

Documentation for Bank Branch Audit



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Introduction

AAS 1, "Basic principles governing an audit" states: "The auditor should document the matters which are important in providing evidence that the audit was carried out in accordance with the basic principles".

Documentation

AAS 3 states "Documentation refers to working papers prepared or obtained by the auditor and retained by him in connection with the performance of his audit".

Documentation assumes greater significance in the light of the Peer Review process.

In the race against time to complete the bank branch audit within the stipulated time, documentation generally takes a back seat. In order to ensure that the same does not happen it is suggested that a checklist be prepared. This check list must be diligently filled up during the course of audit.

An illustrative check list which can aid in documentation is set out below.

BANK AUDIT CHECK LIST

Name of the Bank :
Name of the Branch :

Done by :
Reviewed by :

Check Points	Yes/ No /NA	Done by	W.P. ref.No.
CASH 1. Verify the cash balance on hand at the close of business hours on the last working day of the year or on the first working day of the subsequent year. 2. If cash could not be verified as above, then check the cash on any subsequent date and re-work the cash on hand on the last date. 3. Does the branch have an ATM. 4. If so verify Cash at the ATM. 5. Verify the cash holding limit of the branch 6. Verify the insurance available in respect of cash BALANCES WITH BANKS 7. Verify the correctness of balances under this head. 8. Obtain a copy of certificate of confirmation of balances from banks where moneys are kept by the branch. ADVANCES 9. Verify whether the branch has complied with the requirements such as obtaining loan applications, preparation of proposals, grant / renewal of advances, enhancement of limits etc., 10. Verify whether any facilities have been granted beyond such delegated powers of the branch. 11. If so, whether the same has been reported to the higher authorities. 12. Verify all the fresh sanction / renewal/ enhancement orders, issued during the year under review. Check whether the terms of sanction has been complied with in all cases. 13. Check whether all the documentation formalities have been complied with before release of facilities by the branch. 14. Check whether in the cases of corporate borrowers due charges have been registered with the Registrar of Companies. 15. Have all the cases due for renewal been renewed. Obtain a list of cases due for renewal/ extension of tenability and the period of pendency. 16. Verify the receipt of stock statements in all cases. Check that the follow up action of the branch is adequate. 17. Check whether there is a system of conducting periodic stock audits. Obtain the list of cases where stock audit has not been carried out. Note the reasons assigned by the branch for such a lapse. 18. Check whether the branch has obtained audited statements from non-corporate borrowers with limits in excess of Rs.10 lakhs, as required by RBI. 19. Check the procedure adopted by the branch for periodically verifying the assets charged to the bank.			

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Anger is a wing that blows out the lamp of the mind.

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Check Points	Yes/ No /NA	Done by	W.P. ref.No.
0. Verify the accounts to ensure that there are no frequent overdrawls, shortfall in the value of security 1. Check whether the assets charged to the branch have been adequately insured. 2. Does the bank carry out lease financing. If so, check whether RBIs requirements in respect of such transactions have been complied with. 3. Check whether the branch has a system of recovering the credit card dues promptly. 4. Check whether the branch has complied with the Income recognition norms prescribed by RBI. 5. If not, have you made out a detailed working for proposing MOC. 6. Have you come across instances where the controlling authorities have recommended legal action for recovery of advances / recalling of advances while the branch had not done so. 7. Ensure that the branch has a system of reporting all cases of NPAs to the controlling authorities. 8. Obtain the list of cases where any rehabilitation program has been undertaken 9. Obtain data in respect of pending DICGC claims. 10. Has the branch furnished the relevant information required for the purpose of reporting in LFAR. 11. Check whether the branch has obtained valuation reports in respect of all NPAs. 12. Verify cases where there are compromise proposals and write offs. 13. Verify the list of guarantees invoked and funded by the branch. 14. Collect the data required for the purpose of reporting in the LFAR. SUSPENSE & SUNDRY ASSETS 35. Verify the details furnished by the branch for the above items, with reference to old items requiring to be written off. 36. Verify whether there are any unusual entries put through these accounts. PROFIT & LOSS ACCOUNT 37. Test check the interest paid/earned by the branch. 38. Verify whether the Income Recognition Norms stipulated by RBI have been complied with. 39. If not, have you suggested MOC 40. Verify whether the branch has a system of providing for interest on overdue deposits BOOKS AND RECORDS 41. Check whether any records are maintained manually 42. In respect of computerised branches, ascertained whether a systems audit had been carried out. RECONCILIATION OF CONTROL AND SUBSIDIARY RECORDS 43. Verify whether the control and subsidiary records have been reconciled at the year end. AUDITS / INSPECTIONS 44. Ascertain the coverage of branch operations during the year by different audits. 45. Consider the major adverse comments made during such audits, while framing your report. 46. Obtain details in respect of Frauds committed during the year. HEAD OFFICE ACCOUNT 47. Is the balance in agreement with the head office account in the GL. 48. Are there any outstanding debits in the HO Accounts in respect of IBIT. 49. Are there any old outstanding entries relating to IBIT, which remains un-explained. 50. Check the General Charges to ensure that only expenses genuinely related to the activities of the branch have been recorded. ANNUAL RETURNS 51. Trace the balances from the Balancing Reports into the Annual Returns. 52. Did you come across any discrepancy between the Annual Return and the GL 53. If so, have you proposed a MOC 54. Check whether the provision recommended in the case of NPAs is in line with the norms prescribed by RBI. 55. Have you come across case of under / over provisioning. 56. If so, have you proposed a MOC 57. Obtain details of borrowers with outstanding of Rs. 2 crores and above in the prescribed format and check the same for correctness.			

Behaviour is a mirror in which everyone displays his own image.

Working papers for Long Form Audit Report [LFAR] in Branch Audit



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Introduction:

'AR' is certainly a "backbone" of the branch audit since it not only serves as audit programme but also as a management information report to judge the performance of the branch in adhering to the laid out internal control and other procedures. The branch auditor should give importance to the 'LFAR' and take great care in filling up the same. He should maintain proper working papers for what he has done and reported as regards 'LFAR'. The guidance note on audit Banks issued by ICAI says "the branch auditors should note that if they have any reservations or adverse remarks with regard to any of the matters to be dealt with their LFARs, they may give reasons for the same". Also, wherever relevant, instances of situations giving rise to their reservations or adverse remarks may also be given.

Where any of the comments made by the auditor in his LFAR is adverse, he should consider whether a qualification in his main report is necessary. It should be assumed, however, that every adverse comment in the LFAR would necessarily result in a qualification in the main report. In deciding whether a qualification in the main report is necessary, the auditor should use his discretion on the facts and circumstances of each case.

The various aspects which the auditor should verify and maintain as working papers are given below:

ASSETS

CASH

Verify

- Physical balance should tally with Day book & Daily cash balance Book
- Insurance policy copies for cash & other assets if any at the branch.

Working papers/supporting papers

- Details of verifications carried out, queries, explanations and decisions.
- Cash balance certificate
- Details of some instances of cash exceeding the limit.
- Certificate from management that the insurance is done at Head office if the insurance is not done at Branch office.
- Note down at Random the dates on which cash is checked at periodic intervals by officials.

BALANCE WITH RBI, SBI & OTHER BANKS:

Verify

- Bank reconciliation statements of RBI and other Banks.
- Bank balance of these banks.
- Statements received from these banks.

Working papers/supporting papers

- Details of verifications carried out, queries, explanations and decisions.
- BRS statements duly certified by branch management.
- Confirmation of balances from banks as at 31/03/2008.
- Explanation for long pending items in BRS.

(iii) MONEY AT CALL & SHORT NOTICE:

Verify:

The details of registers available at the branch and HO instructions in this regard are to be checked for limits, procedures to be followed etc.,

Working papers/supporting papers

- Details of verifications carried out, queries, explanations and decisions.
- Management confirmation that there are no such money at call & short notice if the branch does not have any.

(iv) INVESTMENTS

IF THE INVESTMENTS ARE HELD AT BRANCH

Verify

- The investment register/list at the branch.
- Scripts if they are held in hard copies, otherwise confirmation from the e-intermediary/Demat agent, for e-holding of investments.
- Normally, Head Office will give the list of investments held at the branch. That should be checked with the holding at the branch.
- Confirm that all incomes received on account of Head office from these investments are transferred to Head office.

Working papers/supporting papers

- Details of verification carried out, queries, explanations and decisions.
- Photocopy of list of Investment.
- Confirmation certificate from external agencies wherever applicable.
- If investments are not held at the branch, obtain a certificate from the management that they do not hold any investments.

v) ADVANCES

VERIFICATION:

a) Extent:

- Large Advances [Accounts where the limit exceeds 5% of the aggregate advances of the branch or 2 crores whichever is less] – 100%,
- Other advances - At random/test check on sampling basis

b) Verify:

- Go through the documents/advances manual book of the bank.
- Documents/Loan papers of borrowers for proper formats, approvals/sanctions (including compliance of terms and conditions) /renewals/reviews/excesses/ credit supervision (including confirmation of balance from borrowers)
- Verification of securities held.
- Periodic submission of stock/book debts/compulsory audited financial statements & audit reports/other periodic operations & financial statements and suitable action taken.
- Periodicity & copies of report of physical verification of security charged to the bank by officials of bank, internal inspections, stock audit, etc., and their valuations.

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Don't let your mind become cluttered with worry. It leaves less room for the good stuff.

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- f) Application of prudential norms as per Head office/RBI guidelines, any deviations resulting in M.O.C, etc.,
- g) Details of claims with DICGCI and export guarantees/insurance, subsidies, etc.,
- h) To check the questionnaire regarding large/irregular/problem/ critical accounts and the details furnished therein.

Working papers/supporting papers:

- a) Details of verification carried out, queries, explanations and decisions.
- b) List of accounts chosen as large borrowers with details of name, Constitution, Name of partners/Directors, Limits, Type of limits, Amount sanctioned, Balance outstanding as on 31/03/2008, Securities held, Last date of submission of stock statements, Financial statements. Note on the perusal of the functioning/ operations of the account.
- c) Noting regarding queries raised, answers/explanations obtained decision taken by auditor.
- d) Detailed confirmation in the management representation letter that the accounts have been correctly classified as per prudential norms, on the basis of security etc., the valuation of the securities are correct and latest, If the board for controlling authority has authorized legal action for recovery of advances, a list of such cases DICGCI/ECGC (other claims) details.
- e) The questionnaire regarding large/irregular/problem/critical accounts and the details, various data etc., furnished duly certified by branch management.

OTHER ASSETS**STATIONERY & STAMPS**

- fy
- a) Physical stock checking of stamps – tallying with ledger & register.
- b) Physical random check of unused Cheque books, DDs, PO s etc., and tally with stock book balance.

Working papers/supporting papers

- a) Details of verification carried out, queries, explanations and decisions.
- b) Details of checking of stamps denomination wise.
- c) Details of checking of stationery stock items chosen, difference if any, explanations, judgments about the system of internal control etc.,

LIABILITIES**DEBTS PAYABLE, SUNDRY DEPOSITS etc.,**

- fy:
- a) Perusal of transactions in these accounts particularly above a determined/ specified amount for unusual items.
- b) Old pending items list furnished by branch.

Working papers/supporting papers

- a) Details of verification carried out, queries, explanations and decisions.
- b) List of old pending items (date wise) as certified by the branch.

PROFIT AND LOSS ACCOUNT:

- fy:
- a) Revenue audit report.
- b) Income and expenditure audit report.
- c) Choose months not covered by the above auditors for your random

check. Checking for one month in full and then comparing with other months would be easier.

- d) Income recognition norms for NPA accounts, reversal of interest for newly identified NPAs, etc.,
- e) Compare various income heads and expense heads with that of the previous year audited figures.
- f) Changes in accounting policy as indicated by the HO circular.

Working papers/supporting papers

- a) Details of verification carried out, queries, explanations and decisions.
- b) Details about the revenue/Income and expenditure audit report.
- c) Accounts number, Customer name for accounts chosen for verification of interest (both advances & deposits), amount checked by you, amount calculated by them, difference, if any.
- d) Confirmation from management for strictly following Income recognition norms for NPA accounts.
- e) Quantitative effect of changes in accounting policy, if any, by HO at the branch duly certified by management.
- f) Comparative statement of various heads of Income and Expenditure of this year & last year along with explanation for divergent trends.

GENERAL:**BOOKS & RECORDS:****Verify:**

Now-a-days most of the branches have computerized either by way of total branch mechanization or by core banking solutions. Hence most of the verifications /perusal we carry out are on the screen (computer systems) and not on physical records. However, the head office has got a set of procedures to be followed by the branch for taking out regular printouts of certain records. These printouts need to be initialed and bound and maintained properly by the branch. The branch auditor has to verify whether the branch has followed the same.

The auditor has to verify the extent of computerization. Also randomly check access and data security measures like user IDs, password, access rights violations and other internal IT Security controls. Verify whether regular backups of account are taken on daily basis and off – site storage is maintained. To check whether soft copies of all types of accounts are maintained in a PC and/or CDs. Also verify whether adequate contingency and disaster recovery plans like mock tests and drills are conducted for staff, fire extinguisher, fire alarms, etc., are installed, etc.,

Working papers/supporting papers

- 1) Details of verification carried out, queries, explanations and decisions.
- 2) Since most verification is carried out on the screen you may request the branch to furnish computer printouts for sensitive accounts or for accounts for which classifications are disputed by the branch.
- 3) Management representation letters confirming back ups, off – site storage of soft copies may be obtained.
- 4) Note down the details of the existence of fire alarms, fire extinguishers, expiry date of gas filled therein etc.,

RECONCILIATION OF CONTROL AND SUBSIDIARY RECORD**Verify:**

Normally in view of the computerized circumstances there may not be any differences of balances between control and subsidiary records.

Hatred in our hearts causes our enemies to triumph over us. Forgiveness causes us to triumph over them.

However you may randomly check few heads of accounts. In case of manually maintained details, registers etc., the same needs to be verified to check if there are differences in balances between control & subsidiary records.

Working papers/supporting papers

- 1) Details of verification carried out, queries, explanations and decisions.
- 2) MRL containing confirmations on the above points.

INTER-BRANCH/HEAD OFFICE ACCOUNTS:

Verify the head office correspondences, statement details as to whether there are any old pending/unresponded/unmatched/uncompiled queries/communications in the inter branch or head office account; also check if there are unusual entries.

Working papers/supporting papers

- 1) Details of verification carried out, queries, explanations and decisions.
- 2) Details of random checks as carried out by auditor.
- 3) Management Representation Letter regarding the balance outstanding at the end of the year of these accounts with break up of no. of entries and the year to which it pertains.

PREVIOUS AUDIT/INSPECTION:

- a) Verify the latest internal inspection report.
- b) RBI inspection reports, if any.
- c) Income and expenditure/Revenue audit report, if any.
- d) External auditor's inspection reports, if any.
- e) Concurrent audit report, if any.

In fact this should be done at the first instance in audit of branches. Since perusal of the above will indicate to the auditors the various salient features about the performance of the branch and whether they are following prescribed internal control procedures.

Verify whether all irregularities pointed out by various auditors have been rectified and still not persisting.

Working papers/supporting papers

- 1) Details of verification carried out, queries, explanations and decisions.
- 2) Details of various audits done with dates carried out by whom, period of coverage, date of submission of report, replies sent by branch and closure certificates issued by appropriate authority.
- 3) List of persisting irregularities to be reported in LFAR.

FRAUDS:

Verify fraud register, communication with controlling office, head office, police complaints, departmental actions etc., Auditors should note that RBI has issued special guidelines that if the auditors notice, suspect or smell a fraud in the course of their audit they have to "specifically report, simultaneously, to the chief executive officer of the bank and regional office of the department of banking supervision, RBI, any matter susceptible to be fraud or fraudulent activity or any foul play in any transactions." In case the amount of fraud involved 100 lakhs or above, auditors may report such instances directly to the central office of Department of Banking Supervision, Reserve Bank of India, Mumbai. RBI has further stated that any deliberate failure on the part of the auditor should render himself liable for action. For this the auditor should record all the details, evidences, discussions and explanations offered by branch and the reasons for the judgment of framing his/her opinion in this regard.

Working papers/supporting papers

- a) Details of verification carried out, queries, explanations and decisions.
- b) The details regarding the fraud.
- c) In case there is no fraud, obtain with full particular MRL that there have been no frauds at the branch during the year.

GUARANTEES & LETTERS OF CREDIT

Verify:

- 1) Guarantees & Letter of credit register along with balancing of such items to confirm whether it is tallying with figures shown in balance sheet (notes to balance sheet etc.,).
- 2) Check if any invoked guarantees or L/C s also funded by the branch or though invoked not funded. The branch should provide you a list of such items.
- 3) Test check if guarantees & L/C commission is correctly calculated and apportioned to various years based on the period.

Working papers/supporting papers:

- 1) Details of verification carried out, queries, explanations and decisions.
- 2) A list of invoked guarantees & L/C s paid by bank and invoked but not settled by bank duly certified by the branch management.
- 3) A confirmation in the management representation letter that all guarantees & L/C s issued are recorded correctly and depicted in the figures furnished in the financial statements.
- 4) Record of guarantees & L/C accounts checked for correctness of calculation and apportionment of income.

WINDOW DRESSING:

Verify:

- 1) If new loans/disbursements have been made to the existing NPA accounts to transfer funds for converting the account to performing.
- 2) If the deposit figures at the end of the year are far higher at 31/03/2008 as compared to the figures on 29/02/2008 or on the date of audit, ensure that it is not because of window dressing.
- 3) Advances disbursed at the end of the year without even proper documentation need to be probed.

Working papers/supporting papers:

- 1) Details of verification carried out, queries, explanations and decisions.
- 2) The figures of advances & deposits as on 29/02/2008 vis-à-vis the figures as on 31/03/2008 or date of audit may be noted and for deviations, proper explanations from the management are to be obtained.

CONCLUSION:

The above discussion on LFAR will indicate the importance of the Long form Audit report and how it helps the auditor to perform his duties in a planned, systematic and qualitative manner. Documentation is very crucial in any attest function.

OBITUARY

CA. S. Prakash Sundararaman, ACA (M.No.27886) of Coimbatore on 05/05/2007

CA. A. Vamanamurti, FCA (M.No.4651) of Narasanna Peta on 30/09/2007

CA. Thulasiram Ramathirukkonda, FCA (M.No.1202) of Pondicherry on 08/10/2007

CA. Raju Bellie, FCA (M.No.30385) Ootacamund on 25/01/2008

May the Almighty Architect of the Universe Rest their Souls in Peace

It may be alright to be content with what you have, never with what you are.