 50 per cent of the business of the bank (total of deposits and advances). The percentage of coverage can gradually be increased to 75.
- (iv) Concurrent audit may be introduced at all exceptionally large branches (ELBs) i.e. those having business of Rs. 100 crores and above.
- (v) Within the parameter set at (iii) above the banks may, in addition to all ELBs, include very large branches (VLBs) i.e. having business of Rs. 15 crores and above and up to Rs. 100 crores.
- (vi) The problem branches which are continuously getting poor or very poor rating in the bank's annual inspection / audit and where the house-keeping is extremely poor may be covered.
- (vii) Banks may include additional branches at their discretion on the basis of need, i.e., their professional judgement about the overall functioning of the branches.

(C) Types of activities to be covered

The main role of the concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check the transactions and other verifications and compliance with procedures laid down. In particular, it should be seen that transactions are properly recorded/documented and vouched. Concurrent auditors may broadly cover the following items.

(a) Cash

- (i) Daily cash transactions with particular reference to any abnormal receipts and payments.
- (ii) Proper accounting of inward and outward cash remittances.
- (iii) Proper accounting of currency chest transactions, its prompt reporting to the RBI.
- (iv) Expenses incurred by cash payment involving sizeable amount.

(b) Investments

- (i) Ensure that in respect of purchase and sale of securities the branch has acted within its delegated power having regard to its Head Office instructions.
- (ii) Ensure that the securities held in the books of the branch are physically held by it.
- (iii) Ensure that the branch is complying with the RBI/ Head Office guidelines regarding BRs, SGL forms, delivery of scripts, documentation and accounting.
- (iv) Ensure that the sale or purchase transactions are done at rates beneficial to the bank.

(c) Deposits

- (i) Check the transactions about deposits received and repaid.

- (ii) Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits.
- (iii) Check new accounts opened particularly current accounts. Operations in new current/SB accounts may be verified in the initial periods to see whether there are any unusual operations.

(d) Advances

- (i) Ensure that loans and advances have been sanctioned properly (i.e., after due scrutiny and at the appropriate level).
- (ii) Verify whether the sanctions are in accordance with delegated authority.
- (iii) Ensure that securities and documents have been received and properly charged/registered.
- (iv) Ensure that post disbursement supervision and follow-up is proper, such as receipt of stock statements, instalments, renewal of limits, etc.
- (v) Verify whether there is any misutilisation of the loans and whether there are instances indicative of diversion of funds.
- (vi) Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
- (vii) Check the bank guarantees issued, whether they have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.
- (viii) Ensure proper follow-up of overdue bills of exchange.
- (ix) Verify whether the classification of advances has been done as per RBI guidelines.
- (x) Verify whether the submission of claims to DICGC and ECGC is in time.

- (xi) Verify that instances of exceeding delegated powers have been promptly reported to controlling / Head Office by the branch and have been got confirmed or ratified at the required level.
- (xii) Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.

(e) Foreign Exchange transactions

- (i) Check foreign bills negotiated under letters of credit
- (ii) Check FCNR and other non-resident accounts whether the debits and credits are permissible under the rules.
- (iii) Check whether inward/outward remittance have been properly accounted for.
- (iv) Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorised and necessary charges have been recovered.
- (v) Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the bank.
- (vi) Ensure that the overbought/oversold position maintained in different currencies is reasonable taking into account the foreign exchange operations.
- (vii) Ensure adherence to the guidelines issued by RBI HO of the bank about dealing room operations
- (viii) Ensure verification/reconciliation of Nosro and Vostro account translations/balances.

(f) Housekeeping

- (i) Ensure that the maintenance and balancing of accounts, ledgers and registers including clean cash is proper.

- (ii) Early reconciliation of entries outstanding in the inter-branch and inter bank accounts, Suspense Account, Sundry Deposits Account, DDDR Account, Drafts account, etc. Ensure early adjustment of large value entries.
- (iii) Carry out a percentage check of calculations of interest, discount, commission and exchange.
- (iv) Check whether debits in income account have been permitted by the competent authorities.
- (v) Check the transactions of staff accounts.
- (vi) In cash of difference in clearing there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the day book to verify as to how the differences in clearing have been adjusted. Such instances should be reported to Head Office in cash the difference persists.
- (vii) Detection and prevention of revenue leakages through close examination of income and expenditure persists.
- (viii) Check cheques returned/bills returned register and look into reasons for return of those instruments.
- (ix) Checking of inward and outward remittances (DDs, MTs, and TTs)

(g) Other items

- (i) In cash the branch has been entrusted with Government business, ensure that the transactions are done in accordance with the instructions issued by Government, RBI and HO.
- (ii) Ensure that the branch gives proper compliance to the internal inspection/audit reports.
- (iii) Ensure that customers complaints are dealt with promptly.
- (iv) Verification of statements, HO returns, statutory returns.

The aforesaid list is illustrative and not exhaustive. The banks may, therefore, add other items to the list which in their opinion are useful for the purpose of proper control of the branch operations. The volume of transactions in the larger branches is heavy and it may not be possible for the concurrent auditors to do a cent per cent check. They may therefore consider adopting the following norms.

1. In certain areas such as off balance sheet items (LCs and BGs), investment portfolio, foreign exchange transactions, fraud prone/sensitive areas, advances having outstanding balances of more than Rs. 50 lakhs and accounts with less than Rs. 50 lakhs if any unusual feature is observed, the concurrent auditors may conduct cent per cent check.
2. In the case of areas such as income and expenditure items, inter-bank and inter-branch accounting, interest paid and interest received, clearing transactions, and deposit accounts the check can be restricted to 10 to 15 per cent of the number of transactions.
3. Where any branch has poor performance in certain areas or requires close monitoring in housekeeping, advances or investment, the concurrent auditors may carry out intensive checking of such areas.
4. Concurrent auditors may concentrate on high value transactions having financial implication for the bank rather than those involving lesser amount, although number-wise they may be large
5. If any adverse remark is required to be given, the concurrent auditors should give reasons therefor.
6. Concurrent auditors may themselves identify problem areas at branch level and offer their suggestions to overcome them.

(D) Appointment and remuneration of auditors

The option to consider whether the concurrent audit should be done by bank's own officials or external auditors may be

left to the individual banks. In case the bank decides to appoint external auditors for the purpose, the terms of their appointment and remuneration to be paid may be fixed by the banks within the broad guidelines approved by the Board. The audit firms will be responsible for any omissions or commissions in respect of transactions seen by them. In case any serious act of omission or commission is noticed in the working of the concurrent auditors the bank may consider terminating the appointment. A report may be made to the Institute of Chartered Accountants of India for such action as they deem fit and also to RBI.

In case the bank prefers to entrust the audit to its own officers, the bank has to ensure that these officers are well experienced and of sufficient seniority in order to exercise necessary independence and objectivity while conducting concurrent audit. It would be desirable and necessary to rotate the auditors whether internal or external, periodically, progressively, it may be considered whether reliance on external auditors may be reduced as the requisite skills for audit work are developed by a proper selection and training of officers from within.

(E) Reporting System

The concurrent auditors may report the minor irregularities, wrong calculations etc., to the Branch Manager for on the spot rectification and reporting compliance.

If these irregularities are not rectified within a reasonable period of time say a week, these may be reported to the Controlling offices, If the auditors observe any serious irregularities, these will be straight away reported to Controlling Office or Head Office immediately. The auditor will have to lay emphasis on the proprietary aspect of the audit. Banks may institute an appropriate system of follow up of the reports of the concurrent auditors. There must be a system of an annual review of the working of concurrent audit.

(F) Conclusion

While instituting the concurrent audit system the attempt should be to integrate the same with other systems of internal audit/ inspections which are already in existence. One of the drawbacks hitherto has been non-integration of the different systems of internal audit and inspections and lack of response to audit objections/qualifications. It is necessary that the entire system of audit, inspection and their follow-up is properly documented and the performance of the integrated audit system is reviewed from time to time.

APPENDIX 2

Ref. No. Dos No. B.C. 16/08-91-021/96
August 14, 1996
Shravana 23, 1918 (Saka)

The Chairman & Manager
Chief Executive Officer
All Scheduled Commercial Banks
(Other than Regional Banks)

Dear Sir,

Concurrent audit system in commercial banks – Revision of RBI's guidelines

It may be recalled that certain guidelines on 'concurrent audit system in commercial banks' were issued by us in October 1993 vide DBOD. Circular BC. 182/16.13.100/93-94 dated October 11, 1993, setting out the scope and coverage of concurrent audit system and its reporting procedures and calling upon banks to introduce/revamp their concurrent audit system based on these guidelines. Thereafter, a Working Group set up by Reserve Bank of India under the Chairmanship of Shri Jilani (Chairman, Punjab National Bank) has reviewed, inter alia, the working of concurrent audit system in banks and given its recommendations for improving it. Further, some of the public sector banks have bought additional guidelines on the system's scope, coverage, reporting procedures, remuneration payable to concurrent auditors, etc. A need was, therefore, felt to have a relook at the existing guidelines and review certain norms to ensure that the system is more compact and focused in its approach and also facilitates effective implementation. Accordingly, we have, in consultation with the Audit Sub-Committee of the Board for Financial Supervision (BFS), revised the guidelines, which are set out in the Annex.

2. It hardly needs to be stressed that the concurrent audit system is to be regarded as part of a bank's early-warning system to ensure timely detection of irregularities and lapses which helps

in preventing fraudulent transactions at branches. It is, therefore, necessary for the bank's management to bestow serious attention to the implementation of various aspects of the system such as selection of branches/ coverage of business operations, appointment of auditors, appropriate reporting procedures, follow-up/rectification processes and utilization of the feed back from the system for appropriate and quick management decisions.

3. You may ensure that, based on the revised guidelines indicated in the Annex, a review of the present system of concurrent audit is carried out immediately and necessary changes are incorporated therein. The modified concurrent audit system of your bank should be placed before its Audit Committee of Board of Directors (ACB).

4. The bank should once in a year review the effectiveness of the system and take necessary measures to correct the lacunae in the implementation of the programme.

5. Please acknowledge receipt.

Yours faithfully,

(P.R. Gopala Rao)
Chief General Manager)

Encl.: sheets

ANNEXURE I

New Guidelines for Concurrent Audit System in Commercial Banks

(A) Scope of concurrent audit

Concurrent audit is an examination which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is an emphasis in favour of substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilance internal audit to preclude the incidence of serious errors and fraudulent manipulations.

A concurrent auditor may not sit in judgement of the decisions taken by a branch Manager or an authorised Official. This is beyond scope of concerned audit. However, the audit will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office, they do not violate the instructions or policy prescriptions of the RBI, and that they are within the delegated authority.

In very large branches, which have different divisions dealing with specific activities, concurrent audit is a means to the in-charge of the branch to ensure on an on-going basis that the different divisions function within laid-down parameters and procedures.

(B) Coverage of business/branches

- (i) The Departments/Divisions at the Head Office dealing with Treasury functions viz. investments, funds management including inter-bank borrowings, bill rediscount and foreign exchange business are to

be subjected to concurrent audit. In addition, all branch offices under-taking such business and dealing rooms have to be subjected to continuous audit.

- (ii) The coverage of branches should ensure that concurrent audit covers:-
 - (a) Branches whose total credit and other risk exposures aggregate to not less than 50% of the total credit and other risk exposures of the bank; and
 - (b) Branches whose aggregate deposits cover not less than 50% of the aggregate deposits of the Bank.
- (iii) To achieve these twin criteria it is suggested that branches may be listed according to credit and other risk exposures and selected in the descending order of exposures to achieve a 50% coverage. If the deposits of these branches do not aggregate to 50% of the Bank's deposits, additional branches in descending order of deposits may be added to achieve a 50% coverage of the branches.
- (iv) While complying with the above parameters, it is necessary to ensure that the coverage encompasses:-
 - exceptionally large branches
 - very large and large branches
 - special branches handling foreign exchange business, merchant banking business, large companies/wholesale banking business and from dealing room operations.
 - Large problem branches rated as poor/very poor.
 - Head Office departments dealing with treasury/funds management and handling investment portfolio

- Any other branches or departments where in the opinion of the Bank concurrent audit is desirable.
- (v) Branches subjected to concurrent audit should not normally be included for revenues/income audit.

(C) Types of activities to be covered

- (1) The main role of concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down.
- (2) The scope of concurrent audit should be wide enough to cover certain fraud – prone areas like handling of cash, deposits, safe custody of securities, investments, overdue bills, exercise of discretionary powers, sundry and suspense accounts, inter-branch reconciliation, clearing differences, foreign exchange business including Nostro accounts, off-balance sheet items like letters of credit and guarantee, treasury functions and credit-card business.
- (3) The detailed scope of the concurrent audit should be clearly and uniformly determined for the Bank as a whole by the Bank's Inspector and Audit Department in consultation with the Bank's Audit Committee of the Board of Directors (ACB)
- (4) In determining the scope, importance should be given to checking high-risk transactions having large financial implications as opposed to transactions involving small amounts.
- (5) While the detailed scope of the concurrent audit may be determined and approved by the ACB, some of the suggested items of coverage are given in the Annexure II.

(D) Appointment of Auditors and Accountability

- (i) The option to consider whether concurrent audit should be done by bank's own staff or external auditors is left to the discretion of individual banks.

- (ii) In case the bank has engaged its own officials, they should be experienced, well trained and sufficiently senior. The staff engaged on Concurrent Audit must be independent of the Branch where concurrent audit is conducted.
- (iii) Appointment of an external audit firm may be initially for one year and extended upto three years – after which an auditor could be shifted to another branch subject to satisfactory performance.
- (iv) If external firms are appointed and any serious acts of omissions or commissions are noticed in their working – their appointments may be cancelled and the fact may be reported to RBI & ICAI.

(E) Facilities for effective Concurrent Audit

It has been represented that Concurrent Audit is not often effective because adequate facilities in terms of space, availability of records, etc. are not available. To improve the effectiveness of concurrent audit it is suggested that –

- (i) banks arrange for an initial and periodical familiarization process both for the bank's own staff when entrusted with the concurrent audit and for the external auditors appointed for the purpose;
- (ii) all relevant internal guidelines/circulars/important reference as well as relevant circulars issued by RBI/SEBI and other regulating bodies should be made available to the concurrent auditors on an on-going basis.
- (iii) where adequate space is not available, concurrent auditors can commence work immediately after the close of banking hours.

(F) Remuneration

Terms of appointment of the external firms of Chartered Accountants for the concurrent audit and their

remuneration may be fixed by banks at their discretion. Broad guidelines should be framed by ACB for this purposes. Suitable packages should be fixed by each bank's management in consultation with its ACB, keeping in view various factors such as coverage of areas, quality of work expected, number of people required for the job, number of hours to be spent on the job, etc.

(G) Reporting Systems

- (i) Concurrent auditors should be attached to the branches and not the zonal offices.
- (ii) Minor irregularities pointed out by the concurrent auditors are to be rectified on the spot. Serious irregularities should be straightaway reported to the controlling offices/Head Offices for immediate action.
- (iii) There should be zone-wise reporting of the finding of the concurrent audit to ACB and an annual appraisal/report of the audit system should be placed before the ACB.
- (iv) Whenever fraudulent transactions are detected, they should immediately be reported to Inspection & Audit Department (Head Office) as also to the Chief Vigilance Officer as well as Branch Managers concerned (unless the branch manager is involved).
- (v) There should be proper reporting of the findings of the concurrent auditors. For this purpose, each bank should prepare a structured format. The major deficiencies/aberrations noticed during audit should be highlighted in a special note and given immediately to the bank's branch/ controlling offices. A quarterly review containing important features brought out-during the concurrent audits should be placed before the ACB.
- (vi) Follow-up action on the concurrent audit reports should be given high priority by the controlling

office/Inspection and Audit Department and rectification of the features done without any loss of time.

- (vii) A Special Cell in the Inspection and Audit Department may be created in each bank to:
 - (1) review the selection of auditors.
 - (2) Initiate and operate a system for the appraisal of the performance on concurrent auditors.
 - (3) Ensure that the work of concurrent auditors is properly documented.
 - (4) Be responsible for the follow-up on audit reports and the presentation of the quarterly review to the ACB.

ANNEXURE II
Suggested items of coverage

(A) Cash

- (i) Daily cash transactions with particular reference to any abnormal receipts and payments.
- (ii) Proper accounting of inward and outward cash remittances.
- (iii) Proper accounting of currency chest transactions, its prompt reporting to the RBI.
- (iv) Expenses incurred by cash payment involving sizeable amount.

(B) Investments

- (i) Ensure that in respect of purchase and sale of securities the branch has acted within its delegated power having regard to its Head Office instructions.
- (ii) Ensure that the securities held in the books of the branch are physically held by it.
- (iii) Ensure that the branch is complying with the RBI/Head Office guidelines regarding BRs, SGL forms, delivery of scrips, documentation and accounting.
- (iv) Ensure that the sale or purchase transactions are done at rates beneficial to the bank.

(C) Deposits

- (i) Check the transactions about deposits received and repaid.
- (ii) Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits.
- (iii) Check new accounts opened particularly current accounts. Operations in new current/SB accounts

may be verified in the initial periods to see whether there are any unusual operations.

(D) Advances

- (i) Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level).
- (ii) Verify whether the sanctions are in accordance with delegated authority.
- (iii) Ensure that securities and documents have been received and properly charged/registered.
- (iv) Ensure that post disbursement supervision and follow-up is proper, such as receipt of stock statements, instalments, renewals of limits, etc.
- (v) Verify whether there is any misutilisation of the loans and whether there are instances indicative of diversion of funds.
- (vi) Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are genuine trade transactions.
- (vii) Check the bank guarantees issued, whether they have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.
- (viii) Ensure proper follow-up of over due bills of exchange.
- (ix) Verify whether the classification of advances has been done as per RBI guidelines.
- (x) Verify whether the submission of claims to DICGC and ECGC is in time.
- (xi) Verify that instances of exceeding delegated powers have been promptly reported to controlling / Head Office by the branch and have been got confirmed or ratified at the required level.

- (xii) Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.

(E) Foreign Exchange Transactions

- (i) Check foreign bills negotiated under letters of credit.
- (ii) Check FCNR and other non-resident accounts whether the debits and credits are permissible under rules.
- (iii) Check whether inward/outward remittance have been properly accounted for.
- (iv) Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorised and necessary charges have been recovered.
- (v) Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the bank.
- (vi) Ensure that the overbought/oversold position maintained in different currencies is reasonable taking into account the foreign exchange operations.
- (vii) Ensure adherence to the guidelines issued by RBI/HO of the bank about dealing room operations.
- (viii) Ensure verification/reconciliation of Nostro and Vostro account transactions/balances.

(F) Housekeeping

- (i) Ensure that the maintenance and balancing of accounts, ledgers and registers including clean cash is proper.
- (ii) Early reconciliation of entries outstanding in the inter-branch and inter bank accounts, Suspense Account, Sundry Deposits Account, DDDR Account, Drafts account, etc. Ensure early adjustment of large value entries.

- (iii) Carry out a percentage check of calculations of interest, discount, commission and exchange.
- (iv) Check whether debits in income account have been permitted by the competent authorities.
- (v) Check the transactions of staff accounts.
- (vi) In cash of difference in clearing there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the day book to verify as to how the differences in clearing have been adjusted. Such instances should be reported to Head Office in cash the difference persists.
- (vii) Detection & prevention of revenue leakages through close examination of income and expenditure persists.
- (viii) Check cheques returned/bills returned register and look into reasons for return of those instruments.
- (ix) Checking of inward and outward remittances. (DDs, MTs and TTs).

(G) Other items

- (i) In case the branch has been entrusted with government business, ensure that the transactions are done in accordance with the instructions issued by Government, RBI & HO.
- (ii) Ensure that the branch gives proper compliance to the internal inspection/audit reports.
- (iii) Ensure the customers' complaints are dealt with promptly.
- (iv) Verification of statements, HO returns, statutory returns.

The aforesaid list is illustrative and not Exhaustive.