

Suresh Smiter
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Important Audit Checks

Bank Audit

S. Item

Important Audit Checks

1. Planning

- **Preliminary Work:** Acceptance letter, NOC from previous auditors, issue of audit engagement letter as per SA-210, Familiarity with RBI circulars and Institute guidance note, letter to the Branch manager for requirements for the purpose of the audit, review of various circulars issued by HO especially the closing circular, study previous year's audit report, concurrent audit reports, RBI inspection etc
- Risk assessment & Evaluation of Internal controls
- Preparation of audit program and its execution.

2. Deposit

- i. Term
- ii. Saving
- iii. Current
- iv. FCNR / NRE /
NRNR

- **Verify transactions during the year relating to:**
 - New Accounts opened
 - Compliance of KYC norms
 - Accounts closed
 - Dormant Accounts
 - Overdue Term deposits & banks policy for its renewal & interest provision thereon.
 - RBI Norms for Non-resident deposits & its operations – with due importance to opening and operation of accounts like NRE, NRNR, FCNR, RFC, etc
 - Interest on various types of deposits including savings account on test check basis ; Tax Deducted at Source and year end interest
 - provisions.
- Large deposits placed at the end of the year (*probable window dressing*)
- Examine **unusual trend** in account opening or account closing, dormant accounts that have suddenly been reactivated by heavy cash withdrawals or deposits, over drawings, etc
- Examine **interest trends** as compared to average annual deposits (monthly average figures)

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3. Advances

Extent of Checking :

Verify:

- All the advances whose balance is lower of 5% of total advance or Rs.2 Cr.
- Advances which are sanctioned during the year and other advances on test check basis depending on the balance outstanding.
- Advances which are adversely commented by RBI inspection team, concurrent auditors, bank's internal inspection

Type of Advances:

- a. **Funded:** Cash Credit/Overdraft, Term Loans, Bills Purchased/discounted, Packing credit etc.
- b. **Non Funded:** Bank guarantees, Letter of Credits, Letter of comforts etc.

Some of the important areas to be examined /reviewed in respect of advances are:

- **Evaluation of Internal Control (illustrative):**
 - Existence of clearly laid down delegation of authority
 - Existence of clearly laid down eligibility criteria for loan
 - Existence of post disbursement monitoring.
- **Pre sanction stage:**
 - Review of credit appraisal system before sanction of loan, system of renewal/review of loan.
- **Post sanction stage:**
 - Whether terms of sanction have been complied with in case of new advances
 - Whether documents in respect of all the facilities are obtained as per the bank manual and charge has been created in respect of securities available to the bank
 - Whether end use of funds in case of new loans is verified.
- **Review and Monitoring of advances:**
 - Whether the borrower is regular in submission of the stock & book debt statements and same are scrutinized by an officer and Drawing Power correctly calculated.
 - Whether insurance policies are on record and assets which are charged as security are adequately insured.
 - Whether regular inspection/stock verification of the borrowers is done by the Bank/ by a firm of CA as per laid down procedure of the Bank.
 - Whether frequently overdrawn accounts are properly monitored and reported to the Controlling Office.

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5. Profit & Loss Account

Income/ Expenditure: Verify

- Short debit of interest/ commission on advances with special emphasis on penal interest, commitment charges etc.
- Excess/short credit of interest on deposits
- Miscellaneous income like locker rent, income on forex business etc on test check basis.
- Proper authority in sanction and disbursement of expenses as also the correctness of the accounting treatment given as to revenue & capital expenditure
- Verify depreciation in case it is provided at the Branch level
- Check accrual of income/ expenditure especially for the last month of the financial year
- **Divergent Trends**
 - Divergent trends in income/ expenditure of the current year may be analysed with the figures of the previous year
 - Wherever a divergent trend is observed, obtain an explanation along with supporting evidences like monthly average figures, composition of the income/ expenditure, etc

6. Balance Sheet

Cash & Bank Balances

- Physically verify the Cash Balance as on March 31, 2011 or reconcile the cash balance from the date of verification to March 31, 2011
- Confirm and reconcile the Balances with banks as on March 31, 2011
- Verify that the cash is held in dual custody
- Verify whether cash held by the Branch during the year is within the retention limit fixed by the Head Office
- Verify whether cash held by the Branch is adequately insured.

Stationery & Stamps

- Physically verify stationery and stamps as on March 31, 2011.
- Verify whether the Branch has adequate internal control for receipt, issue and custody of the stock of stationery & stamps

Investments

- Physically verify the Investments held by the branch on behalf of Head Office and issue certificate of physical verification of investments to bank's Investments Department

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- Check [receipt of interest](#) and its subsequent credit to be given to Head Office

Fixed Assets

- Check that accounting of fixed assets is done in accordance with AS-10. Also check accounting of major capital expenditure [especially in branches located in leased premises](#)
- Check Inter-branch transfer memos relating to Fixed Assets and whether they have been correctly classified in the accounts and depreciation correctly provided thereon

Inter Branch Reconciliation (IBR)

- [Understand](#) the IBR system and accordingly prepare an [audit plan](#) to review the IBR transactions. The large volume of Inter Branch Transactions and the large number of un reconciled entries in the banking system makes the area [fraud-prone](#)
- Check up head office inward communication to branch to ascertain date up to which [statements relating to inter-branch reconciliation](#) have been sent

Check and report

- [Reversal](#) of any large/ old/ unexplained entries, which had remained outstanding in IBR
- Items of [revenue nature](#), [cash-in-transit](#) (for example, cash meant for deposit into currency chest) which remains pending for more than a reasonable period
- [Double responses](#) to the entries in the Accounts
- Test Check [accuracy and correctness](#) of "Daily statements" which are prepared by the branch and sent to IOR Department

Further, vide its circular no. DBOD No. BP.BC. 73 /21.04.018/2002-03 dated February 26, 2003, the Reserve Bank (RBI) advised the banks to maintain [category-wise](#) (head-wise) accounts for various types of transactions put through inter-branch accounts so that the netting can be done category-wise. Further, RBI advised banks to make [100 percent provision](#) (category-wise) for [net debit position](#) in their inter-branch accounts arising out of the un reconciled entries, both debit and credit, [outstanding for more than six months](#) [Refer to the master circular (www.rbi.org.in)]

IMPORTANT: The system of inter branch reconciliation has under gone change over a period of time due to Core Banking. Therefore the auditor may suitably change his audit approach considering the change in system adopted by the Bank.

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Suspense Accounts, Sundry Deposits, etc

Suspense accounts are adjustment accounts in which certain **debit transactions** are temporarily posted whose **authorisation is pending for approval**

Sundry Deposit accounts are adjustment accounts in which certain **credit transactions** are temporarily posted whose **authorisation is pending for approval**

As and when the transactions are duly authorised by the concerned officials they are posted to the respective accounts and the Suspense account/ Sundry Deposit account is credited/ debited respectively

- Ask for and analyse their **year-wise break-up**
- Check the **nature of entries** parked in such Accounts
- Check any **movement** in such old balances and whether the same is genuine and has been properly authorised by the competent authority
- Check for any **revenue items** lying in such accounts and whether proper treatment has been given for the same
- **Provision** should be recommended against **old debit balances** which are unexplained or in opinion of the auditors is non recoverable.

7. Auditing in CBS/Computerised environment

- Overall scope of audit does not change but audit procedure is affected. Conduct **audit as per AAS 29-** Auditing in CIS environment
- Familiarize with EDP/CBS system, gain the understanding of **the flow of transactions** and specific **control procedures** by reviewing **sample reports**.
- Review system audit report to understand the system, weakness in the system and suggestions made to improve the system
- Verify various **controls** like a) control in respect of **access to system**, password protection, b) **input control** in respect of rate of interest, value of security, drawing power etc.
- Verify how start of **(SOD)** and End of Day **(EOD)** procedure is handled.
- Verification of system of **uploading** of transactions during **down time**.
- Verify controls during **transfer of data** from CBS to software used for preparation of financial statements.
- Verify controls in respect of **access** to data base, restriction on change in master data and back up controls

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- Verify [Exceptional](#) Reports.

8. Auditors Report & Memorandum of Changes

- The Auditors Report should be a [self contained document](#) and should contain no reference of any point made in any other report including the LFAR
- Include [Audit Qualifications](#) in the Auditors Report and not in the LFAR
- [Quantify](#) the Audit Qualifications for a better appreciation of the point made to the reader
- For suggesting any changes in the financial statements of the branch, quantify the same in the [Memorandum of Changes](#) (MOC) and make it a subject matter of qualification and annexe it to the Auditors Report
- Certain items like provisions for employees benefit, provision on NPA etc. is done at Head Office and many Accounting Standards are complied with at Head Office. [Auditors Report should contain qualification in respect of the same.](#)

9. Long Form Audit Report (LFAR)

- [Study](#) the LFAR Questionnaire thoroughly
- [Plan](#) the LFAR work along with the statutory audit right from day one
- The LFAR questionnaire is a [useful tool for planning](#) the statutory audit of a branch
- [Complete & submit](#) the Auditors Report as well as the LFAR [simultaneously](#)
- [Comments in](#) LFAR should be specific and not vague.
- [Give instances](#) of shortcomings/ weaknesses existing in the respective areas of the branch functioning in the LFAR
- The LFAR should be [sufficiently detailed and quantified](#) so that they can be expeditiously consolidated by the bank.

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10. Certificates

There are number of certificates required to be issued by the Branch Auditors. Some of these certificates are relating to disclosures for the Bank as a whole. These are:

- i. Certification of figures for capital adequacy as per Basel-II norms.
- ii. Asset Liability management (ALM)
- iii. Details of restructured account/interest sacrifice etc.

Branch auditor need to take due care while certifying the figures of these certificates. In respect of data for compliance of Basel II norms and ALM, the branch auditor need to apply appropriate audit checks to ensure that data generated by the system are reliable. Also refer the relevant Master Circular.

Certification of Ghosh and Jilani Committee recommendations is another important certification for which auditor should give suitable disclaimers wherever required.

11. General

- Send a Letter of your Requirements to the Branch before commencing the audit
- Obtain the latest status of cases involving fraud, vigilance and matters under investigation having effect on the accounts and report it appropriately.
- Obtain a Management Representation Letter (MRL)