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Concurrent Audit of Banks – Planning, Checklist & Guidance

Introduction:

Bank Concurrent Audit is a kind of internal audit where auditor responsibility is to review and correct assign bank branch internal control system.

However compare to other internal audit, concurrent audit is little different; in concurrent audit auditor seats in branch for whole month (either himself/herself or his/her assistant) like any other branch employee, bank also allots a separate PC to them for their work. However like other employee he doesn't report to Branch Manager since he recruited by HO hence work with Branch Manager.

Most important challenges to any auditor in concurrent audit is, he seats in branches do audit of branch books, identify branch employee mistakes, ask them to rectify even if they are not directly liable to do so and with all this maintain good relation with bank employees.

We must note that this is very routine job until and unless you are highly interested in banking sector and want to learn and grow in banking sector, in that case this is an excellent platform, it might not be very remunerative at begging but learning is unlimited if you really want to learn since you have access of all area of any bank branch like any other internal auditor there is no limitation in your scope as a concurrent audit.

Some Important information about Bank concurrent Audit:

1. **Auditors Attendance schedule**: Senior Partner attendance – As per appointment letter of respective bank which is normally 6 to 8 Days in a month
   Audit Assistant – As per appointment letter of respective bank which is normally 18-24 Days in a month on full time basis.

2. **Fees:**
   Normally varies from 12,000 to 35,000 per Branch depending on the volume of business of the Branch. However extra incentive as rewards may be earned, if we identify some fraud in bank and let Zonal office and HO management to aware of this. Auditor may also get some work as other assignment to identify fraud in other banks etc.

The whole subject have been discussed into four parts namely:

Part A –Audit File

Part B – Master Data preparation, data extraction/processing and Monthly Tracking of Master Data

Part C – Audit Checklist in Key Functional Areas

Part D – Discussion of findings with branch management, rectifications and reporting's

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Part A –Audit File

Records to be maintained by concurrent auditor:

- **Permanent File (Hard Copy and in Soft Copy):**

1) Letter of engagement, undertakings, acceptance of appointment by the firm to the Bank
2) Communication with the previous Auditor (NOC)
3) Information regarding branch business, data, nodal officer, status of branch, whether computerized/parallel category of branch, etc.
4) Monthly, Quarterly and Annual Performance Reports.
5) Internal and RBI inspection reports, revenue reports and Statutory Branch Audit Reports.
6) Letter/communications/ correspondence with the HO/Zonal Office/Branch for any matter
7) A Comprehensive Audit checklist.

- **Current File/Working paper File (Hard Copy and in Soft Copy):**

1) Branch Audit Programme
2) Branch's statement as on the data of the report on which basis it is prepared
3) Periodic correspondence with the concerned departmental officer
4) Irregularities intimated to the Controlling Officer
5) Discussion of the audit report
6) Particulars of big borrowers, depositors etc.
7) Circulars received from head office of the auditee Bank
8) Reporting to branch head in the below format

- Date

- Irregularity Observed
- Initial/Authorization of the Concurrent Auditor
- Initial of Bank Official
- How irregularity rectified
- Date of rectification
- Initial/Authorization of the Concurrent Auditor
- Initial of Bank Official

Part B – Master Data preparation, data extraction / processing and Monthly Tracking of Master Data

At the very start-up phase, we need to collect the following data and convert them into excel sheet for regular monitoring and audit planning for each month:

1. Master File of All Loan Account divided into sub categories which will tally with the Bank Trial Balance and Balance Sheet. Separate field of each borrower wise account showing start date, opening and closing balances, debit & credit summation, nature of loan (CC, OD, Term Loan etc.), category of loan (Agri, Commercial, Gold, Employee, Ex-Employee, HBL, Car Loan etc.), next renewal/review date is required to be captured in the master file. Every month all additions and deletions would be considered into this file and accordingly be updated keeping the original start up Master file intact.
2. Master File of All Deposit Account divided into sub categories which will tally with the Bank Trial Balance and Balance Sheet. Separate field of each borrower wise account showing start date, opening and closing balances, debit & credit summation, nature of deposits (Savings, Current, Term Deposit, Fixed Deposit etc.), category of deposit holder (Individual, Sr. Citizen, Employee, Ex-Employee, Corporate, Firm, TD under lien etc. is required to be captured in the master file. Every month all additions and deletions would be considered into this file and accordingly be updated keeping the original start up Master file intact.
3. Master File of All non-fund based Loan Account divided into sub categories which will tally with the Bank Trial Balance and Balance Sheet. Separate field of each borrower wise account showing start date, opening and closing limits and outstanding balances, debit & credit summation, nature of loan (LC, LCBD, BG etc.), category of loan (Agri, Commercial, Gold, etc.) is required to be captured in the master file. Every month all additions and deletions would be considered into this file and accordingly be updated keeping the original start up Master file intact.

4. A simple Excel Statement showing the Rent of branch per month, taxes, electricity bill of start-up month, any fixed consultancy or any other payment is required to be captured for comparison at every month end for any abnormal variation.
   Further, Lis of all employees capturing all break up of salary vis-à-vis any loan account of them along with monthly recovery is also required to be captured for proper monitoring.
5. A Master Circular of all key circulars those are related to the branch and are frequently referred to is required to be prepared as a referral document.
6. Important Commands of Finacle or Banc software, as may be used by the bank, is required to be kept in the Master file for frequent reference.
7. 7. Keep a copy of the **Manual the Concurrent Audit of Banks** as a ready reference; both in hard copy and in soft copy

Part C – Audit Checklist in Key Functional Areas:

Important point to check:

I. **Revenue Leakages -** Objective of this is to identify and review area of revenue leakages on day to day basis. Most of auditors limit this area as checking of charges for cheque returns either inwards or outwards, DD charges, penalty and interest for not making interest payment on time in case of CC or OD, not submitting of stock statements etc.

However in most of the cases auditor doesn't check month to month interest calculations with believe that since it is system generated it will be true, even if during new loan & advances review he found some differences in his calculation and system generated interest calculations. In this case he accept that his calculation is wrong, however it is suggested that we must go ahead and escalate this issue to HO, in 90 % of the cases we may be wrong even if, it will improve our understanding about interest calculation and we will not make such mistake in future, but suppose our observation lie in 10 % of the cases where we are right what can be the benefits.

From bank point View

1) If interest is under calculated, Bank will able to save crores of rupees.

2) If it is over calculated, then Bank will able to save its goodwill in market which may lose if some outsiders identify this case (By this bank can eliminate most of legal audit, compliance etc. before arising which may arise if some outsider identify this satiation). In this case bank will be most benefited.

From Auditor point of View

1) Auditor will get professional recognition which increases his firm goodwill and he may get some more excellent remunerative work either from same bank of from others.

2) He may get handsome money by way of rewards

II. KYC Norms

It is Know Your Customer means looking for all bank compliance before giving any loan or opening any Deposit accounts. Some important document to be checked is -

1) Photo Identification proof

2) Address proof

3) Guarantor having account with bank

4) Income proof mainly in advances

5) Attached attested photograph of customer in account opening form.

III. Cash management

It includes at least once in a month cash physical verification

Identifying reasons of keeping cash in access of retention limit

IV. House keeping

It includes -

1) Discrepancies, if any observed during physical verification (Cash, Foreign Currency, Security forms i.e. blank draft cheques etc.)

2) Accounts with RBI/SBI have been reconciled

3) Accounts showed Debit balances

4) Balancing of books

5) Reconciliation of Clearing Accounts.

6) TDS deduction in area of salary/Interest on deposits

7) Service tax matter if any

8) Any other irregularity the Auditors desire to mention including Computer Deficiencies:

9) Locker rent

10) Total account open and close during the month

V. Advances

Important area to check

1) Non Submission of Stock Statement

2) Inadequate / Non Insurance of Stock

3) CC Accounts Due for Review as at end of Month

4) Branch manager Visit to HNW customer place

5) Cases of Overdrawing in CC/OD Accounts

6) Cases of Overdrawing in Term Loan Accounts

7) Irregularities / Defects in documentation / Non-Compliance of Terms – this require through checking of all document start from KYC till assurance of loan amount and payment of instalment on time

8) NPA Position on month on month basis

9) List of Potential NPA

VI. Deposit

Other than KYC we need to check all transaction over and above Rs 10 Lakh with an objective to identify any abnormal transaction.

Debit balance in deposit account.

Check List of items to be checked in above said areas of coverage

For New account

1) Name of the account holder
2) Type of a/c saving/current/time/advance
3) A/c no
4) A copy of verified Identity proof
5) A copy of verified residential address proof
6) Verification of introducer's signature
7) Whether letter of thanks is send or not to the introducer as well as to new depositor.
8) Signature of authorized signatory obtained
9) Check Certificate of incorporation/MOA/AOA, board resolution, Copy of PAN, power of attorney
10) Cross check no of a/c opening forms with a/c opened in the system
11) Ensure photograph of the a/c holder is obtained and fixed or stapled on the a/c opening form.

A/C No.

✓ Name of the A/c holder
✓ PAN/Form 60
✓ Type of account
✓ Operating Instructions
✓ Nomination detail
✓ Sign of the applicants
✓ Sign & Stamp of Relevant Officer
✓ Details of the introducer
✓ Letter of thanks
✓ Scanning of Photo & Sign on the same day
✓ Identity Proof
✓ Residential Proof
✓ Fill up KYC Certification
✓ Imp Notes

For Transaction

➢ Records/register to be maintained for all cash transaction of the value more than Rs. 10 lacs or its equivalent in foreign currency.
➢ Records for cash transaction to be maintained for 10 years from the date of cessation of transaction between bank and customer.
➢ Identification of customer through PAN for Rs.10000 and above transaction

Loan Files checking:

1) Verify rate of interest with rate circulars
2) Compare rate of interest and calculate EMI on calculator
3) Check title of clearance in respect of Housing or any other property loan and whether it is authorized by bank's approved advocates.
4) Where immovable properties are held as security by way of deposit of title deeds, verify title deeds register to see whether narration is written for additional limits and all formalities complied with.
5) In the case of company, whether common seal affixed on the relevant document.
6) Check valuation of assets as per bank empanelled authorized valuer.

7) For education loan check receipt or fees payment sleep and confirm it with the college/institution
8) Check the person's other loan and instalment amount. If total instalment amount is more than 60% of its net income, then loan cannot be issued.
9) Confirm proper insurance coverage for loan asset or mortgaged asset and their renewal.
10) Check, whether all documents correctly executed in the latest revised prints of prescribed formats and properly stamped wherever necessary in terms of Stamp Act as per manual on documentation and as per circulars on the subject
11) Check requirement of Letter of acknowledgement of debt (LAD). If loan agreement is there then no need to take LAD. If once taken then it is compulsory to review before 3 years.
12) Ensure maintenance of Insurance register
13) Submission of Tax audit report for all CC a/c
14) Submission of CMA data
15) Check Credit rating
16) Submission of monthly Stock statement for C.C. a/c and stock statement register
17) Ensure regular quarterly stock audit for C.C
18) Compute loan rate in case of LABOD by adding 1.5% to average rate of all F.D.
19) Physical verification of loan asset
20) Verify whether credit limits are reviewed or not.
21) Verify whether security documents are held with the bank vis-à-vis stipulation on the sanctioning documents.
22) Verify whether the advances have been classified as per RBI guidelines.
23) Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions
24) Check the Bank guarantees issued, whether they have been properly worded and recorded in the register of the Bank. Whether they have been promptly renewed on the due date.
25) Ensure proper follow up of overdue bills of exchange.
26) Verify whether the submission of claims to DICGC and ECGC are in time.
27) Registration of charges with ROC and Resolution passed by appropriate authorities. (By filing relevant form with ROC)

28) Withdrawal within limit/ Advance Value (Drawing Power Limit) (D/P)
29) Check Processing fees, stamp duty at the time of sanctioning new advances.
30) Report excess drawing over D.P. (For CC and temporary O.D.)
31) Whether Select Operational Data and Quarterly Information System (now FRS) Statements in respect of big borrowers have been received promptly? Whether penal rate of interest@ 1% is being charged for delayed submission/non-submission?
32) Verify whether the branch has charged lead Bank charges in respect of advances under consortium norms.
33) Check folio charges
34) Check Penal interest for delayed/non-submission of returns, financial statement required to be submitted
35) Check Penal interest on advances in respect of lapsed sanction/limit.
36) Check Penal interest on excess over limit.
37) Check overdue interest on all types of bills, loans and packing credits for overdue period.
38) Check Commitment fee for unutilized limit is collected as per rules.
39) Check Commission of letter of credit, letter of guarantee and charges for safe custody etc.
40) Check standing information charges.
41) Check stop payment charges. (For all accounts)

Cash:

1) Verifying whether exchange of cash between cashiers is made after making entry in the register.
2) Ensure dual control system for cash safe/counting of bundles.
3) Verifying cash scroll and the token book with cashier's summary and Cash Abstract.
4) Verifying whether Cash Remittance in Transit Account is reversed on the same day by debit to a proper head of account designated for it after receipt of proper acknowledgement/receipt where cash is remitted to a branch/Bank.
5) Verifying whether accounting of currency chest transactions and their reporting to RBI is done promptly
6) Ensure cash is retained as per cash retention limit of the branch. Report if the cash is retained in excess of the cash retention limit with the reasons thereof.
7) Verify expense incurred by cash payment involving a sizable amount.
8) Verifying whether keys to Strong Room, Cash Safe, and Almirah for Security Printing Books are in joint custody of the authorized officials?

9) Verifying whether there is any entry outstanding in Cash Remittance in Transit Account for more than 3 days
10) Verifying whether the branch remits all its excess cash to link branch or
Currency Chest.
11) Verifying whether the branch remits its surplus balance with other banks regularly to the designated RBI centre
12) Conducting a surprise physical verification of cash in hand, foreign currencies, and foreign travellers' cheques on any day during the month
13) Verifying whether the receipt and delivery of Security Printing Books are properly recorded under joint signatures
14) Verifying whether physical verification of the Security Printing Books and tallying with the balance.
15) Whether surprise verification of cash done by officer other than joint custodian officer/manager.

Clearing:

16) If the branch is independently handling clearing, whether the clearing account is brought to nil every day, if not, comments to be noted down.
17) Whether safeguards are observed to ensure proper handling and custody including returned instruments?
18) Whether service charges/incidental charges as prescribed are charged for the cheques returned in clearing.
19) Whether drawings are allowed against unclear cheques. Whether such cheques are referred through prescribed register and passed by the Controlling Officer, if the drawings exceed the prescribed limit whether these are reported to the Controlling Authority. Examine whether interest
was charged and report such omission for rectification.
20) Verifying entries which remain outstanding for more 2 days and checking
for action taken for their disposal
21) Verifying whether account with the Main Branch is reconciled every week

Other:

22) Check cheques returned/bills returned register and look into reasons for return of those instruments.
23) In case of difference in clearing, there is a tendency to book it in an intermediary suspense account instead of locating the difference.

Examine the day book to verify as to how the difference in clearing has been adjusted.
24) Such instances should be reported to Controlling Office in case the difference persists.
25) Check whether debits in income account have been permitted by the competent authorities. Check the transactions of staff members.
26) Study internal inspection/audit reports and ensure that the branch gives proper compliance thereto.
27) Verifying whether the deduction of tax at source (TDS) from interest income on Term Deposits is done as per laid down procedure. Or Form 15H/15G received or not.
28) Verifying whether Form No. 60 where the depositor does not have PAN is held on record and the same are submitted as per laid procedure (For deposit accounts)
29) Verify if inoperative accounts ledger and Specimen Signatures are kept under the custody of Manager/Asst. Manager and access thereto is controlled. (For deposit accounts)
30) Whether dormant/inoperative accounts are transferred to inoperative ledger. If not, it should be noted in the register and they should be transferred. (For deposit accounts)
31) Verify that all transactions relating to inoperative ledgers are allowed under the written authorization of the Manager.
32) Check Incidental charges and service charges in Saving Bank Account (including inoperative) having balance below prescribed limit.
33) Check Destruction of old records as per time schedule prescribed.
34) Check Locker rent.
35) 30% scrutiny of transactions relating to the payment of pension.
36) Whether the prescribed certificates – Life, Re-employment, Re marriage etc. obtained, wherever required, in all pension accounts.
37) Physical checking of Govt. and other securities held on behalf of Investment Department and timely collection of interest thereon and their maturity proceeds.

Explanations:

Demand Deposit includes:

1) Credit balance in overdrafts & Cash Credit accounts
2) Deposits payable at call
3) Overdue deposits

4) Inoperative current accounts

5) Matured term deposits and cash certificates

6) Certificates of deposits, etc.

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

Term deposit includes:

1) All deposits repayable after a specified term
2) Fixed deposits
3) Cumulative and recurring deposits
4) Cash certificates
5) Certificates of deposits
6) Annuity deposits
7) Deposits mobilized under various schemes
8) Ordinary staff deposits
9) Foreign currency
10) Non-resident deposit accounts, etc

Part D – Discussion of findings with branch management, rectifications and reporting's:

Get the important matters discussed and minuted and wherever possible, get the minutes signed by the BM and keep in file. Put your counter signature as well. Put Document Number in each such minutes of meeting.

Auditor has to maintain/obey the following principle:

- To maintain utmost secrecy with regard to inspection program and its findings.
- Auditors to display team spirit and avoid misunderstandings / arguments amongst team members in the presence of auditees.
- Inspection of the branch has to be commenced before commencement of business hours to verify the physical cash, security arrangement etc. Do not carry out the same in mid of the day,
- To act in a normal friendly fashion and help to improve normal working of the branch.
- Discuss his findings with branch officials on daily basis and try to rectify the defects then and there itself.

- Give auditees a chance to express their opinion while discussing the issues. Getting proper explanation in a co-operative atmosphere will save precious time.
- In case of difference of opinion with auditee, the auditor should first discuss with the leader of his team.
- Further discussion with head of Regional Audit Office / Zonal Audit Office level if required, may be made. Besides, discussion if required with GM (CA&ID) can also be made for guidance / instruction.
- If the inspecting officer comes across any information which causes him to suspect any element of fraud, gross negligence, gross incompetence or similar unfavorable actions or tendencies, he should report the matter to the leader of the team immediately.
- The members of the team should keep continuous dialogue with the Partner on important findings and be guided by his advice
- Auditor should maintain a neat appearance and a courteous manner.

DO NOT'S:

1. Auditor need not act overly reserved or unfriendly in order to maintain his independence as an inspecting officer. A forbidding attitude on his part may well cause others to adopt the same attitude towards him. This can adversely affect the work entrusted to the inspecting officer.

2. Auditor should not get involved in heated argument with auditee.

3. Auditor should not give orders to auditee and seek requirements from the officer assigned to assist him on a particular job. The concerned officer would issue the necessary orders to their employees if he accepts inspector's suggestions and recommendations.

4. Auditor should not delay the submission of audit report. Auditor should not discuss sensitive matters of the auditee with others.

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