GUIDELINES FOR SUBMISSION OF SPECIAL REPORTS

4.1. BASIC CONCEPT OF SPECIAL REPORTS:

A Special Report is submitted by Concurrent auditors, when they notice matters of grave nature which are likely to cause loss to the bank and thus immediate action is called for on the part of the Controlling Offices.

As the very objective of submission of Special Reports is to draw the attention of higher authorities for initiating necessary action to safeguard the interest of the Bank, a decision has been taken that:

"All serious irregularities endangering the interest of the Bank noticed during Concurrent Audit / Continuous Audit/ Income Audit etc **irrespective of the fact whether they are within the knowledge of Circle Office or not**, should be reported by way of Special Reports. If such irregularities are already reported to CO in such cases, IOs may also mention the action initiated by the controlling offices / steps taken by the branches / offices from the date of such reporting based on the instruction of the Controlling Office or on their own".

However, if the irregularities are already treated as fraud by our R&R Section, Vigilance Wing, HO., Bangalore and it is under their follow-up, such irregularities / deviations observed in such accounts need not be reported under Special Report of Concurrent and Continuous Audit.

4.2. General guidelines for submission of Special Reports :

1. Special Reports are to be submitted by the Concurrent auditors as per the revised format in the **ANNEXURE 1.,** wherever they notice matters of grave nature which are likely to cause loss to the Bank and which require immediate action from the Controlling Offices.

2. The Special Report shall be submitted by the Inspecting Officer directly to the General Manager, Inspection Wing, Head Office, with a copy to the Circle Head and the concerned Zonal Inspectorate.

3. Wherever such serious irregularities are observed during the course of Concurrent Audit , the Concurrent auditor has to immediately submit a Special Report without waiting for conclusion audit in progress.

4. Special Report is to be submitted by the Concurrent auditor separately for each type of irregularity, without clubbing different type of irregularities in one report.

5. Copy of the "Special Report" shall not be handed over to the branch. However, concurrent auditor may seek clarification/details from the Branch Manager/Officials wherever required to ensure proper/objective reporting. Details of discussion with the Branch Manager have to be necessarily incorporated in the Special Report.

6. In respect of Special reports on Vigilance Matters, Concurrent auditors should ensure that records/evidences are taken into custody and kept in double lock;

7. The covering letter and all pages of Special Report should be signed by the concurrent auditor/s concerned.

8. Special Reports are to be forwarded by Concurrent auditor/s only by Registered Post. If it can be delivered to the concerned personally, the same may be delivered against due acknowledgement.

9. Zonal Inspectorates have to send their views on the Special Report expeditiously on receipt of the SR by them to Inspection Wing by Fax, E-Mail followed by hard copy of the letter.

4.3. Types of Irregularities to be reported under Special Reports:

The following observations are to be reported in Special Reports by Concurrent auditors:

1. Matters attracting Vigilance Angle: The following are generally some of the matters, which attract Vigilance Angle.
   i) Acts of bribery and corruption on the part of branch officials;
   ii) Frauds and misappropriations;
   iii) Abuse of power including discretionary powers to get pecuniary or other benefits at the expense of the Bank.
   iv) Comments on serious adverse features in branch sanctions;
   v) Undue favoritism and nepotism;
   vi) Strained Industrial Relations;
   vii) Abnormal transactions in Staff Accounts;
   viii) Any other instances of malpractices.

2. Frauds perpetrated by outsiders;
3. Huge Cash Shortage including shortage in Foreign currency notes
4. Indiscriminate lending, not already in the knowledge of the Controllers.
5. Income Leakage with malafide intention irrespective of the amount
6. Income leakage of Rs.10 lakhs and above (i.e., sum total in all accounts verified during a particular audit in a branch)
7. Malafide suppression of facts as observed during Quality Audit.
8. Huge shortage of securities pledged/hypothecated to the Bank; shortage of securities with malafide intention.
9. ISC Bills (representing BEs / SDBs of other Branches) - Non availability of good with transport operators.
10. Disbursement without proper sanctions.
11. Any other irregularity of grave nature which has caused loss to the Bank/likely to cause loss to the Bank and which calls for immediate attention of the Controlling Office and needs immediate corrective action;

4.4 Types of irregularities under IS Audit areas to be reported under Special Reports:

4.4.1. Common to CBS & IBBS branches:

- Usage of other employee's user profile during leave period
- Working on other employee's login
- Creation/Verification of Transaction using absentee employee's profiles/passwords by others during the period of absence.
- Creation/Verification of Transaction through user profiles who are transferred/resigned/retired from the branch
- Unauthorized modification of user profiles
- Misuse of privileged user profiles like root, admin
- Creation/Verification of unauthorized transactions
- Missing hardware/software items like Server/PCs/Printers/network equipments
- Misuse of dummy accounts/GL Heads or Zero balance accounts with malafide intentions.
- Misuse of the Bank/Branch data for personal gains
- Audit observations (very serious in nature, which may expose the system to major threats) which are persisting since the previous audit of the Branch and which were wrongfully replied by the Branch as rectified.
- Any instances of violations of guidelines of IT Security Policy of the Bank
- Long pending huge balancing difference under various heads of GL/Daybook heads
- Huge ATM Cash difference
- Any activity aimed at disrupting the Services
- Any other instances of IT related malpractices

4.4.2 Specific to IBBS branches

- Unauthorized modification of the system parameters at the Operating System or Application levels
- Restricted access to \IBBS\DATA to general users other than Implementing Officer
- Availability and usage of unauthorized ADHOC programs
- Unauthorized modifications to the Software programs with malafide intentions
- Non adherence to backup guidelines as per IT Security Policy of the Bank (specific to daily, monthly, quarterly and Standalone backups)
- Dummying of programs
- Availability & usage of old login.gnt

4.4.3 Applicable to CBS branches: NIL

4.5. Omission to submit Special Reports :

The Concurrent auditors are expected to submit Special Reports in respect of serious / grave irregularities noticed, if any, as per guidelines.

Any transactions of serious nature which is unusual/not normal to the banking practice or usual course of business or any other un-healthy practices indulged by the branch staff, persistent irregularities, shortage of securities while doing physical verification of securities, transactions of fraudulent nature, borrowal accounts giving early warning signals, other serious irregularities like disbursements without proper sanction/incomplete documents/irregularities as per norms defined for Part B/ Special Report, income leakages of Rs.10000 in any account/branch as a whole on a monthly basis may however be reported immediately to the concerned Circle head and Zonal Inspectorate having jurisdiction over the branch by way of separate letter along with Executive Summary to Circle Head with copy to General Manager, Inspection Wing. Any failure/omission/negligence on the part of the firm shall render the external audit firm liable for action and termination of audit assignment.

For any lapses on the part of internal Concurrent auditors in delayed reporting / non-reporting of serious irregularities, which come to light later and ultimately result in pecuniary loss to the Bank, the concerned internal Concurrent auditor will be held responsible and would be made accountable for it.

Special reports should be submitted covering the irregularities which attract submission of Special Report alone. In other words, all other irregularities in the account as also in other units of the same party are to be incorporated in the regular report or Part B as the case may be. IO has to make clear demarcation between Part-B and Special Report depending upon the deficiencies observed.

Special Reports should not be sketchy but should be factual, clear, exhaustive in details and wherever necessary should indicate the action initiated by the branch, it should also contain specific views / opinion of the Concurrent auditor based on his findings.

5.1. General guidelines for reporting irregularities under ‘Part B' in Concurrent audit branches:

1. Normal irregularities are reported as Part A observations. While very serious irregularities are reported under Special Reports (as per guidelines), the other serious irregularities shall find a place under Part B of the Concurrent Audit report/Executive Summary.

2. The concurrent auditors have to adhere to the following guidelines while attending to remarks under PART B :

   (i) Items requiring to be brought under Part B should find a place in the daily jotting sheets.
   (ii) In case the same are not attended before the month end, the same shall find a place under Part B and annexed to the monthly Executive Summary
   (iii) Wherever rectification of Part B observations is reported by the branch, the concurrent auditor should call for the evidence, verify the compliance and satisfy himself before treating such remarks as complied with.
   (iv) The residual Part B observations pending as at the end of the quarter, shall be made as annexure to the quarterly concurrent audit report.

5.2. Types of irregularities to be reported under PART-B in concurrent audit branches:

1. Observations from Limitation angle - Irrespective of amount of liability outstanding.
2. Serious Documentation defects.
3. Shortages in securities pledged / hypothecated to the Bank.
4. Laxity / Deviation in adherence to Systems and Procedures in the matter of Control over Security Items / handling of Double Lock keys.
5. Suppression of facts.
6. Deviations from sanction terms endangering Bank’s interests.
7. Violation of guidelines in respect of Non-Resident A/cs.
8. Altering the due dates, period and interest in deposit receipts.
9. Missing / Non-availability of loan papers and connected documents.
10. Missing of security items detected during Inspection.
11. Shares not got transferred in the name of our Bank - in respect of advances against prime/collateral security of Physical Shares with limit beyond Rs.10.00 lakhs and Demat shares with limit beyond Rs. 20 lakhs

12. Deviation of RBI / IT / GOI directives:

    Examples:

    a) Issue / payment of DDs / POs / ISCs / MTs / TTs for Rs.50,000/- and above by Cash.
    b) Payment of Term Deposits in cash exceeding Rs.20,000/-.
    c) Obtention of co-obligation in respect of Priority Sector advances (upto Rs.25000/-) and Government Sponsored Schemes.
    d) Payment of Interest to ineligible SB Accounts.
    e) Sanctioning of loans/advances to partnership firms / proprietorship concerns against the primary security of shares / debentures / bonds.
    f) Granting of VSLs against partly paid shares.
    g) Creating Deposits out of loan amount.
    h) Deposits accepted beyond the permissible period of 10 years (exception - Court Deposits)
    i) Deduction of Income Tax from salary / deposits not in conformity with guidelines issued by Income Tax Department.
    j) Sanctioning of OCC Limits by stipulating a margin other than the margin stipulated by RBI.
    k) Violation of Selective Credit Control Directives.
    l) Non obtention of Form 60 / 61 in case of opening of deposit accounts and for cash transactions of Rs.50,000/- and above in contravention of IT guidelines.

    The above list is only illustrative and not exhaustive. Any violations of the guidelines have to be reported by the IOs.

13. Shortage of security in cases where shortage is less but number of accounts involved is considerable and total outstanding liability in all accounts put together is substantial. In case shortage has occurred due to malafide intention, it is to be reported as a Special Report.

14. Obtaining under-stamped / unstamped agreements / AODs.

15. Cases of ineligible credits to NRE Accounts where there is no repatriation of funds in Foreign Exchange, but the amount was withdrawn only for the local disbursement/s.

16. Not making available the Interest dumps for interest checking.

17. Serious discrepancies observed during quality audit (serious wrong reporting)

18. Total amount of leakage of income detected exceeding the following limits - whether recovered or not:

    a. ELB - Rs. 5.00 lakhs
    b. VLB - Rs. 2.50 "
    c. Large Branch - Rs. 1.50 "
    d. Medium Branch - Rs. 1.00 "
    e. Small Branch - Rs. 25,000/-

19. Observing a pattern of income leakage wherein some select group of borrowers/borrowal accounts repeatedly finding place in Income Leakage detections/same officer doing interest checking for some set of accounts over a period etc.

Lapses from Staff angle should be viewed by DGM / GM of the Circle in addition to rectification / Recovery

5.3. Types of irregularities under "Foreign exchange" areas under Part - B:

1. Shortage in INR Cash and Foreign Currency Notes.

2. Passing entries for rupee leg of the transactions involving foreign money purchases and sales without actual possession of foreign currency notes.

3. Deviation in adherence to Exchange Control provisions leading to outgo of Foreign Exchange.

4. Deviation in adherence to DGFT / ITC Regulations.

5. Laxity in follow up of Bill of entry (both relating to RBI follow-up and our Bank's follow-up) leading to non-receipt of bill of entry or accumulation of BOE, pending verification.

6. Missing security items like Traveller's Cheques and other items.

7. Irregularities noticed in evaluating Foreign Currency position and Asset & Liability items leading to distorted profits and losses.

8. Deviation from our Systems & Procedures resulting in putting our Bank's position in jeopardy - for instance onerous clauses in FLC, wrong scrutiny of ABLC documents etc.

9. Bills of Entry / Postal / Courier Wrappers are not submitted by Importers and there are reasons to suspect that the actual import might not have taken place.

10. Overdue forward contracts not cancelled within 7 working days from the due date.

11. Overdue export bills not delinked within 15 days from the expiry of Normal Transit Period (NTP) in the case of sight bills and within 15 days from the expiry of notional due date or actual due date communicated by the foreign bank whichever is earlier.

5.4 Types of irregularities under IS audit areas to be reported under part B:

5.4.1 Common to CBS & IBBS branches:

- Creation of more than ONE User ID for one employee
- Creation of user with incorrect work class
- Existence of user profiles with full permissions, more privileges.
- Existence of user profiles of transferred/resigned/retired employees.
- Existence and usage of unapproved/unauthorized software
- Unrestricted Access to the Server, Network equipments i.e., Router, Switch
- Non Generation, non review and non authentication of mandatory reports like daily Access History report, SMS Reports, Exceptional transactions report, discretionary advances reports, ATM failed transaction report
- Non reconciliation of Hardware/Software items
- Instances where guidelines/policy from the system and data security point of view are not properly implemented/adhered to, which exposes the system to major threats.
- Major environmental control weaknesses, fire and other natural calamities leading to loss of computer assets with reasons.

5.4.2 Specific to IBBS branches

- Existence of extraneous user profiles in the system both at Operating System as well as at application level
- Creation / deletion of user profiles with root/admin.
- Deviation to DIT guidelines with regard to Password Policy Settings
- Creation of ROOT equivalence user profile other than DBA/ Implementing Officer
- Non maintenance of record for usage of privileged user profile
- Availability of standard ADHOC programs other than permitted directories.
- Usage of ADHOC programs by branch officials
- Non maintenance of records for usage of ADHOC programs
- Indiscriminate usage of privileged user profiles
- Non Generation & Non Preservation of non-detailed balancing
- Non adherence of Standalone backup
- Not keeping backup at offsite on many occasions.
- Interest dump printouts are not taken and preserved.
- Remote trouble shooting guidelines are not followed.

- Job rotation of LAN administration not done.
- Unauthorized programs available.(ex: expass.gnt, box.gnt etc)
- Non maintenance of records/logs for adherence of backup guidelines

5.4.3 Specific to CBS branches

- Non generation of GL Alert Reports and steps not taken for ensuring "NIL" balance under the specified GL Heads on daily basis.
- Failure to review the Negative balances under Minor Subsidiary Heads
- Transactions of accommodative nature through Parking GL Heads