

Accounting Systems

PART A

01. The accounting systems of different banks vary in terms of hardware configuration, software capabilities, levels of hardware and software security, and nature of transactions processed. It is, therefore, not possible to identify a single accounting system that would describe all the features of such systems in operation in different banks.

02. SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" lays down that the use of Information Technology (IT) affects the way control activities are implemented. From the auditor's perspective, controls over IT system are effective when they maintain the integrity of the information and the security of the data such systems process, and includes effective IT controls and application controls. In recent years, many banks have moved towards computerisation of their operations. The degree of computerisation, however, varies among different banks and also among various branches of the same bank. While some branches have been fully computerised, some others have been partly computerised while many others are non-computerised.

03. The auditor of a bank needs to obtain an adequate understanding of the accounting system of the bank to assess the relevance and reliability of the accounting records and other source data underlying the financial statements. He should gain an understanding of the books of account and other related records maintained by the auditee including an understanding of the flow of various kinds of transactions. He can gain such understanding through enquiries of appropriate personnel, corroborated by making reference to documents such as accounting and procedures manual, flow charts, underlying documentary evidence and by observing the actual conduct of operations.

Salient Features of Accounting Systems of Banks

04. Banks, like most other large-sized entities, follows the mercantile system of accounting. Thus, the system of recording, classifying and summarising the transactions in a bank is in substance no different from that followed in other entities having similar volume of operations. However, in the case of banks, the need for the ledger accounts, especially those of customers,

being accurate and up-to-date on a real time basis is much stronger than in most other types of enterprises. A bank cannot afford to ignore its ledgers particularly those containing the accounts of its customers and has to enter each and every transaction in its ledgers as soon as it takes place.

05. Banks follow the accounting procedure of 'voucher posting' under which the vouchers are straightaway posted to the individual accounts in the subsidiary ledgers. Simultaneously, the debit and credit vouchers relating to particular type of transactions (e.g., savings bank accounts, current accounts, demand loans, cash credit accounts, etc.) get posted to the respective control account in the General Ledger. The trial balance of the general ledger is prepared every day.

06. It is imperative to note that most of the banks in the private and public sector have now networked all or most of their branches in the country which has over a period of time led to operational and financial efficiencies. Accordingly the traditional practice of maintaining manual records has largely been discontinued by online processing of transactions.

07. The accounting system in an enterprise is designed keeping in view the nature and volume of operations and information needs of management, regulators and third parties with whom the enterprise has dealings. With the advent of technology every big bank has customized banking software as per its own requirement and as such, the accounting systems differ amongst different banks. The following discussion should, therefore, be construed, as generic in nature and the auditor should ascertain the exact design of the accounting system in each auditing situation.

Accounting and Financial Control Manual ('AFCM')

08. The General Ledger ('GL') is the comprehensive repository of the Bank's financial information and prime source of data for internal and external reporting. It is imperative that the GL be complete, accurate and all its data valid. Banks should be encouraged to frame and adopt an AFCM, the primary objective of which should be to set out comprehensive, unified and standardised GL controls, standard accounting and financial operating procedures, accounting policies with the ultimate objective of strengthening the financial reporting and monitoring processes.

09. The manual should be reviewed centrally at the Head office level on an on-going basis at-least annually.

10. The salient features of the AFCM should include:

- Defining roles and responsibilities for the accounting and finance reporting team across key departments/ branches;

- Laying out the process controls to be applied to processes, procedures and practices followed by accounting and finance teams; and
- Outlining escalation requirements for reconciliations and process exceptions.

Reconciliation of sub-systems and suspense accounts

11. A Bank uses multiple sub-systems managing certain instruments, products and offerings for recording business transactions. These subsystems are electronically interfaced and need to be reconciled with the GL on a daily basis. There has to be adequate process to review the reconciliation between GL and the sub-systems highlighting significant unreconciled items, if any, to the Head office.

12. All Sundry Suspense accounts should also be tracked by the Bank on a regular basis. The Bank should have defined procedures for reconciling and monitoring sundry/suspense accounts at periodical intervals and escalating issues, if any, to the concerned departments/ branches for speedy resolution of open items.

Regulatory reporting to the Reserve Bank of India ('RBI')

13. Large banks generally have a dedicated regulatory reporting team for the purpose of ensuring appropriate reporting to the RBI. The information for the purpose of regulatory reporting is sourced from the GL and other subsystems of the Bank. In case of specific disclosure requirement, information is sourced from the respective business divisions. The reporting team should maintain an RBI reporting schedule based on which various reports are compiled and submitted to the RBI after being subject to a maker-checker process.

Audit Considerations

Information Produced by the Entity ('IPE') and used as Audit Evidence

14. Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based and includes the information contained in the accounting records underlying the financial statements and other information. Accounting records generally include the records of initial entries and supporting records, such as cheques and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries, and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as worksheets and spreadsheets supporting cost allocations, computations, reconciliations, and disclosures. The entries in the accounting records are often initiated, authorized, recorded, processed, and

reported in electronic form. In addition, the accounting records may be part of integrated systems that share data and support all aspects of the entity's financial reporting, operations, and compliance objectives.

15. Management is responsible for the preparation of the financial statements based on the accounting records of the entity. The auditor should obtain audit evidence by testing the accounting records, for example, through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements. However, because accounting records alone do not provide sufficient appropriate audit evidence on which to base an audit opinion on the financial statements, the auditor should obtain other audit evidence. Other information that the auditor may use as audit evidence includes minutes of meetings; confirmations from third parties; industry analysts' reports; information obtained by the auditor from such audit procedures as inquiry, observation, and inspection; and other information developed by or available to the auditor that permits the auditor to reach conclusions through valid reasoning.

16. IPE is not only used for testing controls relating to assertions on material classes of transactions, account balances and disclosures but is also used when performing procedures to evaluate the operating effectiveness of general IT controls. When evaluating the IPE, it is important to first obtain an appropriate understanding of the IPE. The auditor should begin with understanding what the IPE is, how the IPE is generated, and how it is intended to use as audit evidence. This allows the auditor to design the most appropriate testing approach to determine whether the IPE is sufficient and appropriate for purposes of the audit. The auditor should also consider the matters referred in SA 500 – Audit Evidence whilst testing IPE.

Elements of IPE

17. Information Produced by the Entity (IPE) typically consists of three elements:

- (1) *Source data*: The information from which the IPE is created. This may include data maintained in the IT system (e.g., within an application system or database) or external to the system (e.g., data maintained in an Excel spreadsheet or manually maintained), which may or may not be subject to general IT controls.
- (2) *Report logic*: The computer code, algorithms, or formulas for transforming, extracting or loading the relevant source data and creating the report. Report logic may include standardized report programs, user-operated tools

(e.g., query tools and report writers) or Excel spreadsheets, which may or may not be subject to the general IT controls.

For example, for the Advances Aging report, the report logic is typically a program in the advances application that contains the code and algorithms for creating the advances Aging (report) from the individual advances accounts detail (source data).

- (3) *Report parameters*: Report parameters allow the user to look at only the information that is of interest to them. Common uses of report parameters including defining the report structure, specifying or filtering data used in a report or connecting related reports (data or output) together. Depending on the report structure, report parameters may be created manually by the user (user-entered parameters) or they may be pre-set (there is significant flexibility in the configuration of parameters, depending on the application system), and they may or may not be subject to the general IT controls.

Understanding the IPE

18. The following questions may assist the auditor in understanding the IPE:

- What is the purpose of the IPE?
 - If in connection with the operation of a control, does the user depend on the accuracy and completeness of the information? If not, how is the user able to validate that the information is accurate and complete?
- What is the nature of the IPE?
 - Is it a standard or custom report?
 - Is the IPE system-generated or manually created? If manually created, what is the process for creating it?
- How is it created?
 - What is the relevant source data and where does the source data reside? Is the source data subject to the general IT controls (e.g., access controls)?
 - Where does the report logic reside? If system-generated, is the report logic subject to the general IT controls (e.g. access and program change controls)?
 - Is the report generated through a report writer tool? Is the report writer tool subject to the general IT controls (e.g. access and program change controls)?
 - What functions are being performed by the report logic, including:
 - How is the data extracted, transformed or loaded?
 - Are algorithms or calculations performed on the source data?

- Is the information further manipulated after the IPE is generated by the system?
- Is there additional information that is manually added to the report?
- Does the user enter parameters when the IPE is generated? If so what are the user-entered parameters?
- Have any errors been identified in the IPE? If so, what type of errors?

19. When using information produced by the entity the auditor has to evaluate whether the information is sufficiently reliable for audit purposes, including as necessary in the circumstances obtaining audit evidence about the accuracy and completeness of the information. Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.

Segregation of Duties

20. A standard approach for preventing fraud and effective control governance mechanism is to separate employee responsibilities in such a way that the opportunity to commit fraudulent activities is not available. For particularly vulnerable functions, it is common to require at least two employees participate in the functions of initiating, authorizing, recording, processing, and reporting of transactions. Application owners are responsible for determining who should have access, and what access privileges are granted. When determining a user's access privileges, the application owner should validate that segregation of duties is maintained and that job requirements are fulfilled.

21. The bank may use procedures such as a manual review of access listings and spreadsheets to compare the access rights granted to users, or alternatively, may use complex application systems and databases built to extract, analyse, and identify potential segregation of duties conflicts within the organization. When new users are added or when current users' change responsibilities within the organization, these procedures and/or application systems should be used to evaluate that the user's new access capabilities do not include the combination of two or more job functions that should be segregated (representing a segregation of duties conflict). The configuration of the access privileges within segregation of duties applications and spreadsheets, and any changes to these privileges, should be approved by management. Management should periodically

review access to these applications. Any issues noted during the review should be remediated on a timely basis.

22. The auditor can obtain the System Access Report, for each of the responsibilities defined for the General Ledger module to identify the functions, menus, and sub-functions by responsibility. The segregation of duties for a specific client should be determined by obtaining an understanding of the entity's business processes, including related manual processes and controls.

Journal Entry Testing

23. The term 'journal entry' usually refers to "journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements". Journal entry testing is frequently associated with tests for management override. SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" requires testing for management override, which includes:

- Testing appropriateness of journal entries.
- Reviewing accounting estimates for biases.
- Understanding the business rationale for significant transactions that are outside the normal course of business for the entity.

24. Journal entries may be tested as part of tests of controls or substantive procedures at assertion level or as part of audit procedures relating to financial closing process.

25. The auditor should use professional judgment to determine the nature, timing, and extent of testing of journal entries and other adjustments.

26. For the purposes of identifying and selecting journal entries and other adjustments for testing and determining the appropriate method of examining the underlying support for the items selected, the following matters are relevant:

- The assessment of the risks of material misstatement due to fraud.
- Controls that have been implemented over journal entries and other adjustments.
- The entity's financial reporting process and the nature of evidence that can be obtained.
- The characteristics of fraudulent journal entries or other adjustments.
- The nature and complexity of the accounts.

- Journal entries or other adjustments processed outside the normal course of business.

27. SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" lays down that the use of Information Technology (IT) affects the way control activities are implemented. From the auditor's perspective, controls over IT system are effective when they maintain the integrity of the information and the security of the data such systems process, and includes effective IT controls and application controls. Chapter 3, "Special Considerations in a CIS Environment" of Part II contains further guidance on this.

PART B

Principal Books of Account

01. The principal books of account, subsidiary books and statistical records generally maintained by banks are described in the following paragraphs. It may, however, be emphasised that the exact nature of such books may differ from one bank to another, depending upon the individual requirements of each bank.

General Ledger

02. The general ledger contains control accounts of all personal ledgers, the profit and loss account and different asset and liability accounts. There are certain additional accounts also (known as contra accounts) which are kept with a view to keeping control over transactions which have no direct effect on the assets and liabilities of the bank, and represent the agency business handled by the bank on which it earns service charges, e.g., letters of credit opened, bills received or sent for collection, guarantees given, etc.

Profit and Loss Ledger

03. For managerial purposes, the account heads in the profit and loss ledgers are more detailed than those shown in the published profit and loss accounts of banks. For example, there are separate accounts for basic salary, dearness allowance and various other allowances, which are grouped together in the published accounts. Similarly, various accounts comprising general charges, interest paid, interest received, etc., are maintained separately in the profit and loss ledgers.

Subsidiary Books

Personal Ledgers

04. Each control account in the general ledger is supported by a

subsidiary ledger. Thus, in respect of control accounts relating to accounts of customers, subsidiary ledgers are maintained for:

- (a) Various types of deposit accounts (savings bank, current account, recurring deposits, etc.) which contains accounts of individual customers. Each account holder is allotted a separate folio in the ledger;
- (b) Various types of loan and related accounts (cash credit, term loans, demand loans, bills purchased and discounted, letters of credit opened, bank guarantees issued) wherein the liability of each customer is reflected.

05. Separate registers are maintained to record the particulars of term deposits (including derivatives like call deposits, certificates of deposits, etc.). Banks generally do not allot separate folios to each customer. The register is divided into various sections, each section for a particular period of deposit and/or the rate of interest payable on deposits. As mentioned earlier, postings to these registers are made directly from vouchers and all the vouchers entered in each ledger/register in a day are summarised into voucher summary sheets. The voucher summary sheets are prepared in the department which originates the transactions, by persons other than those who write the ledgers. They are subsequently checked with the vouchers by persons generally unconnected with the writing of ledgers/registers or the voucher summary sheets. However, most of the banks are now under Core Banking and, hence, all the deposits received are automatically recorded in the respective registers.

Bills Registers

06. Details of different types of bills are kept in separate registers which have suitable columns. For example, bills purchased, inward bills for collection, outward bills for collection etc., are entered serially on a daily basis in separate registers. In the case of bills purchased or discounted, party-wise details are also kept in normal ledger form. This is done to ensure that the sanctioned limits of parties are not exceeded.

07. Entries in these registers are made with reference to the original documents. A voucher for the total amount of the transactions of each day is prepared in respect of each register. This voucher is entered in the day book. When a bill is realised or returned, its original entry in the register is marked off. A daily summary of such realisations or returns is prepared in separate registers whose totals are taken to vouchers which are posted in the day book.

08. In respect of bills for collection, contra vouchers reflecting both sides, i.e., debit and credit, are prepared at the time of the original entry, and

this entry is reversed on realisation.

09. Outstanding entries are summarised at stipulated intervals and their totals agreed with the balances of the respective control accounts in the general ledger.

Other Registers/Records

10. There are different registers/records to record detailed particulars of various types of transactions. These registers/records do not form part of books of account but support the entries/balances in the various accounts. Some of the important registers/records relate to the following:

- (a) Drafts issued (separate registers may be maintained for drafts issued by the branch on other branches of the same bank and those on the branches of its correspondents in India or abroad).
- (b) Drafts paid (separate registers may be maintained on the same pattern as in the case of drafts issued).
- (c) Issue and payment of –
 - (i) Telegraphic transfers.
 - (ii) Mail transfers.
 - (iii) Bankers' cheques/pay orders/Traveller's cheques/gift cheques
- (d) Letters of credit.
- (e) Letters of guarantee.

11. Entries in these registers are made from original documents which are also summarised on vouchers every day. These vouchers are posted into the day book.

12. Outstanding entries are summarised at stipulated intervals and their totals agreed with the respective control accounts in the general ledger.

13. There are frequent transactions amongst the branches of the bank which are settled through the mechanism of inter-office accounts. The examples of such transactions include payment/realisation of bills/cheques, etc., sent for collection by one branch to the other, movement of cash between them, transfer of funds where one branch acts as an agent of the other, e.g., for government-related business. All such transfers of funds are channelised through a nodal account (this account has different names in different banks, e.g., Head Office Account, Inter-office Account, and so on). This is a crucial account both for banks as well as the auditors for two reasons – first, many frauds have been perpetrated on banks through this account and second, banks are now required to make provision for entries

routed through this account which remain unreconciled beyond a time period specified by the RBI. For a detailed discussion on this aspect, reference may be made to Chapter 15 of Part III.

14. Banks maintain a Suspense Ledger to record various suspense accounts. Sometimes, transactions of a transitory nature, e.g., travel advances to employees, are recorded in a suspense account pending their adjustment in the related expense/income account. Some banks maintain separate ledgers for suspense accounts and sundry deposits accounts. The amounts lying in these accounts need regular monitoring to clear them.

15. Suitable registers with back-up registers to record classification under numerous sub-heads are maintained for:

- (a) Establishment expenses.
- (b) Interest and discount income.
- (c) Incomes by way of commission.
- (d) Interest expenditure.
- (e) Provision for interest accrued but not due on deposits.
- (f) Fixed assets.
- (g) Stationery consumed/in hand.
- (h) Interest payable to, and receivable from head office, in respect of advances and deposits respectively. A peculiar feature of accounting systems of banks is that the branches, notionally, have no funds of their own. All deposits accepted at the branch are deemed to have been passed on to the bank's head office and all loans made at the branch are deemed to have been made out of funds received from the head office. The head office pays interest to the branch for its deposits and charges interest from the branch for its advances. The rates of such interest charged and paid by head office are decided by the head office during the course of the year and are an important factor in calculating the profit or loss of a branch. The mechanism may be known by different names in different banks. All calculations in this regard are done at the branches only and suitable entries are passed, generally at the year-end. These entries, however, get offset in the process of consolidation of accounts and have no effect on the financial statements of the bank as a whole.
- (i) Instruments received from customers for payment/collection by the branch. Clearing of locally payable instruments is an important function of banks. Some banks maintain separate registers to record details of various types

of instruments lodged by customers whereas some other banks use a common book to record all kinds of instruments lodged by customers.

16. Separate registers are maintained to record and summarise the transactions relating to a particular head of account like Current Account, Savings Bank, Cash Credit, and Term Loans. Such books may be called Log Books, Day Books, etc. The totals in this book are carried over to the Cash Book.

Departmental Journals

17. Each department of a bank maintains a journal to note the transfer entries passed by it. These journals are memoranda books only, as all the entries made there are also made in the day book through voucher summary sheets. The purpose of such a journal is to maintain a record of all the transfer entries originated by the department. For example, the loans and overdrafts department will pass transfer entries for interest charged on various accounts every month, and as all these entries will be posted in the journal of that department, the officer concerned can easily find out the accounts in respect of which the interest entry has been passed. Since all the vouchers passed during the day are entered into the day book only in a summary form, it may not be possible to get this information from the day book without looking into the individual vouchers.

18. As has been mentioned earlier, a 'composite voucher' (or two separate vouchers for debit and credit) is generally prepared for each transfer entry. The composite voucher is generally prepared by and entered into the journal of the department which is accordingly credited to the other department. For example, if any amount is to be transferred from current account of a customer to his savings bank account, the voucher will be prepared by the current accounts department and entered in the journal of that department.

19. Besides the books mentioned above, various departments of a bank have to maintain a number of books to facilitate their work. Some of the important departmental books are described below.

Cash Department

20. The following books are usually maintained by the cash department:

- (a) Receiving cashiers' cash book
- (b) Paying cashiers' cash book

- (c) Head cashier's book
- (d) Cash balance book

21. Cash Book may have one column, or two or three columns, depending upon the system adopted by the bank to record cash, transfer and clearing transactions separately or to treat all of them as cash transactions. Two points may be noted here:

- (a) 'Transfer' relates to only those transactions where both debit and credit transactions are made in the accounts at the same branch and includes operations on non-customer accounts also. Clearing transactions essentially relate to customer accounts and the branch handles either payment or receipt of the underlying amount.
- (b) Banks generally maintain a register (commonly called Transfer Scroll) wherein brief particulars of the debit and credit sides of a transaction are entered. At the end of the day, the register shows the total value of transfer transactions handled which has to agree with the 'Transfer' column of the Cash Book, if there is such a system. In the case of a single-column Cash Book, the total of the day's transactions must agree with the total of cash and transfer transactions, as per the cash and transfer scrolls of the branch.

22. Banks have introduced different systems to facilitate quick payments to customers. The most prevalent system is the teller system. Under this system, the tellers keep both cash as well as ledger cards and the specimen signature cards of each customer in respect of current and savings bank accounts. The teller is authorised to make payment up to a particular amount. On receipt of the cheque, he checks it, passes it for payment, enters in the ledger card and makes the payment to the customer.

Outward Clearing Department

23. The following books are usually maintained by the outward clearing department:

- (a) Clearing cheques received book for entering cheques received from customers for clearing;
- (b) Bank-wise list of the above cheques, one copy of which is sent to the clearing house along with the cheques.

Inward Clearing Department

24. The inward clearing department maintains a memorandum book to record the number of cheques given to each department. Most of the banks have centralised debiting of inward clearing cheques at the respective

service branches. In such cases, the inward cheques will be retained at the service branch itself.

Loans and Overdrafts Department

25. The Loans and Overdrafts Department usually maintains the following books:

- (a) Registers to record details of documents executed by the borrowers and guarantors in respect of credit facilities
- (b) Securities registers for recording details of securities in respect of credit facilities
- (c) Pending documents and document deficiency register
- (d) Godown registers maintained by the godown-keepers of the bank
- (e) Price register giving the wholesale prices of commodities pledged with the bank
- (f) Overdraft sanction register
- (g) Drawing power book
- (h) Delivery order books
- (i) Storage books
- (j) Stock statements registers for loan accounts
- (k) Suit filed register
- (l) Inspection register for loan accounts

Deposits Department

26. The Deposits Department usually maintains the following books:

- (a) Account opening and closing register
- (b) Fixed Deposits, Rate Register giving analysis of fixed deposits rates
- (c) Due date diary
- (d) Specimen signature cards, containing specimen signatures of deposit account holders.

Establishment Department

27. The Establishment Department usually maintains the following books:

- (a) Salary and allied registers, such as, attendance register, leave register, overtime register, etc.
- (b) Register of fixed assets, e.g., furniture and fixtures, vehicles, etc.
- (c) Registers to record receipt, issue and balance of stationery including security papers, e.g., draft forms, cheque books, etc.
- (d) Old records registers.

General

28. Besides the above, banks also maintain the following books:

- (a) Specimen signature book (of the bank's officers).
- (b) Private telegraphic code and cyphers.
- (c) Back up registers for various types of returns/statements.
- (d) Safe Deposit Lockers / Safe Custody registers.
- (e) Registers to record particulars of lost instruments (drafts, cheques, etc.) based on details received from the head office.
- (f) Transit books through which instruments are sent to the cash department for payment by the official authorising such payment.
- (g) Registers to record particulars of outstanding inter-office entries received from the reconciliation department of the bank which are to be responded to by the branch.
- (h) Cheque books issued register.
- (i) Token register.
- (j) Stop payment register.

Flow of Transactions

29. The books of account and other books and records maintained by banks have been described above. It is necessary for the auditor to understand how various kinds of transactions executed by a bank get reflected in various books. The following paragraphs accordingly provide a brief overview of the flow of transactions commonly carried out by banks. The emphasis is on transactions carried out at the branch level since it is at this level that banking business and most other types of transactions usually take place.

Customers' Accounts

30. Transactions with customers (both depositors as well as borrowers) generally account for a substantial proportion of the total transactions at the

branch level. These transactions involve either a credit or a debit to the respective customer accounts.

Credits to Customers' Accounts

31. The customers may deposit cash, instruments payable at the branch itself (e.g., cheques issued by other customers of the branch/drafts issued by another branch of the bank or another bank as per approved arrangement, which is payable at the branch), or instruments drawn on other branches of the bank/other banks located within the area of the clearing house of which the branch is a member. Generally, clearing houses are managed by the RBI or branches of State Bank of India having currency chest. In some cases, the clearing house may be managed by other banks also. Besides, there may be separate clearing houses managed by the same or by different banks for MICR (Magnetic Ink Character Recognition) and non-MICR instruments. Deposits in a customer's account can be made by any other person also (besides the customer himself).

32. All deposits are made by filling-in the relevant pay-in-slips. All pay-in-slips have two portions – one becomes the voucher for the bank and the other (the counterfoil) is returned to the depositor as acknowledgement of deposit.

33. For deposit of cash, the amount is deposited with the cashier authorised to receive cash who puts a scroll number and his initials on the voucher as also on the counterfoil. The counterfoil, duly signed and stamped, is handed over to the depositor and the voucher is eventually sent to the official responsible for maintaining the customer's account. The official enters the voucher in the account and puts his initials on it in token of having posted it in the customer's account. After posting, the voucher is sent to the cash book section or other section, as per the bank's procedure, which supervises the work relating to Day Books, at the end of the day.

34. For deposits of 'transfer' instruments, there is a designated counter

which receives the pay-in-slips¹, tallies the particulars filled in the slip with the enclosed instruments, returns the duly signed, stamped and dated counterfoil to the depositor and records the particulars of the customer's account and the instrument in a register maintained for the purpose. This register is generally supervised by an official who sends both the pay-in-slip and the instrument to the desk where the instrument is to be handled, against the acknowledgement of the receiving official. (It may be clarified that a number of instruments can be tendered with one pay-in-slip provided they are all 'transfer' transactions, i.e., payable at the branch). The debit instrument is posted in the account concerned by the official handling the desk who then marks it with a 'Transfer' stamp with date and sends both the debit and the credit vouchers to the passing officer (details given later in the chapter). The officer puts his initials or signatures (as per the procedure in the bank) on both the vouchers. Thereafter, the credit voucher is sent to the Transfer Scroll in-charge who records brief particulars of both the debit and the credit vouchers in the scroll and sends the credit voucher to the desk where the customer's account is handled. Only the credit voucher 'passed' by the competent official is posted in the account. In case the debit instrument cannot be paid for some reasons (insufficient funds/post-dated/different signatures/stale/ payment stopped by the drawer, etc.), the counter clerk records the particulars in a register, usually called 'Cheques Returned' register and seeks instructions from the branch manager or officer designated by the bank to deal with such matters. The competent official records his decision (to either pay or return the instrument) on the register. Normally, in case of payment of such instruments, the official records 'Pay' on the instruments also. If unpaid, the instrument is returned to the customer.

35. It is possible that there is more than one instrument along with a single pay-in-slip and these instruments are handled at different desks. In such cases, though the procedure outlined above is followed for passing the

¹ The concept of having cheque drop boxes has also come into vogue wherein banks have almost done away with the system of having a separate counter for receiving cheques. Instead banks now maintain a locked cheque drop box in their premises alongwith a receiving acknowledgment stamp of the bank. The customers now fill up the cheque deposit slip and themselves put the bank's cheque receiving acknowledgement stamp on the bank's copy of the deposit slip as well as their own counterfoil and drop the cheque in the box. However, both the options are available to the customer as RBI Circular No. RPCD.CO.RF.BC.NO./40/07.40.06/2006-07 dated December 26, 2006 on "Cheque Drop Box Facility and the facility for acknowledgement of cheques" requires the banks to invariably display on the Cheque Drop-Box itself that "Customers can also tender the cheques at the counter and obtain acknowledgement on the pay-slips". Further, RBI vide its circular no.DPSS.CO.CHD.No. 485 / 03.06.01 / 2010-11 dated September 1, 2010 on "Dishonour / Return of Cheques - Need to Mention the 'Date of Return' in the Cheque Return Memo" mandates the banks to indicate the 'date of return' in the Cheque Return Memo.

debit vouchers, the credit voucher may be authenticated, generally, by the official who passes the last debit voucher. Besides, it is also possible that out of many debit instruments, only a few are paid and the others returned. This would mean that the customers' account cannot be credited with the amount shown in the pay-in-slip. In such cases, banks generally credit the account with the amount mentioned in the slip and separately raise a debit for the amount of instruments returned. This is because the banks, on their own, cannot change the amount in the slip after having given the counterfoil to the depositor.

36. The customer can also deposit the 'clearing' instruments with the bank. When a customer deposits a clearing instrument with his bank, the designated desk in-charge checks the voucher and the instruments, gives stamped, signed and dated counterfoil to the depositor, enters the particulars in a register maintained for recording the pay-in-slips received from the customers, and sends the credit voucher along with the instrument to the clearing section in the branch. Once the clearing section receives confirmation of payment of an instrument lodged by it in the clearing house (local clearing usually takes 1-4 days and an instrument is generally deemed to be cleared if it is not received back within a certain time stipulated for the purpose, by the clearing house rules), its in-charge passes the credit vouchers which are sent to the section where the customer's account is handled, for posting in the customer's account. As regards the instruments received back unpaid, there are two ways of dealing with them. One is to credit the customer's account with the amount of pay-in-slip and then to debit the account with the amount of instruments returned. The other method is not to post the credit voucher at all and treat it as cancelled; this is, however, done only in cases where all the instruments lodged along with a particular pay-in-slip are returned unpaid. Credits also may come from RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer) or ECS (Electronic Clearing System) which do not involve physical movement of cheques/payment instruments.

37. The customers also deposit various kinds of bills (including cheques), as under, payable in India or abroad:

- Bills for collection (against which the bank does not grant any advance to the customer).
- Bills for negotiation (against which the bank provides advance to the customers) – purchase of demand bills and discounting of usance bills.

38. Bills for collection are generally tendered along with a pay-in-slip

whereas those for negotiation are tendered along with a letter from the customer. Where the instruments are for collection, these are handled by the Bills Collection Section. This section or any other designated desk in the branch accepts the pay-in-slip and the enclosed bills and gives acknowledgement (counterfoil) to the depositor. The details of the bills are entered in a Bill Collection Register. Each bill is allotted a distinctive number which is recorded on all vouchers/documents pertaining to the transaction. A forwarding schedule (or collection schedule) is prepared giving details of the instruments like drawee, date of instrument, any special instructions given by the drawer, etc. The bill is enclosed to this schedule and sent to the branch which has to collect the proceeds from the drawee. On receipt of the advice of the payment of the bill, the originating branch credits the customer's account with the amount of the bill paid (less any charges deducted by the collecting branch) and simultaneously recovers its own commission for handling the transaction by debit to the customer's account. The procedure stated above is common to both the demand and usance bills, though nomenclature of the registers and the forwarding schedules used for the purpose may be different.

39. As regards the bills tendered for negotiation, the transaction may relate to either the customers who have been granted regular limits for the facility or those who need this facility only occasionally. In the latter case, the bank would have prescribed an authority to approve the negotiation. Generally, bills are submitted by customers along with a forwarding letter while the cheques are submitted with a pay-in-slip, along with a request to negotiate the same. The cases of regular limits are handled by the Loan Section and the official dealing with the accounts or other designated authority approves the bills for negotiation after ensuring that the limit can accommodate the bills or that, in case of any overdrawing, these have been permitted by a competent authority. The bills negotiated are entered in the Purchase/Discount registers and the customer's bill account. Like the collection schedule, the Purchase/ Discount schedules are prepared and sent along with the bills to the branch concerned for realisation. The amount of the bills negotiated is immediately credited to the customer's account, after deducting the prescribed bank charges. In due course, on receipt of payment of the bills, along with overdue interest (if the bills are paid by the drawees after the due dates) or on return of the bills, if unpaid, the entry in the customer's account is reversed. In case of return, the amount of the bill, together with overdue interest at the rates prescribed by the bank, is recovered from the customer. The negotiation of the bills can also be done under the letters of credit (LCs) issued by a bank in favour of the customer. The accounting procedure in case of negotiation under LC is the same as

explained above, however, the recording of such bills may be done in a separate set of registers. The negotiating branch also maintains a record of the due dates of bills negotiated and follows up with the realising branches if the proceeds are not received in time.

40. The accounting procedure for export bills – whether for collection or for negotiation – is essentially the same as that for domestic bills as discussed above; the books and registers may, however, have different names and columns, as these transactions involve conversion of a foreign currency into Indian rupees.

41. Some credits are made in customers' accounts by the bank itself, the most common example being the periodic interest on a deposit account and refund of any excess recoveries made earlier. In such cases, the bank may prepare either the pay-in-slip or the plain credit voucher. These vouchers also follow the same route as for those tendered by the customers except that such vouchers are not entered in the register meant for recording the instruments lodged by customers.

42. The cardinal principle followed by banks is that the credit is given to the customer only after the corresponding debit has been approved by an authorised official at the branch.

Debits to Customers' Accounts

43. In respect of a running account (mainly current/savings bank/cash credit), the most common source of debit is the cheque (or withdrawal form in the case of a savings bank account) or a letter of authority signed by the customer or RTGS/NEFT. In case the customer or the holder of the instrument wants to withdraw cash against this instrument, he presents it to the designated counter which maintains the ledger containing the drawer's account and, in acknowledgement, is given a token bearing a distinctive number. The counter staff records the token number on the instrument and obtains the presenter's signatures on the reverse of the instrument. He then verifies the balance in the account (credit balance in deposit accounts and limit sanctioned in advances accounts). If it is sufficient to meet the amount mentioned in the instrument, he posts it in the account, puts his initials on the instrument in token of having posted it and marks it with a 'pay cash' stamp. The instrument is then sent to the official in charge of that particular counter for authorising the payment. He authorises the payment of the instrument by signing it which serves as an instruction to the cash department to pay the amount to the presenter of the instrument. Each passing official maintains a payment scroll in which he records the account no., token no. and amount of

the instrument passed by him. The serial number at which a particular instrument is noted in the official's scroll is recorded on the instrument also. Thereafter, duly passed instrument is sent for payment to the cash department in a 'passed voucher book' or 'transit voucher book'. The paying cashier acknowledges the receipt of the instrument by initialling the relative entry in the book which is returned to the passing official. The cashier obtains the token from the presenter as also his signatures on the reverse of the instrument which is an acknowledgement of receipt of amount by the presenter and makes payment to him. The particulars of payment including the denomination of notes/coins given in payment are recorded in the cashier's scroll. The serial number in the scroll at which the payment is entered is also recorded on the instrument and the 'cash paid' stamp affixed on it under signatures or initials of the cashier.

44. The customer may want to purchase an instrument/receipt like Demand Draft, Mail Transfer, Telegraphic Transfer, Pay Order, Banker's cheque, Term Deposit, Call Deposit, Travellers' cheque, Gift cheque, or any other similar product of the bank, or make any payment to the government. For the purpose, he tenders the debit instrument (cheque/authority letter, etc.) at the counter where his account is maintained, along with the appropriate credit voucher duly filled in (application form, pay-in-slip, challan, etc.). The counter staff verifies that the vouchers are in order and that sufficient balance is available in the account. He then posts the instrument in the account and the same procedure, as in case of cash payments, is followed upto the stage of authorisation by the official concerned except that instead of a 'Pay Cash' stamp, a 'Transfer' stamp is put by the counter staff on both the instrument and the credit voucher there against. After passing the debit and the credit vouchers, the official sends all the vouchers to the transfer scroll desk where the particulars of all the debit and credit vouchers are recorded and the credit vouchers sent to the respective desks which handle those products.

45. Customer's accounts are debited on account of instruments received in clearing also. All the instruments received through the clearing house, which are payable at the branch, are received by the clearing section and handed over to the desks concerned against acknowledgement. Subsequent procedure is the same as for transfer instruments except that there is no credit voucher with the instrument. The passing official has only to pass the debit instruments which bear the clearing stamp of the bank presenting them. The consolidated credit voucher is passed by the clearing section in-charge.

46. In case the counter staff notices that the balance in the account is

inadequate to pay the instrument or the instrument is defective, he has to seek the instructions of the designated authority through the Cheques Returned Register.

47. Paragraphs 43 to 45 above deal with cases where the customer's account is debited on account of the instruments signed by him. In addition, there are cases in which the bank raises the debits to the customer's account on its own (though, of course, under intimation to the customer). The examples of such debits are:

- Carrying out the standing instructions received from the customer (including charges for executing these instructions).
- Payment of bills under letters of credit opened by the branch on behalf of the customer.
- Payment for guarantees issued at the request of the customer, which are duly invoked by the beneficiary.
- Periodic interest on loan accounts.
- Rectification of any erroneous entry in the account.
- Recovery of bank charges for which the bank holds an express or implied authority like loan application processing charges, ledger fees, inspection charges, locker rent, ATM annual charges, bill handling charges, issue of duplicate drafts etc., noting of 'stop payment instructions' given by the customer, return of cheques issued by the customer due to insufficiency of funds in the account, and so on.

48. A separate mention deserves to be made of the bills received by the branch for collection from its customer (being the drawee of the bill). On receipt of such a bill, the branch sends intimation to the drawee giving the details of the bill. The drawee presents a debit instrument for the amount to be paid (bill amount plus bank charges plus overdue interest, if applicable) to the Bills Section at the branch, along with the intimation received by him from the branch. He does not submit any credit voucher to the branch in such cases. The credit vouchers are internal to the branch and are prepared by the branch itself. The debit instrument given by the customer is processed like any other 'transfer' instrument, as discussed above.

49. Two points should be kept in view with regard to debits to the customers' account:

- Only the customers or their duly constituted attorneys can authorise a debit to the account (unlike a credit which can be made by any

person).

- Debit instrument has to be passed first and the credit voucher only thereafter.

Issue of Drafts

50. Each bank has its own standard application form which has to be filled in by the applicant. Many banks have opened service branches at important centres. Wherever such branches exist, the outstation branches are instructed to draw the drafts only on them. In some cases, the drafts may be made payable on other banks also if there is such an arrangement between the issuing bank and the paying bank. Such type of transactions are quite common in international banking area.

51. If the customer wants to tender cash for purchase of the draft, he tenders the draft application and the required amount of cash (amount of draft and the bank commission) to the cashier concerned. The cashier, after making necessary entries in his books, releases the voucher which is sent to the drafts issue desk. The counter staff prepares the draft as per the customer's instructions, enters it in the Drafts Issued register, gets it signed by an authorised official, and hands it over to the applicant against his acknowledgement.

52. If the customer wants a draft against a transfer transaction (generally, a cheque drawn on his account), the voucher is prepared after the customer's account has been debited.

53. The branch may, at times, need to issue drafts (or banker's cheque or pay order) on its own account, e.g., for remittance of proceeds of a bill received for collection directly from the drawer of the bill. In such cases, the draft application is signed on behalf of the bank, giving particulars of the Bill No. paid; the remaining procedure is the same as described above.

54. In respect of drafts issued, an advice is generally sent to the drawee branch. Besides, some banks have a system whereby issue of drafts above a prescribed amount is also confirmed to the drawee branch by a coded telegram/by telephone or in any other mode.

55. Some important points to be noted with regard to issue of drafts are as follows:

- For drafts of small value (based on the cut-off level fixed by the bank), the advice regarding issue of draft may not be sent to the drawee branch.

- Some banks also fix a ceiling upto which the draft may be signed by a single official. Beyond this level, normally two officials have to sign the draft. Besides, the specimen signature, number of the official(s) signing the draft has to be mentioned on the draft.
- There is generally a ceiling (fixed by the RBI in consultation with the Central Government) upto which the drafts can be issued against deposit of cash. The ceiling may undergo revision from time to time.

56. At the end of the day, the counter staff works out the total amount of drafts issued on that day and the commission earned thereon. This figure is carried over to the Cash Book.

Issue of Mail Transfer/Telegraphic Transfer

57. These are two other modes of remittance of funds from one place to the other. The difference between the two is in the manner of transmission. Mail Transfer (MT) is sent by post to the paying branch whereas Telegraphic Transfer (TT) is sent by telegram (these days, some banks use fax also). MTs and TTs differ from drafts only in one respect. MTs/TTs are sent to the paying centre by the branch itself (under intimation to the customer) whereas draft is handed over to the customer who arranges to send it to the beneficiary. In terms of procedure, MTs/TTs are similar to draft.

Issue of Pay Orders/Banker's Cheques

58. These instruments are normally issued for local payments including local payments to be made by the issuing branch itself. The procedure is basically the same as for issue of drafts except that no advice is required.

Issue of Term Deposit/Call Deposits and Receipts and Similar Instruments

59. These instruments are issued in favour of the customers only and are akin to other accounts of the customers except that these are not running accounts (these days, however, some banks have developed hybrid products which contain features of term deposit, saving bank account and current account. For example, many banks have now started offering a facility of automatic transfer of the amount standing to the credit of the savings account of a customer to a fixed deposit account, subject to a certain minimum balance left therein. As and when the customer needs to withdraw an amount or issues an instrument of a value higher than the minimum balance in his account, the bank automatically transfers amount from the fixed deposit account to his savings account). Upto the point of receipt of credit voucher in the TDFR section, the procedure is same as that for credit to any other

account of a customer. After receipt of the credit voucher, the procedure is generally on the following lines:

- (a) The receipt is prepared in the bank's pre-printed standard format and contains the name of the account holder, the mode of payment of proceeds on maturity, the term of deposit, the interest rate, and the due date.
- (b) In case the amount has been deposited under Re-investment Scheme, this fact is mentioned on the receipt. The maturity amount is also mentioned.
- (c) Banks normally have separate sections in their Term Deposit registers, interest rate-wise and/or maturity period-wise, to record the issue of term deposit receipts in a chronological order.
- (d) The official in charge of the term deposit section verifies the particulars on the receipt with reference to the deposit voucher, and signs the receipt which is then delivered to the depositor against acknowledgement.
- (e) The banks maintain a Daily List to record the due dates of deposits as also the dates of payment of periodic interest on deposits, wherever applicable. Necessary entries are made in the list upon issuance of a term deposit receipt.

60. Instruments other than term deposit receipts (e.g., cash certificates) are entered in the relevant register in a similar manner.

Opening of Letters of Credit

61. Generally, this facility is provided by banks to their regular borrowers but there is no bar on extending this facility to other applicants also. The procedure for opening of letters of credit in either case is generally on the following lines:

- (a) The applicant submits an application in the prescribed format to the branch wherein he mentions the name of the beneficiary, documents required from the beneficiary, and the expiry date of the validity of the letter of credit (LC) for the purpose of shipment as well as negotiation of documents by a bank.
- (b) In case the bank agrees and issues the LC, it makes contra entries in its books. Necessary vouchers are prepared by the LC section. Normally, a composite voucher is used for these entries.
- (c) The transaction is recorded in the LC Issued Register. In the case of customers who have been sanctioned regular LC limits (like a cash credit

limit), to ensure that the outstanding LCs do not exceed the sanctioned limit, all issues of LCs are debited to the account (all payments or cancellations of LC are credited).

- (d) LC opening charges are recovered from the customer, either by debit to his account or in cash.
- (e) Banks generally maintain margin for each LC. It may be retained in any form – in current account, term deposit, lien on drawing power, etc.
- (f) LC is prepared by the bank on pre-printed formats of the bank. Each LC has a distinctive number. The original (which is a negotiable copy) and one or two non-negotiable copies of the LC are sent to a bank (known as 'advising bank') for transmitting it to the beneficiary. Copies of the LC are given to the applicant also and at least one copy is retained on the branch records.
- (g) The number of officials who have to sign the LC may differ from bank to bank.

62. In terms of issue procedure, there is hardly any difference between an inland LC and a foreign LC. However, foreign LCs can be issued only by branches authorised to undertake foreign exchange transactions. Also, foreign LCs outstanding at the year-end require re-statement in rupee terms.

Issue of Bank Guarantees

63. In terms of procedure, bank guarantees are similar to LCs. However, the original guarantee is also handed over to the applicant who submits it to the beneficiary. Also, bank guarantees are issued on non-judicial stamp papers whereas LCs are issued in bank's pre-printed formats.

Issue of Traveller's Cheques/Gift Cheques

64. There are prescribed application forms for these cheques and the procedure for issue is similar to issue of banker's cheques. However, in the case of Traveller's Cheques, the applicant has to sign on the cheque once in the presence of the bank's authorised official. The branch may issue Travellers' Cheques of its own bank and/or those of its correspondents in terms of an approved arrangement.

65. In each bank, there is a nodal office for Traveller's Cheques. Particulars of all cheques issued by the branch are required to be advised by the branch to the nodal office through the inter-office accounting system. The Branches do not normally have a Traveller's Cheques account in their General Ledger as they act merely as agent of the nodal office in issuing (and paying) Traveller's Cheques.

66. Gift cheques are payable by the issuing branch only. Each branch maintains a Gift Cheques account. All issues are credited to the account and details of the cheques entered in a register. Payments are debited to this account. For the sake of operational convenience, the Gift Cheques register is divided into separate sections, denomination-wise.

Payment of Drafts

67. The drafts issued by banks are invariably payable 'to order' and never 'to bearer' since the issuance of drafts as 'payable to bearer' would tantamount to issuing currency, which banks are not authorised to do.

68. When a draft is presented to the branch on which it is made payable (whether for payment in cash or transfer to an account at the same branch or through the clearing house), the instrument is sent to the Drafts Payment Section. The section usually maintains two kinds of Drafts Paid Registers:

- (a) To record payment of drafts for which no advice is required from the issuing branch as per the bank's procedure.
- (b) To record payment of drafts for which the aforesaid advice is required.

69. The counter staff enters the particulars in the relevant register after ensuring the *prima facie* correctness of the draft, particularly the drawee branch code number. In respect of drafts falling in category (b) above, though the advice from the issuing branch is required, the branch has to make payment of the draft even if it has not received its advice from the issuing branch till the time of payment. The advices received are marked off in the drafts paid register at the time of payment if advice has been received, or later, on receipt of the advice. For those entries in the register in respect of which the advice is not received, the matter is followed up with the issuing branch. After recording the particulars of the draft in the register, it is sent to the official in-charge along with the draft for verification of the correctness and for authorising the payment (in cash or by credit to the customer's account). The subsequent procedure is the same as that for other payment instruments. It may be mentioned here that separate registers are maintained for payment of drafts drawn by the correspondent banks.

70. Banks generally have a Drafts account to which all drafts issued are credited and all payments debited. Some banks have separate accounts for 'Drafts Issued' and 'Drafts Paid'.

71. Sometimes, the buyer of the draft may want to have it cancelled. This can be done only by the issuing branch. In addition to the usual procedures for payment of drafts, the following steps are also required to be

taken:

- (a) The fact that it is a case of cancellation is mentioned in the Drafts Paid Register and against the relative entry in the Drafts Issued Register.
- (b) It is a common practice amongst banks to obtain a receipt from the buyer of the draft by endorsement on its reverse.

72. At the end of the day, a summary of the total drafts paid is prepared. This figure is carried over to the Cash Book.

Payment of MTs/TTs

73. As soon as the MTs are received by the branch, these are paid by crediting the account mentioned in the MT. These are entered in an MT paid register and the day's total of the register is debited to an inter-office account. The treatment of TTs is slightly different. The advice of remittance sent by telegram is followed by a written advice signed by the authorised officials of the issuing branch. Payment of TTs is also routed through the inter-office account. As the signed advices are generally not available when the telegraphic advice reaches the paying branch, the payment may be effected by debit to the Suspense Account or an Items in-Transit Account and the account of the beneficiary, stated in the TT, credited. Besides the above, the transaction is also recorded in TTs Paid Register. All entries in this register show the date of receipt of the signed advice from the issuing branch.

74. MTs and TTs are not paid in cash; they are credited to the accounts of the payees maintained at the branch; in case the payee does not maintain account with the branch, a Pay Order is issued in his favour.

75. The entry in Suspense Account/Items in-Transit Account is adjusted on receipt of advice from the issuing branch.

Payment of Banker's Cheques/Pay Orders

76. The procedure followed is similar to payment of any other cheque drawn on the branch, except that the date of payment is recorded against the original issue entry.

Payment of Term Deposit Receipts and Similar Instruments

77. These instruments are 'Not Transferable' and have to be paid strictly in accordance with the mandate of the deposit-holder received at the time of acceptance of the deposit or as modified subsequently by the deposit-holder. The deposit may be repaid before maturity (at the request of the account holder), on the date of maturity, or after the date of maturity. The salient

features of the payment procedure are as under:

- (a) The deposit receipt, duly discharged, has to be presented for payment. In case the receipt is in the custody of the branch (under lien for any loan or as margin for any facility), it is withdrawn by making necessary entries in the Safe Custody Ledger/Register.
- (b) The deposit may be repaid in cash (subject to any ceiling on such cash payments, under statutory or regulatory requirements) or by way of a 'transfer' transaction. As these receipts are not negotiable, these are not routed through the clearing house but sent to the issuing branch for collection of proceeds.
- (c) The 'transfer' transaction is either for renewal of the deposit or for credit in full or part to any account maintained at the branch, or for issue of draft /MT/TT/Pay order, etc.
- (d) The payment is recorded as a debit to the relevant deposit account and the date of payment recorded against the original entry of issue. The principal amount of the deposit is debited to the deposit account to which it was credited at the time of issue. Interest paid is debited to the concerned provision account for the deposit if such an account is created by the bank or to the account in which such provision is held (amount of interest paid is net of TDS, if applicable). In this regard, it may be noted that generally, the branches create an Interest Provision Account for all interest-bearing deposits to which the amounts calculated at the rates advised by the Head Office are credited every month. This is done to arrive at the profit/loss of the branch and to calculate the bank's liability on an ongoing basis. All payments during the day are totalled and carried over to the Cash Book.
- (e) Banks generally do not hold the matured deposits in their regular deposit accounts. On the due dates, those deposits which remain unpaid are transferred in a separate account, usually called as 'Overdue Deposits Account'. These deposits are eventually paid or renewed.
- (f) For deposits paid before their scheduled maturity, interest is paid only for the actual period of deposit and not the contracted period. Also, banks may decide to levy some penalty for premature payment.
- (g) Normally, for each renewal of the original deposit, banks issue a fresh deposit receipt. Of late, however, some banks have started the facility of

automatic renewal of deposits on the due dates and may not issue any fresh receipt but just record the fact of renewal on the original receipt.

- (h) The deposits are freely transferable at the request of the depositors from one branch of the bank to another. In such cases, the issuing branch transfers the deposit amount, together with the accrued interest amount held in its books, to the transferee branch along with an advice of transfer (the funds may be remitted by draft/TT/any other mode as per the Bank's procedure).

Payment of Recurring Deposits

78. Banks provide a Pass Book to the depositor wherein entries are made at the time of deposit or later, as demanded by the account holder. At the time of payment (before/on/after maturity), the depositor has to produce this Pass Book to the branch to record the fact of closure of the account. Generally, banks have a provision to recover from the interest payable on the deposit a specified sum for late deposit of any instalment under the scheme. At the time of payment, the principal amount deposited is debited to the Recurring Deposit Account and the interest paid is debited to the concerned interest provision account. The procedure for payment in cash/by transfer is the same as in the case of Term Deposits.

Payment of Call Deposits

79. Most of the call deposits are required by the customers for submission to various authorities like Excise & Customs, PWD, Railways, etc., in connection with their tenders/orders. The deposits are in the names of these authorities only and not in the names of the customers. For payment of such deposits to the customers, the banks demand a release letter or an authority letter from the authority in whose favour the deposit was issued. These deposits are, generally, non-interest bearing. The procedure for payment is the same as in the case of Term Deposits.

Payments under Letters of Credit

80. Payments under letters of credit involve:

- (a) Payment of the bills by the branch named in the LC as the 'negotiating bank'. Such payment may be made even in a case where no such name is mentioned in the LC.
- (b) Eventual payment of the bills by the LC opening branch to the negotiating bank.

81. In some cases, the same branch may act as both the LC opening

bank and the negotiating bank, i.e., it opens the LC for customer 'A' in favour of 'B' and also negotiates bills under the same LC when presented by 'B' who may or may not be an existing customer of the branch. The procedure for payment of the bills, described below, is equally applicable to both the cases. However, for the sake of clear understanding, the terms 'Opening Bank' (OB) and the 'Negotiating Bank' (NB) have been used though it is recognised that in some cases, the same branch may perform the functions of both of them.

- (a) The original LC is in the custody of the customer, i.e., the beneficiary of the LC. He may approach any bank to negotiate the documents if there is no NB designated in the LC. The bank may agree to the request or may refuse it. In case the NB has been designated, the customer has to approach that bank only. This bank cannot generally refuse negotiation because its name would have been mentioned only in accordance with an approved arrangement.
- (b) The customer has to produce the original LC and all the documents stipulated in the LC to the NB.
- (c) NB examines all the documents and compares them with what has been stipulated in the LC. NB also ensures that the shipment took place within the validity mentioned in the LC and that the documents have been presented for negotiation within the validity stipulated in the LC. If there is any difference in compliance with the terms and conditions mentioned in the LC, the OB may refuse to make payment to NB.
- (d) In case NB observes certain discrepancies in the documents submitted by the customer, it may still decide to negotiate them at the risk of the customer. Such negotiations are referred to as 'negotiations under reserve' in the banking parlance. In such cases, NB obtains a written undertaking from the customer to make good the amount (together with bank charges) if payment is ultimately refused by OB. Another common practice for such bills is that before negotiation, NB brings the discrepancies to the notice of OB and seeks instructions. In turn, OB seeks the customer's instructions which are conveyed to NB.
- (e) Once a decision to negotiate has been taken by the branch, it enters the particulars of the bills in a Bill Negotiation Register (generally, banks maintain a separate register for negotiation under LCs). A distinctive number is allotted to each negotiation which is recorded on each document of the bill. The date and amount of negotiation are mentioned on the reverse of the LC and signed by an authorised official. Charges on negotiation are to be borne by the party mentioned in the LC – it may be

either the beneficiary or the opener of the LC. In case the beneficiary has to bear the charges, the bank will deduct these charges from the bill amount and pay only the net amount to the customer. In case the charges are to the opener's account, the NB will pay the bill amount to the customer and claim the bill amount plus the negotiation charges from OB. The account to be debited by NB at the time of negotiation is different in different situations, as under:

- (i) In case of demand LCs, where OB and NB are the same bank, the LC would generally state that NB should debit the OB through the inter-office account on negotiation. For usance LCs in this situation, the LCs normally authorise NB to debit the OB, through the inter-office account, on due date of the bill. In the latter case, the NB normally debits its own Bills account (may be called Bills Discounted account) at the time of negotiation – the entry is reversed on the due date by debiting OB through the inter-office account.
- (ii) In case of LCs (both demand and usance) where OB and NB are different banks, the LC itself states the manner in which the NB should obtain reimbursement of the bills negotiated from the OB. The NB acts accordingly. Pending receipt of reimbursement, the NB generally keeps the debit in its own Bills Account.

82. After negotiation, the documents are sent by NB to OB for final payment. When the documents are received at the OB, the procedure followed is on the following lines:

- (a) The designated section at the branch records receipt of bills in a specified register.
- (b) The documents received from NB are compared with the terms of the LC. In case of any discrepancy, it is immediately brought to the notice of the NB as well as the opener. The branch seeks instructions of the customer whether he wants to accept the documents despite these discrepancies or not.
- (c) In case the documents are discrepant and are not acceptable to the customer, OB returns the entire set of documents unpaid to NB. In turn, NB recovers the amount of bill, its own charges as also the charges levied by OB, if any, from the beneficiary of the LC. The fact of return is recorded by the OB in its registers.
- (d) In case the bill is in order or the discrepancies are acceptable to the

customer, OB recovers the amount of bill and the other charges, if any, from the customer.

- (e) In addition to the above debit and credit entries, the contra entries made at the time of issue of LC are also reversed by the amount of LC utilised on payment of bills. This is done by way of a composite voucher. Besides, the amount and date of payment are recorded in the LC register and the Bill register.
- (f) On expiry of the validity of the LC, the OB waits for a reasonable period from that date for receipt of negotiated documents from NB. In case no documents are received, the OB reverses the amount of unutilised LC in its contra accounts.
- (g) In case the beneficiary does not want the bills to be negotiated and instead, wants these to be sent for collection by his bank, he may do so. The accounting procedure at OB in this case is broadly similar to negotiated bills.

Payments Under Bank Guarantees

83. The following procedure is followed where the customer fails to discharge his contractual obligations and the beneficiary invokes the guarantee:

- (a) The section handling the guarantees business at the branch examines the notice of invocation to ascertain that it is strictly in accordance with the terms of the guarantee. The branches generally seek legal opinion on the issue either from inside or outside.
- (b) In case the invocation is not in order, suitable reply is sent to the beneficiary.
- (c) In case the invocation is in order, the amount demanded by the beneficiary, not exceeding the amount guaranteed, is remitted to the beneficiary. The contra entry in the Bank Guarantee Account, made at the time of issue of the guarantee, is reversed by the total amount of the guarantee if the guarantee has been treated as fully discharged by the beneficiary, notwithstanding that the amount actually paid is different. The branch, in turn, recovers the amount from the customer.
- (d) In case the beneficiary does not want the bills to be negotiated and instead, wants these to be sent for collection by his bank, he may do so. The accounting procedure at OB in this case is broadly similar to that

followed in the case of negotiated bills.

Payments Under Deferred Payment Guarantees

84. On due dates of instalments, the bank remits the principal and the interest due to the beneficiary. Procedurally, payments under deferred payment guarantees are similar to payments under the bank guarantees or under LC. One distinctive feature is that the bank's liability to the beneficiary and the corresponding liability of the customer to the bank get reduced with each payment. On each such payment, the contra entries are reversed by the amount paid.

Payment of Gift Cheques

85. These cheques are honoured by all branches of a bank irrespective of the branch which has issued them. In case the cheque is presented to the issuing branch for payment, the branch records the payment in its Gift Cheques Register. The date of payment is mentioned against the relative issue entry also. The other procedures are the same for as payment of any other cheque. The amount of gift cheques paid during a day is debited to the Gift Cheques Account.

86. In case the cheque is presented to any other branch of the bank, it is paid by that branch by way of a debit to the issuing branch through the inter-office account.

Payment of Traveller's Cheques

87. Mostly, these cheques are presented for payment in cash by the purchaser of the cheque. In some cases, where the hotels, merchant establishments, etc., accept these cheques in payment of their bills, they obtain signatures along with date from the customers and then deposit these cheques with their bank for payment.

88. When presented for payment in cash, these are presented to the paying cashier in whose presence the customer has to put his signatures with date. The cashier tallies these signatures with the first signatures appearing on the cheque (which were obtained in the issuing branch) and, on being satisfied about the genuineness of the transaction, makes the payment. In the process, he may also refer to the list of lost/stolen Traveller's Cheques available at the branch, which is received from the head office. The amount of all cheques paid during the day is debited to the nodal office designated for these cheques. In case payment of cheques is by way of a transfer transaction, the desk concerned records the particulars of payment in a

register and the official in-charge authorises the credit voucher; the debit voucher is normally prepared at the end of the day for all Traveller's Cheques paid on that day.

89. It is possible in some cases that the customer may deposit the unused Traveller's Cheques with the issuing branch itself. In such cases also, the procedure is similar to that for other 'transfer' transactions.

Cash Transactions

90. Many of the transactions described above involve receipt or payment of cash by the bank. In describing such transactions above, the emphasis has been on the other aspect of each transaction rather than on cash receipt/payment. The following paragraphs deal with flow of cash transactions – receipts as well as payments – primarily from the angle of accounting for, and controls over, cash receipts and payments irrespective of the nature of transaction giving rise to cash receipt or cash payment.

91. 'Receipt' and 'payment' of currency are two of the most important functions of a bank. 'Cashiers' and 'tellers' perform these functions. The tellers provide only limited services (types of services and monetary ceiling may differ from bank to bank) while cashiers have no such limitations. The tellers do not generally make payments out of loan accounts. Cash and other valuable items like security forms are kept in the strong room and held in the joint custody of two or more officials of the branch, one of whom is the Head Cashier and the other, normally, the Accountant.

92. Currency notes are packed in packets of 100 pieces each, irrespective of the denomination. A slip is put on each packet which carries the initials or signatures of the staff members who have verified and re-verified the quality and quantity of the notes, along with the date of such checking (the procedure may vary slightly among different banks). Coins are stocked in bags. These are weighed and then valued according to a specific weight-value ratio for each type of coin.

93. Depending upon the possession and ownership of cash, branches are divided into three categories:

- (a) **Currency Chest Branches:** These branches hold cash as an agent of RBI. Each chest branch is linked to a currency office of RBI through a link branch of its own bank. Loose packets are not kept in the chest. Every day, the branch withdraws cash from and deposits cash into the chest

according to its requirements. At the end of the day, the branch works out the net position as compared to the previous day's closing balance in the chest and sends an advice to link branch (the position of the repository branches is also included, as explained later). The balances in the chest are periodically verified by the bank's officials as well as by RBI officials. Even in a currency chest, the branch will maintain some cash in hand on its own account, though such balance may be nominal.

- (b) **Repository Branches:** These branches carry smaller cash holding than the chest branches but act as a part of the chest. They are linked to a chest branch and report the net withdrawal/net deposit position each day to the link branch.
- (c) **Hand Balance Branches:** These branches carry cash only as their own hand balances. The limit for peak holding at such branches on any day is fixed by their controlling authorities. Whenever the branch has any surplus cash, it deposits the amount with a currency chest branch.

Receipts

94. The steps involved in physical receipt of cash and its accounting are as follows:

- (a) The cash tendered by the depositor is checked by the cashier for the genuineness of the notes and to cross check the number of notes as mentioned by the depositor in the pay-in-slip.
- (b) If found in order, the cashier records the particulars of notes received and the account to be credited in the book maintained by him (usually called Cashier's Receipt Scroll). He then puts 'Cash Received' stamp on the pay-in-slip and the counterfoil and signs them; the counterfoil is returned to the depositor.
- (c) The pay-in-slips are sent from the cash department to a desk which notes down all receipts of cash in the department in a jotting book. The total of this book thus reflects the total cash received at the branch during the day.
- (d) After noting in the jotting book, the voucher is sent to the concerned desk for credit to the relevant account.
- (e) After the day's transactions are over, all the receiving cashiers hand over the cash, which should agree with the total of cash receipt scroll, to the Head Cashier.

- (f) Banks also deposit cash with other banks, usually for credit to their accounts. At times, the receiving branch is unable to cope up with the volume of work and does not count all the notes on the same day. In such circumstances, the uncounted amount is held as a 'Bond' system in which the depositing bank gives a written confirmation of the correctness of the amount and undertakes to make good the shortage, if found during the actual counting later. This amount may be counted at the convenience of both the banks in due course.

95. The steps involved in making cash payments and their accounting are as follows:

- (a) All paying cashiers (including tellers) are given some amount of cash at the start of the day by the Head Cashier against acknowledgement for their expected requirements during the day. They may be given cash in instalments also during the course of the day. They receive instruments for payment either directly at the counter (for tellers) or instruments authorised for payment through the voucher books (for cashiers). They obtain the signatures/thumb impression of the person receiving the payment. Each payment is recorded in a payment scroll maintained by each paying cashier and teller. The instruments paid by the tellers are then sent to the concerned desks for debiting the relevant accounts and authorisation by the officials' in-charge of the desks. The instruments paid by cashiers are sent to the desk which carried out the Day Book related work at the end of the day.
- (b) After the day's transactions are over, the cashiers return the cash balance with them to the Head Cashier. The balance should agree with the books, i.e., cash received by the cashier less the total of his payment scroll.

96. The 'receipts' and 'payments' have been discussed above separately for the sake of a clear understanding. In practice, a single cashier may perform both the activities. Likewise, a single teller may receive cash, pay cash, issue drafts, pay Traveller's Cheques, and so on.

97. After accounting for all the cash received from the cashiers, the Head Cashier prepares a summary of the day's transactions and the cash balance register and signs them. If any excess cash is found during counting, the amount is held in a special account and is refunded to the genuine claimant on demand or if there is no such claimant, the bank treats it as income. However, shortage in cash has to be made good by the cashiers

concerned and the matter has to be reported to the higher authorities.

98. The currency chest branches meet their requirement of notes by remittances from the RBI. They also send remittances of soiled notes in their custody to RBI from time to time. In case RBI comes across any shortage in the remittance sent to it during counting in the presence of a cashier from the remitting branch, it informs the branch which has to make good the amount.

Incomplete Records

99. In some situations, the auditor may find that certain accounting and other records are not up-to-date. In such a situation, the auditor should first ascertain the extent of arrears in house-keeping, and the areas in which accounting and other records are not up-to-date. In case it is found that the General Ledger, the main cash book, or the trial balances are in arrears or that they do not tally, the auditor should consider expressing a qualified opinion, adverse opinion or disclaimer of opinion, as may be appropriate in the circumstances. In case any subsidiary ledgers are in arrears, the auditor should consider the impact of such arrears on the financial statements of the bank. It may be pointed out that in the absence of balanced and up-to-date subsidiary ledgers, verification of transactions or of year-end balances may become difficult. In such cases also, the auditor should consider expressing a qualified opinion, adverse opinion or disclaimer of opinion, as may be appropriate in the circumstances. It may also be noted that in Long Form Audit Report (LFAR), the auditor has to make detailed observations on such arrears of house-keeping. Therefore, from this point of view also, it is important for the auditor to satisfy himself about the completeness of all records before submitting his audit report.

CIS Systems in Banks

100. CIS systems of different banks differ in terms of hardware configuration, software capabilities, levels of hardware and software security, and nature of transactions processed. It is, therefore, not possible to identify a single CIS system that would describe all the features of such systems in operation in different banks. However, the following description of the CIS system of a large bank illustrates the usual manner of computerised information processing and the various controls built into the CIS system. Auditor should check the accuracy, correctness of data and also see that data has been correctly transferred from the previous years audited statements and for this he need to go through the audit trail of modifications/change made. Most of the Banks are working on Core banking

now a days and hence the accounting system under the same and the control in place for the same are very important from the bank's perspective as well as from auditors perspective.

Controls

101. The system provides for a number of controls which seek to ensure that the system is not put to unauthorised use, the transactions entered in the system are valid and accurate, and exceptional matters as well as other significant matters are reported on a timely basis. For example, the following controls seek to ensure that the system is not put to unauthorised use:

- A valid login name and password are essential to enter the system.
- A user can login from a specified workstation only.
- A minimum password length is required.
- The password needs to be changed at least once during a prescribed period.
- The maximum number of attempts to enter the system from a workstation is specified. Thus, if an incorrect password(s) is entered from a workstation, as soon as the number of attempts reaches the specified limit, the user is locked out and a message to this effect, identifying the workstation, is flashed on the system administrator's console/other workstations.
- Access to the system is available only between stipulated hours and specified days only.
- Individual users can access only specified directories and files.
- The access to various menus (such as opening of an account, closing of an account, change in limit or drawing power in a cash credit account, interest rate change, cheque book issue, etc.) is controlled through passwords. Thus, while an operator may enter the system using his login name and password, he cannot access the menus that have been password protected for use by systems administrator only.
- The access to systems software is restricted through password protection. (*The systems software contains several utilities such as copy, delete, etc. that can be used for unauthorised copying or deletion of files.*)
- Exception situations such as limit excess, reactivating dormant accounts, etc., can be handled only with a valid supervisory level password.
- A user timeout is prescribed. If the keyboard of a workstation remains

inactive for the specified duration (say 30 seconds), the user has to re-enter the system using his password. This control prevents any unauthorised use when a workstation is left unattended.

- Wherever any rectification or alteration is carried out by more than one level of the officers, such alterations or changes are made as an additional entry and not by changing or deleting an existing recorded entry.
- Once the end-of-the-day process is over, the ledgers cannot be opened without a supervisory level password.
- The system maintains a record of all log-ins and log-outs. The access to this record is not possible without the systems administrator's password.

102. Similarly, the following controls seek to ensure the validity and accuracy of transactions entered in the system.

- The operation instructions such as single operation, joint operation, either or survivor operation, are flashed on the screen when the account is accessed.
- The system checks for cheque number range and stop payment instructions before processing a transaction.
- The system checks whether the amount to be withdrawn is within the drawing power.
- The system flashes a message if the balance in a lien account would fall below the lien amount after the processing of the transaction. The transaction processing is halted and can be proceeded with only with a supervisory password.
- If the transaction is sought to be posted to a dormant (or inoperative) account, the processing is halted and can be proceeded only with a supervisory password.

103. The branch manager is required to send a certificate to the controlling authority at stipulated intervals regarding the functioning of the entire computerised system including compliance with prescribed procedures and processes.

Structure

104. The system is multi-currency, on-line real time system which allows

accounts to be maintained in a number of currencies. A separate General Ledger is maintained for each currency.

105. While the General Ledger (GL) provides the topmost level in aggregation of transactions and balances, the lowest level is a detail account which may be a customer's account or other account such as commission on drafts, locker rent, bill handling charges, etc. The number of levels between the GL and detail accounts is dependent on the requirements of the management and may differ from system to system. In the system under discussion, the GL (for each currency) is divided into a number of 'controls' each of which in turn is divided into a number of the 'memos'. A 'control' is similar to a General Ledger Account in a manual system, with the difference that unlike a GL account in the manual system to which debit and credit transactions can be posted directly, a control is merely a sub-division of the GL and is not an account. For example, 'Current Account' is one of the 'controls'. 'Memos' provide sub-divisions of a 'control'. For example, separate memos under 'Current Accounts' may be maintained for commercial and institutional customers' Current Accounts, agriculture-sector current accounts, and so on. The number of 'controls' that can be opened under General Ledger for each currency and the number of memos that can be opened under a control may differ from system to system (in the system under discussion, the maximum number of controls is 36 while the maximum number of memos under each control is 1296.). Detail accounts are opened under a memo. For example, all current accounts of C & I will be opened under the memo 'Current Account (C & I)'.

106. A transaction is posted to a detail account only. The detail account balances are updated as the transactions take place, i.e., on a real-time basis. The control and memo balances are updated only at the end of the day. All the books are balanced every day.

'Start-of-the-Day' Process

107. Each computerised branch has one or two designated officials to perform the role of the Systems Administrator. The computer operations everyday begins with a 'start-of-the-day' (SOD) process carried out by the System Administrator. Unless SOD is completed, the system cannot be used for data entry. Among the major activities undertaken by the system as part of SOD are changing the date, clearing the log files, diary processing interest application in those accounts where it is due on that day, deposits due for

payment on the day, standing orders², and list of stopped cheques/drafts³.

Recording of Transactions

108. As already stated, the transactions are processed on a real-time based on vouchers. The debit and credit aspects of a transaction have to be posted to the respective ledger accounts simultaneously in all cases. The accounts to which the credit aspect of a transaction is to be posted get updated simultaneously when the account to which the debit pertains is posted.

Single Transaction Update of Multiple Computer Files

109. A single transaction input into a CIS system may automatically update all records associated with the transaction. For example, if credit voucher for issue of a Fixed Deposit is input, information in the following types of records will get entered simultaneously and automatically:

- FD day book
- Customer's account (if a running account for issue of FDs is maintained in terms of the Bank's system)
- Daily list (to record payment of periodic interest and repayment of principal)
- Classification of deposit into proper interest rate profile and maturity profile
- FD interest account

110. Single transaction update of multiple files ensures that all relevant records are kept up-to-date. However, it also implies that if one erroneous input is made, many records will contain errors.

Vulnerability of Data and Program Storage Media

111. Floppy disks, magnetic tapes, hard disks, etc. – the usual media on which data and programs are stored –are susceptible to intentional or accidental destruction. Portable media are also particularly prone to theft, loss, etc., as well as to computer virus. The vulnerability of CIS systems requires extensive internal controls against thefts, loss, and destruction or

² Some customers give standing instructions to the bank to make certain remittances on pre-determined dates. The system will generate a list of those standing instructions which are to be carried out on that day.

³ In some cases, the customers may have advised the bank not to make payments of certain cheques issued by them. These instructions are duly recorded in the system upon receipt from the customers. Besides, it may happen that the bank itself may stop payment of certain instruments, in particular drafts, if some draft forms are lost or stolen. Particulars of such instruments are entered in the system and these are treated as stopped instruments.

unauthorised alteration of programs and data.

On-line Checking

112. All transactions posted at a terminal by an operator need to be checked by a supervisor on-line as soon as practicable after its entry to ensure that the data has been correctly fed into the system. All checked transactions are marked by the supervisory with his ID. (Usually, the operator, while posting the voucher, indicates the ID of the supervisor who has to authenticate the entry. When the supervisor opens the screen, he will find 'yes/no' command against the entry under a suitable heading for authenticating it. If he presses 'y' the entry is taken as passed.)

'End-of-the-Day' Process

113. After all the transactions for the day have been inputted and passed by the supervisor concerned, the 'end-of-the-day' (EOD) process begins. EOD involves the following major activities:

- Verification of the integrity of all the transactions entered in the system by comparing the total of balances in detail accounts under each memo with the aggregate of the opening balance of memo and the transactions for the day. Similar checking is done for integrity of memos by comparing the total of all memos under a control with the updated balance of the control.
- Diary processing.
- Interest re-calculation and interest accrual.
- Standing orders.
- Generating statements of account.
- Generating various types of reports, including exception reports.
- Printing of logs.
- Daybook printing.

While the SOD or EOD processes are on, the system does not allow any data entry.

Backups

114. After EOD, the stipulated numbers of backups are taken on the prescribed media. The system provides for off-site backup of at least one copy of the updated data. The back up is required to be retained as part of the branch records as per the policy formulated by the bank for retention of records.

Exception Reports and Other Reports

115. The generation of exception reports is an important aspect of the system. These reports relate to cases which deserve the attention of appropriate levels of branch management. While most of these reports relate to operational aspects of transactions, some relate to the functioning of the CIS system. Besides, some other reports are also generated for the purposes of record. Some of the major reports generated by the system daily are:

- Debit/credit balance change
- Value dated before last rate change
- Value dated before last interest application date
- Maturity record deleted
- Automatically generated accounts
- Inactive accounts
- Dormant accounts reactivated
- Excess allowed over the limits/drawing power
- Irregular term loan accounts with number of arrears of instalments and interest with amounts
- Debits to income head account
- Debits to head office accounts
- Overdue pre-shipment and post-shipment accounts
- Overdue bills and bills returned
- Withdrawals against clearings
- Time barred demand promissory notes
- Unchecked transactions
- Sign-on attempt from two terminals
- Exit to operating system
- Password errors
- Sign-on report
- Sign-off report
- Deposit accounts – debit balances
- Zero balance and non-zero accrued interest accounts⁴

⁴ This relates to closed advances account. Whenever an account is closed, it should be squared off together with the interest due thereon till the date of closure. It may sometimes happen that the account may be brought to nil balance but the accrued interest may remain unrealised. As the system calculates the accrued interest everyday as part of the SOD process, it will show the accounts of the above type as unusual.

- Debit balance accounts without interest rate
- Loans and advances – credit balances
- Temporary overdrafts allowed beyond the sanction period.
- Items pending in clearing.
- Inter-branch transactions with age-wise details.⁵

Computerised Accounting and Core Banking Solutions

116. In the preceding paragraphs, the conventional book keeping and manual accounting practises were discussed. The developments in the field of user-friendly systems and solutions have brought a sea change in the accounting atmosphere in the banking industry. Systems and solutions have been developed to cater to the banking requirements without compromising on the basic principle of integrity of information and recording of each and every transaction at any stage. Banks cannot afford to have an error level of even 0.0001% and hence the solutions have been developed to maintain the sterile levels.

117. These systems and solutions are generally audited, reviewed and examined at frequent intervals by the banks to ensure correctness of the data. The banks generally document such reviews and these documents would throw light on the effectiveness of the accounting system of the bank and reliability of its accounting data.

118. SA 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment” lays down that the use of Information Technology (IT) affects the way control activities are implemented. From the auditor’s perspective, controls over IT system are effective when they maintain the integrity of the information and the security of the data such systems process, and includes effective IT controls and application controls. In recent years, many banks have moved towards computerisation of their operations. The degree of computerisation,

⁵ Banks have an ‘inter-branch-items-in-transit’ account wherein the entries are parked when a telegraphic advice is received from the other branch. These entries are reversed in the IBIT account by debit to ‘Branch Clearing General Account’ when the normal advice in the bank’s prescribed format, duly signed, is received from the other branch by post. Such advices must be received within a reasonable time after the telegraphic advice. The intention behind the report in question is to keep a check on the receipt of written advices for such items kept in IBIT account. The age-wise details will show whether the entry has been outstanding in the IBIT account for less than 15 days, more than 30 days, more than 90 days or so on. Such entries require special attention because non or delayed receipt of advices may indicate fraud or other malpractices.

however, varies among different banks and also among various branches of the same bank. While some branches have been fully computerised, some others have been partly computerised while many others are non-computerised. In fully computerised branches, all the customers' transactions as well as internal transactions of the bank, which enter the books of the account of the branch, are routed through a computer system, which may comprise either a computer network or stand-alone personal computers.

119. It may be stated here that even in a fully computerised branch, some work is presently carried out manually, e.g., preparation of vouchers, preparation of letters of credit and guarantees, preparation of some returns and statements, etc. In partly computerised branches, generally the back-office work (i.e., the internal processing of transactions of the branch) is carried out on computers whereas the customers' transactions (i.e., the front-office work) are processed manually. Many of the banks in the private sector have networked all or most of their branches in the country; this has given them the capability of handling most of the transactions of their customers at any of the branches.