CPE CREDIT 6 HOURS

ONE DAY CPE SEMINAR

ON

BANK AUDIT

on

WEDNESDAY, March 19, 2008

at

Hotel Renaissance,

Palarivattom, Ernakulam

Organised by:

ERNAKULAM BRANCH OF SIRC OF

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

PROGRAMME

8.30 a.m. : Registration

9.00 a.m. – 10.15 a.m. **First Technical Session**

APPROACH TO BANK AUDIT

by

CA. AKSHAY KUMAR GUPTA, FCA, Kanpur
Central Council Member, ICAI

10.15 a.m. – 10.45 a.m. **Inaugural Session**

Chief Guest

Dr. V. A. JOSEPH

Chairman & CEO, South Indian Bank Ltd.

10.45 a.m. – 11.30 a.m. **Second Technical Session**

RECENT CIRCULARS

by

CA. V.C. JAMES, FCA, Kochi
Central Council Member, ICAI

11.30 a.m. – 01.00 p.m. **Third Technical Session**

AUDIT UNDER CBS (CORE BANKING SOLUTIONS) ENVIRONMENT & APPLICABLE ASSURANCE STANDARDS

by

CA. A. GOPALAKRISHNAN, FCA, Kochi
Director, Dena Bank

01.00 p.m. – 1.45 p.m. **Lunch Break**

01.45 p.m. – 04.15 p.m. **Fourth Technical session**

VERIFICATION OF ADVANCES LFAR AND REPORTING REQUIREMENTS, GHOSH & JILANI COMMITTEE REPORTS

By

CA. AMARJIT CHOPRA, FCA, New Delhi
Central Council Member, ICAI ,
Director Bank of Baroda

CHIEF GUEST

Dr. V. A. JOSEPH
Chairman & CEO, South Indian Bank Ltd.

SPEAKERS

First Technical Session

CA. AKSHAY KUMAR GUPTA
Kanpur
Central Council Member, ICAI

Second Technical Session

CA. V.C. JAMES
Kochi
Central Council Member, ICAI

Third Technical Session

CA. A. GOPALAKRISHNAN
Kochi
Director, Dena Bank

Fourth Technical session

CA. AMARJIT CHOPRA
New Delhi
Central Council Member, ICAI,
Director Bank of Baroda

First Technical Session

APPROACH TO BANK AUDIT

CA. AKSHAY KUMAR GUPTA,
Kanpur
Central Council Member, ICAI

BANKING INDUSTRY UNIQUE FEATURES

- Legal Frame Work
- Regulated Guidelines
- No Political Boundaries
- Money Merchants
- Dealer in Invisible Values
- High Volumes
- Wide Network & Delegated Authorities
- Defined Systems & Controls
- Prescribed Returns & Reports
- Advanced Automation

UPDATION OF KNOWLEDGE

- Guidance Note on Audit of Banks
- Master Circulars
- www.rbi.org.in
- a) Prudential norms on Income Recognition & Classification & Provisioning pertaining to Advances last updated 02.07.2007
- b) Prudential Norms for Classification, Valuation & Operation of Investment Port-Folio of Banks
- c) Prudential Norms for Capital Adequacy
- d) Other Guide-Lines
- Seminars & Workshops
- CA Journal

APPOINTMENT

- Letter of Appointment
- Communication with Previous Auditors
- Letter of Engagement-AAS-26
- Declaration of Fidelity & Secrecy
- Declaration of Will-full Default
- Letter of Acceptance
- Letter of Introduction

IF YOU FAIL TO PLAN YOU PLAN TO FAIL

- Checklist of Documents to be Certified
- Account Closing Instructions
- Questionnaire to Branch
- Audit Program

CONDUCT OF AUDIT

Review of :-

- Last Audit Report
- Last LFAR
- Concurrent Audit Reports
- Internal/ Inspection Reports
- RBI Inspection Reports
- Stock Audit Reports
- System Audit Reports
- Credit Audit Reports
- Migration Audit Reports

REVIEW OF

- Accounting Systems & Internal Controls
- Analytical Comparisons
- Annual Returns & NPA Statements
- Allocation of Work

CASH & BANK BALANCES

- Cash Balance Verification
- Balance Confirmation/ Reconciliation for Balances with Other Banks

ADVANCES

a) New Accounts
b) Large Advances
c) Critical Accounts
d) Random Selection

- Appraisal
- Sanction
- Pre-Disbursement Compliances
- Documentation
- Operation & Conduct
- Post-Disbursement Compliances
  Submission of Stock & Book Debt Statement
  Valuation of Securities

ADVANCES

Insurance
QIS
Inspection
Stock Audit
Fixation of DP

- Classification
- NPA Recognition
- Provisioning
- Income Recognition

FIXED ASSETS

- Purchase & Additions
- Fixed Assets Register/ Verification
- Depreciation
- Title of Premises

INVESTMENT

- Physical Verification
- Obtain Certificate for no Investments

OTHER ASSETS

- Inter Office Adjustments
- Interest Accrued
- Stationery & Stamps
- Non-Banking Assets in Satisfaction of Claims
- Others (Suspense, Prepaid Expenses, Security Deposit etc.)

DEPOSITS

- Demand Deposits
  - From Banks
  - From Others
- Savings Bank Deposits
- Term Deposits
  - From Banks
  - From Others

Balancing
Interest Calculation
In-operative Accounts
KYC Norms for New Deposits
High Value Deposits

OTHER LIABILITIES & PROVISIONS

- Bills Payable
- Inter-Office Adjustment
- Interest Accrued
- Others (including provisions)

CAPITAL ADEQUACY

- **Branch Returns :**
- Advances-Outstanding balances of different category & cash margin available
- Off Balance Sheet Items -e.g.Bank Guarantees/ Letter of Credits both Inland & Foreign
- Outstanding Balances & Cash Margin Available
- **Risk Weights-Categories** **Risk Weight-(%)**

i) Consumer credit including personal loan & credit card 125%

ii) Housing loan to individuals against the mort gage of residential house 75%

iii) Advance to staff (fully covered by superannua-tion benefits & mortgage of flat/ house) 20%

CAPITAL ADEQUACY

- **Risk Weights-Categories** **Risk Weight-(%)**

iv) Advance against term deposit, life policies, NSC's, IVPs & KVPs where adequate margin available 0%

v) Loan guaranteed by Govt.of India 0%

vi) Loan guaranteed by State Govt.(Performing Advances) 0%

vii) Loan guaranteed by State Govt.(NPAs) 100%

viii) Loan to PSUs of Govt.of India/ State Govt. 100%

CONTINGENT LIABILITIES

- Claim against the Bank not Acknowledged as Debts
- Bank Guarantees
- Letter of Credits
- Bills for Collection

PROFIT & LOSS ACCOUNT

Income :-

- Interest-Test Checking Rates & Value Dating
- Processing Fees
- Exchange Income -Adjustment for Income in respect of Un-expired Period

EXPENDITURE

- Interest
  - Test Checking & Rates etc.
  - Interest accrued but not due
- Other Administrative Expenses
  - Salary, Rent, Electricity & AMC etc.
  - Provision for Expenses

LFAR

- Collect information required to be provided in LFAR from Branch Manager duly certified
- Annexure of Large Advances
- Obtain a management representation letter for various relevant aspects reported in LFAR e.g. occurrence of fraud at Branches
- Discuss the Observation of LFAR with Branch Manager & Obtain a Certificate to that effect

MISCELLANEOUS

- Maturity Profile of Loans, Advances & Deposits
- Movement in NPA Accounts
- Working Papers/ Peer Review
- Ghosh & Jilani Committee Reports

Reckoner for Identification & Classification of Advances into Standard/Sub-Standard/Doubtful/Loss Assets as at 31st March, 2008

Standard Asset	Sub-Standard Asset	Doubtful Asset	Loss Asset
It is not an NPA	All existing a/c's under this category excluding those which have completed 12 months as NPA and new additions to be made as under	All existing a/c's under this category & new additions i.e. all substandard a/c's up to 31.03.2007	A loss asset is one where the outstanding is considered uncollectible/ unrealizable or where the realizable value of security is less then 10% of the outstanding
<u>1-Term Loans :</u> Interest/ installments due up to and including 31.12.2007 is recovered	**<u>1-Term Loans :</u>** Interest/ installments prior to and including 31.12.2007 remaining un-recovered in the account	**<u>1-Term Loans :</u>** If the account has remained in substandard category for a period exceeding 12 months	
2-Cash-Credit/ Over-Draft: The outstanding balance does not remain continuously in excess of the sanction limit/DP for a period of more than 90 days (i.e. after 31.12.2007, the account should be regular and not over-drawn up to 31.03.08	2-Cash-Credit/ Over-Draft: a) In case where the o/s exceeds limit/DP such excess remains continuously for more than 90 days. b) In case where the o/s is less than limit/DP, but no credits continuously for 90 days as at the end of year i.e.31st Mar, 2008. c) If the credit turn-over from 01.01.2008 to 31.03.2008 is not adequate to cover intt. debited from 01.01.08 to 31.03.08.	**<u>2-Cash-Credit/ Over-Draft:</u>** If the asset has remained in sub-standard category for a period exceeding 12 months.	
3-Loans Repayable on Demand: If the amount is due after 31.12.2007	**3-Loans Repayable on Demand:** If the amount to be received remains over due for a period of more than 90 days i.e. over due prior to and	**3-Loans Repayable on Demand:** If the asset has remained in sub-standard category for a period exceeding 12	

4-Bills Purchased/ Discounted: If the bill is not overdue or If the bill is overdue after 31.12.07	**4-Bills Purchased/ Discounted:** If the bill has remained overdue for a period of more than 90 days i.e. overdue prior to and including 31.12.07	**4-Bills Purchased/ Discounted:** If the asset has remained in substandard category for a period exceeding 12 months	

PROVISIONS IN NPA A/C'S

Sl.No.	Category of NPA	Period during which classified as Non-performing	Provisioning Required
1-	Sub-standard	Classified as NPA between 01.04.2007 to 31.03.2008 (both days inclusive)	10% on balance outstanding (10% additional on balance outstanding for unsecured exposure)
2-	Doubtful	Classified as NPA between 01.04.2006 to 31.03.2007 (both days inclusive)	20% on secured portion (less INC, if any). 100% on unsecured portion.
		Classified as NPA between 01.04.2004 to 31.03.2006 (both days inclusive).	30% on secured portion (less INC, if any). 100% on unsecured portion.
		Classified as NPA on or before 31.03.2004.	100% on secured portion (less INC, if any) 100% on unsecured portion.
3-	Loss Asset	--	100% of balance outstanding.

A general provision of 40% of balance outstanding in respect of standard assets has to be made except certain specific advances e.g. i) direct agricultural advances, ii) residential housing loans (each beyond Rs. 20 lacs) and iii) personal loans (including credit card receivables), capital market exposure, commercial real estate loans, loans to systemically important NBFCs where provision @ 0.25%, 1.00% and 2.00% respectively on aggregate outstanding has to be made.

Other Important Matters :

1> Advances where the review/renewal has been pending for more than 180 days will be treated as NPA, i.e. accounts, whose review date has expired on or before 03.10.2007.

2> If stock statements are not received for more than 180 days, the account will become NPA i.e. if the DP is based on a stock statement older than three months the same is deemed to be "out of order/irregular"

3> Value of security has to be determined after providing depreciation at the normal rate.

4> Verify whether accounts identified as NPA during the previous year continue to be NPA as on the year ending date unless regularized and ensure that the status is downgraded as per norms.

5> Identify all new NPA accounts and ensure that in addition to current year unrealized interest, immediate preceding years' unrealized interest is also reversed in case of all new NPA accounts including Govt. Guaranteed Account also. Deduct interest Suspense A/c, cash margin and DICGC/ ECGC (available claim only) cover available from balance outstanding and suggest provision only for the net amount.

6> Ensure that all fraud accounts are classified as NPA and necessary provision made.

7> Expired guarantee not renewed may be included under Contingent Liabilities if it is within the claim period after the expiry date, and original guarantee is not returned.

8> As per IBA guidelines, guarantee issued to Govt. & Govt. organization not returned after the claim period need not be included under contingent liability considering the 30 years period available to govt, provided, registered acknowledged due letter is sent to the govt. in the prescribed format.

9> When an account becomes NPA and the realizable value of security is less than 50% of the value assessed by the branch or accepted by RBI at the time of last RBI inspection, as the case may be, the account should be classified straight away as doubtful debts. RBI has clarified that such a situation is called erosion in the value of security.

10> If the realizable value of security, as assessed by the bank/approved valuer/RBI is less that 10% of the outstanding balance in the account, such account should straight way be treated as loss assets.

11> As per the guidelines, the status of the account has to be analysed on the Balance Sheet date to determine the NPA status. Hence, regularization/closure of the account after the year need not be considered and provision already made need not be reversed. (Subject to the auditor forming an opinion in this respect).

12> Valuation of Security :

With a view to avoid divergence arising out of difference in the assessment of the value of security it has been decided that in the case of NPA with balance of Rs.5 Crores and above:-

- Stock audit at annual intervals by external agencies appointed as per the guidelines approved by the board has been made mandatory.
- Collateral such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors

13> Downgrading of NPA :

- In respect of accounts where there are potential threats to recovery on account of erosion in the value of security or non-availability of security and existence of other factors, for e.g. fraud committed by borrowers, etc such accounts should straight away be classified as doubtful assets or loss asset as appropriate, irrespective of the period for which it has remained as NPA.
- The factors to be considered in such situations are whether there is a threat of loss whether the recoverability of the advance is in doubt. Just because a fraud is committed, the status need not be down-graded, if the recoverability is not in doubt. However, it is advisable to treat all fraud cases as NPA.

14> Borrower Having Several Facilities :

- In cases where a borrower is enjoying several facilities, all the facilities granted to a borrower will have to be treated as NPAs and not the particular facility or part thereof which has become irregular. This is because classification of the accounts as performing asset or non-performing assets should be borrower-wise and not facility or account-wise.
- In such cases, NPA at the lowest category of any one account may be applied to other accounts of the same borrower also.

15> Central Government Guaranteed Accounts :

The credit facilities backed by the guarantees of the central government only though overdue are not treated as NPA except when the government repudiates its guarantee as and when invoked. This exemption from classification of government guaranteed advances as NPA is not for the purpose of recognition of income.

16> Accounts Restructured under CDR:

- In case of rescheduling of installments of principal alone under CDR in case of sub-standard/ doubtful accounts, these accounts would continue to be in same category for the specified period provided loan/credit facility is fully secured.
- In case of rescheduling of interest element under CDR in case of sub-standard/doubtful accounts, these accounts would continue to be a same category for the specified period provided that the amount of sacrifice of interest measured in present value terms is either written off or such sacrifice is provided for.
- Such restructured accounts would be up-graded to standard category only after the specified period i.e. a period of one year after the date when first payment of interest or of principal, which ever is earlier falls due under the rescheduled term, subject to satisfactory performance during the period.
- In case of non-satisfactory performance during the one year period the asset classification of restructured accounts would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.
- The asset classification account under CDR would continue to be bank specific based on its record of recovery.

17> Advance under Rehabilitation approved by BIFR/TLI:

Such accounts not to be up-graded unless the terms of re-negotiated package are fulfilled satisfactorily for a period of one year. On additional facilities under the package the prudential norms for classification and income recognition will be applicable after a period of one year from the date of disbursement.

18> Advance under Consortium Arrangements :

Classification of accounts under consortium should be based on the record of recovery of the individual banks. Non-receipt of remittances from the lead bank will render the account not serviced in the books of other member bank.

19> Appropriation of Recovery in NPAs:

- Interest realized on NPAs may be taken to income provided credits are not out of fresh/additional credit facilities sanctioned to the borrower.
- In absence of on agreement between the bank and the borrower, bank should adopt an accounting principle in a uniform and consistent manner for apportionment of recoveries in NPAs.

20> Up-Gradation of NPAs:

The NPAs will be up-graded and be treated as Standard Account, if arrears of interest and principal are paid by the borrower.

21> Accounts Regularized near about the Balance Sheet Date:

Accounts regularized by a solitary or a few credits just before the balance sheet date should be handled with care and without scope for subjectivity. In case of inherent weaknesses the account should be deemed as NPA.

22> Advance against Term Deposits, NSCs, KVP/ IVP etc:

Advances comprising Term Deposits, NSC eligible for surrender, IVPs, KVPs, Life Policies etc., would also require classification for provisioning.

23> Banks are not expected to repeatedly restructure/ reschedule the amounts due to them unless there are very strong and valid reasons which warrant such repeated restructuring/rescheduling. Restructuring in all cases should be based on viability parameters. Any restructuring done without looking into cash flows of the borrower would invite supervisory concerns. It will not be appropriate to extend the special asset classification status, where there are repeated restructuring/ rescheduling.

The regulatory concession in respect of CDR restructured accounts would not be available if the account is restructured for the second or more times. In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a substandard or a doubtful asset and is subjected to restructuring, on a subsequent occasion its asset classification would be reckoned from the date when it became NPA on the previous occasion. However, such assets restructuring for the second or more time may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.

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Second Technical Session

THE THRUST & RECENT CHANGES IN BANK AUDIT

CA. V. C. JAMES
Central Council Member, ICAI

RELEVANCE OF RBI CIRCULARS IN CARRYING OUT BANK AUDIT:

Auditors should examine compliance with those directives of RBI that have a direct and material effect of the Balance Sheet or the Profit and Loss account of a Bank as part of their annual statutory audit.

The concern of the auditor is with the overall adequacy of provisions in respect of each of the heads under which advances are required to be shown in the Balance sheet of a bank. Thus, for example, the auditor will have to examine the adequacy of the overall provisions made by the bank separately in respect of (a) bills purchased and discounted, (b) cash credit, overdrafts and loans repayable on demand, and (c) terms loans. Similarly, the auditor should examine the overall adequacy of the provisions under each of the other heads of advances in the balance sheet. If, in his opinion, the overall provision made by the bank in respect of any of the heads is inadequate, he should make a suitable qualification in his report.

The Reserve Bank reiterates that banks and financial institutions should adhere to the prudential norms on assets classification and provisions correctly and avoid the practice of “ever greening”. The banks are advised to take effective steps for reduction of NPAs and also put in place risk management system and practices to prevent re-emergence of fresh NPA.

The important guidelines/recent circulars mentioned above are briefly explained as follows:

1. **Additional Provisioning requirement for Standard Assets** – It has been decided to increase the provisioning requirement in respect of the standard assets in the following categories of loans and advances with immediate effect as follows:

Sl. No.	Category of standard asset	Rate of provisioning
a	Direct advance to agricultural and SME sectors	0.25 %
b	Residential housing loans beyond Rs 20 lakhs	1.00 %
c	Personal loans (including credit card receivables), Loans and advances qualifying as capital market exposures, commercial real estate loans, and Loans and advances to Systemically Important NBFC – ND	2.00 %
d	All other loans and advances not included in a, b and c above	0.40 %

As hitherto, these provisions would be eligible for inclusion in Tier II capital for capital adequacy purposes to the permitted extent.

The provision for standard assets need not be netted from gross advances but shown separately as contingent provisions against standard assets under other liabilities and provision in schedule V of the Balance Sheet.

2. **Provisions and Contingencies –** Banks are advised to disclose in the Notes to the accounts the following information in addition to the existing disclosure requirements in the Master Circular:

Break up of 'Provisions and Contingencies' shown under the head Expenditure in Profit and Loss account	Current Year	Previous Year
Provisions for depreciation on Investment		
Provision towards NPA		
Provision towards Standard Asset		
Provision made towards Income Tax		
Other Provision and Contingencies		

3. **Prudential Norms on creation and utilization of floating provisions** – The floating provision means provisions, which are not made in respect of specific non-performing assets or are made in excess of the regulatory requirements. The floating provision should not be used for making specific provisions as per the extend prudential guidelines in respect of non-performing assets. Floating provision can be used only for contingencies under extra-ordinary circumstances for making specific provision in impaired accounts after obtaining Board's approval and with prior permission of RBI. These provisions can be netted off from Gross NPAs to arrive at Net NPAs. Alternatively, they can be treated as part of Tier II Capital within the overall ceiling of 1.25 % of total risk weighted assets. Disclosure has to be made on floating provision in the Balance Sheet.

   To facilitate bank's board to evolve suitable policies in this regard, it is clarified that the extra – ordinary circumstances refer to losses which do not arise in the normal course of business and are exceptional and non-recurring in nature. These extra-ordinary circumstances could broadly fall under three categories viz. general, Market and Credit. Under general category, there can be situations where bank is put unexpected to loss due to events such as civil unrest or collapse of currency in a country. Natural calamities and pandemics may also be included in the general category. Market category would include events such as a general melt down in the markets, which affects the entire financial systems. Among the credit category, only exceptional credit losses would be considered as an extra –ordinary circumstance.

   Banks may voluntarily make specific provisions for advances at rates which are higher than the rate prescribed under existing regulation provided such higher rates approved by the board of directors and consistently adopted from year to year. Such additional provisions are not to be considered are floating provisions.

4. **Advances covered by ECGC Guarantee**

   In the case of advances classified as doubtful and guaranteed by ECGC, provision should be made only for the balance in excess of the amount guaranteed by the corporation.

5. **Debt Restructuring Mechanism for Small and Medium Enterprises (SME)** – For identification of willful defaulters, an opportunity is provided to the borrower to make representation before the final classification is made in the case of SME. Banks may review the reasons for classification of borrower as willful defaulter especially in old cases where the manner of classification of the borrower as willful defaulter was not transparent. Such exceptional cases may be admitted for restructuring with the approval of the Board of the Banks.

6. **Revised Guidelines on Corporate Debt Restructuring (CDR) Mechanism:** A special group, constituted to undertake a review of the existing Scheme of CDR has suggested the following major modification to the existing CDR mechanism relating to:

a. Extension of the Scheme to entities with outstanding exposure to Rs 10 crores or more;

b. Requirement of support of 60% of creditors by number in addition to the support of 75% of creditors by value with a view to make the decision making more equitable;

c. Discretion to the core group in dealing with willful defaulters in certain cases other than cases involving frauds or diversion of funds with malafide intentions;

d. Linking the restoration of asset classification prevailing on the date of reference to the CDR cell to implementation of the CDR package within four months from the date of approval of the package;

e. Restricting the regulatory concessions in asset classification and provisioning to the first restructuring where the package also has to meet norms relating to turn around period and minimum sacrifice and funds infusion by promoters;

f. Convergence in the methodology for computation of economic sacrifice among banks and Fis.

g. Limiting RBI's role in providing broad guidelines for CDR mechanism;

h. Enhancing disclosure in the balance sheet for providing greater transparency;

i. Pro-rata sharing of additional finance requirement by both term lenders and working capital lender;

j. Allowing OTS as a part of the CDR mechanism to make the exit option more flexible and;

k. Regulatory treatment of non-SLR instruments acquired while funding interest or in lieu of outstanding principal and valuation of such instruments.

Banks are advised to follow the above guidelines.

7. Guidelines on purchase/sale of Non Performing Assets:

The guidelines are given below:

1. The Guidelines would be applicable to banks, Financial Institutions and NBFCs purchasing/ selling non-performing financial assets, from/to other banks/Fis/NBFCs/ (excluding securitisation companies/reconstruction companies).

2. A financial asset, including assets under multiple/consortium banking arrangements, would be eligible for purchase/sale in terms of these guidelines if it is a non-performing asset/non performing investment in the books of the selling bank.

3. A bank, which is purchasing/selling non-performing financial assets, should ensure that the purchase/sale is conducted in accordance with a policy approved by the Board of Directors.

4. *The estimated cash flows are normally expected to be realized within a period of three years and at least 10 % of the estimated cash flows should be realized in the first year and at least 5 % in each half year thereafter subject to full recovery within three years.*

5. A bank may purchase/sell non-performing financial assets from/to other banks only on 'without recourse' basis, i.e., the entire credit risk associated with the non-performing financial assets should be transferred to the purchasing bank.

6. A non-performing asset in the books of a bank shall be eligible for sale to other banks only if it has remained a non-performing asset for at least two years in the books of the selling bank.

7. Banks shall sell non-performing financial asset to other banks only on cash basis. The entire sales consideration should be received upfront and the asset can be taken out of the books of the selling bank only on receipt of the entire sale consideration.

8. The purchasing bank should hold a non-performing financial asset at least for a period of 15 months in its books, before it is sold to other banks. Banks should not sell such assets back to the bank, which had sold the non-performing financial asset (NPFA).

9. The non-performing financial asset purchased, may be classified as 'standard' in the books of the purchasing bank for a period of 90 days from the date of purchase. Thereafter, the asset classification status of the financial asset purchased shall be determined by the record of recovery in the books of the purchasing bank with reference to cash flows estimated while purchasing the asset.

10. Where the purchase/sale does not satisfy any of the prudential requirements prescribed in these guidelines, the asset classification status of the financial asset in the books of the purchasing bank at the time of purchase shall be the same as in the books of the selling bank. Thereafter, the asset classification status will continue to be determined with reference to the date of NPA in the selling bank.

11. Any restructure/reschedule/rephrase of the repayment schedule or the estimated cash flow of the non-performing financial asset by the purchasing bank shall render the account as a non-performing asset.

12. The provisioning norms would be as under:

    In the Books of the Selling Bank:

i. When a bank sells its non-performing financial assets to other banks, the same will be removed from its books on transfer;

ii. If the sale is at a price below the net book value (NBV) (i.e., book value less provisions held), the shortfall should be debited to the profit and loss account of that year.

iii. If the sale is for a value higher than the NBV, the excess provision shall not be reversed but will utilized to meet the shortfall/loss on account of sale of other non-performing financial assets.

In the Books of the Purchasing Bank:

i. The asset shall attract provisioning requirement appropriate to its asset classification status in the books of the purchasing bank.

13. Accounting of Recoveries – any recovery in respect of non-performing asset purchased from other banks should first be adjusted against its acquisition cost. Recoveries in excess of the acquisition cost can be recognized as profit.

14. Capital adequacy – for the purpose of capital adequacy, banks should assign 100 % risk weights to the non-performing financial assets purchased from other banks.

15. Disclosure requirements – bank which purchase non-performing financial assets from other banks shall be required to make the following disclosures in the Notes to the Accounts to their Balance Sheet.

A. Details of non-performing financial asset purchased:

Sl No	Particulars	Amount Rs in crores
1a.	No. of accounts purchased during the year	
1b	Aggregate outstanding	
2a.	Of these, number of accounts restructured during the year	
2b.	Aggregate outstanding	

B. Details of non-performing financial asset sold:

Sl No	Particulars	Amount Rs in crores
1	No. of accounts sold	
2	Aggregate outstanding	
3	Aggregate consideration received.	

8. Housing Loan – Order of the Hon'ble Delhi High Court:

RBI has issued the following guidelines:

1. Housing loan for building construction – in case where the applicant owns a plot/land and approaches the banks/Fis for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility must be obtained by the banks/FI before sanctioning the home loan.
2. An affidavit-cum-undertaking must be obtained from the person applying for such credit facility that he shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executant's to obtain completion certificate within 3 months of completion of construction.
3. An architect appointed by the bank must also certify the various stages of construction of the building.
4. Housing Loan for purchase of constructed property/built up property – the applicant to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and/or building byelaw and as far as possible has a completion certificate also. An architect appointed by the bank must certify before the disbursement that the built up property is strictly as per the sanctioned plan and/or building byelaws.
5. No loan should be given in respect of those properties that fall in the category of unauthorized colonies, unless regularized and development and other charges paid.
6. No loan should be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for the loan.

9. Liberalization of Export and Import procedures –

The following relaxation has been made in the area of exports and imports and foreign currency accounts:

i. Extension of time for realization of export proceeds – Authorized dealers and category I banks may now extend the period of realization of export proceeds, beyond six months from the date of export, up to a further period of six months, at a time, irrespective of the invoice value of the export subject to the fulfillment of the following conditions:

- The export transactions covered by the invoices are not under the investigation of the Enforcement Directorate/CBI or other investigating agencies.
- The bank/AD is satisfied that the exporter has not been able to realize the export proceeds for reasons beyond his control.
- The exporter submits a declaration that the exports proceeds will be realized during the extended period;
- The total outstanding of the exporter does not exceed USD one million or 10 % of the average exports realizations during the preceding 3 financial years, whichever is higher.

In cases, where the exporter has filed suits abroad against the buyer, extension may be granted irrespective of the amount involved/outstanding.

ii. Write off of unrealized export bills – it has been decided that Status Holder exporters may write off outstanding export dues to the extent of (a) 5 % of their average annual realization during the preceding 3 financial years or (b) 10 % of the export proceeds due during the financial year, which ever is higher.

iii. Imports - Henceforth, the credit report on the overseas supplier (where the import documents are received directly) need not be obtained in cases where the invoice value does not exceed USD 100,000 provided the AD category I bank is satisfied about the bonafides of the transactions and track record of the importer constituent.

10. **Loans to Non Residents/third parties against security of NRE/FCNR (B) accounts** – it is decided that banks should not grant fresh loans or renew existing loans in excess of Rs 20 lakhs against NRE and FCNR (B) deposits, either to depositors or to third parties with immediate effect.

11. **Issue of Credit Cards to Directors of banks** – it is clarified that the term 'loan or advance' shall not include a credit limit granted under credit card facility provided by the bank to its Directors to the extent the credit limit so granted is determined by the bank by applying the same criteria as applied by it in the normal conduct of the credit card business.

12. Valuation of Properties – Empanelment of valuers – following guidelines are prescribed:

i. Banks should have a Board approved policy in place for valuation of proper collaterals accepted for their exposures.

ii. Valuation to be done by professionally qualified independent valuers;

iii. Banks should obtain minimum two independent Valuation Reports for limit of Rs 50 crore or above.

iv. Banks should have a procedure for empanelment of professional valuers and maintain 'approved list of valuers'.

v. Banks should prescribe a minimum qualification for empanelment of valuers. Qualification may be prescribed for different classes of assets.

13. Issue of Letters of Comfort (LOC's) by banks (4th March 2008 Circular)

The RBI issued the following prudential norms

l. Every issue of LOC should be with prior approval of the Bank. The bank has to obtain a legal opinion in regard to the legally binding nature of the LOC issued.

m. The bank should make an yearly assessment of the likely financial impact that might arise from the LOC issued and the first assessment of outstanding LOC's as on 31st March 2008 to be placed before the board

n. Any LOC ie assessed to be a contingent liability of the bank by the rating agency / internal external auditors / internal inspectors / RBI inspectors / shall be treated for all prudential regulatory purpose as financial guarantee issued by bank.

o. Bank should disclose full particulars of all LOC as part of Notes to accounts.

14. Prudential Norms for capital adequacy – risk weight for educational loans (17th January 2008 circular)

The risk weight application for educational loans under Basel 1 frame work would be 100% as against 120 % earlier.

15. Guidelines on settlement of NPA obtaining consent decree from court. (30th November 2007 Circular)

Based on a Cochin DRT order, RBI's has advised the banks to ensure that the ones a case is filed before a Court / DRT /BIFR, any settlement arrived at which will be subject to the borrower obtaining a consent decree from the court / DRT BIFR concerned.

16. Project under implementation – Asset classification

In the case of project under implementation sanctioned before 1997 with over run for a period exceeding 2 years beyond the date of completion of the projects as originally envisaged, the asset should be classified as Substandard regardless of the record of recovery and provided for accordingly.

As regards the projects financed by banks after 28 May 2002 the date of completion of project should be clearly spelt out at the time of the financial closure of the projects. In such case if the date of commencement of commercial production extends beyond a period of 6 months after the date of the completion of the project, as originally envisaged at the time of initial financial closure of the project, the accounts should be treated as substandard assets.

However for infrastructure projects alone with effect from March 31st 2007 if the date of commencement of commercial production extends beyond a period of 1 year after the date of completion of projects as originally envisaged the accounts should be treated as substandard

17. The new provisioning guidelines are given below:

CLASSIFICATION AND PROVISIONING OF NPA AS ON 31.03.2008 AS PER THE NEW GUIDELINES:

NPA date	Classification	Provisioning
	Standard	As explained in para 1 above.
01.04.2007to 31.03.2008	Sub-standard	10% of balance outstanding (without ECGC cover and security available)
	Sub-standard	20% if the realizable value of security is not more than 10 % of outstanding balance.
01.04.2006to 31.03.2007	Doubtful up to 1 year (D1)	20% of secured portion
01.04.2004 to 31.03.2006	Doubtful 1 to 3 years (D2)	30% of secured portion
01.10.2001 to 31.03.2004	Doubtful more than 3 years (D3)	100 % of secured portion.

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Third Technical Session

AUDIT UNDER CBS

(CORE BANKING SOLUTIONS) ENVIRONMENT & APPLICABLE ASSURANCE STANDARDS

CA. A. GOPALAKRISHNAN
Kochi
Director, Dena Bank

CONCEPT OF CBS AND ITS ADVANTAGES
Concept of CBS - a new business model

Leverage Technology to

- Sustain higher levels of business growth, operational efficiency & profitability
- Provide comprehensive MIS/ EIS for prompt decision making, monitoring and controls

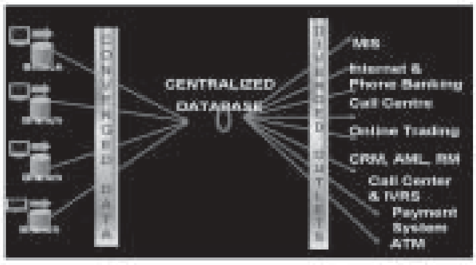
CONCEPT OF CBS AND ITS ADVANTAGES
Trends in Banking Industry

- CBS is a customer focused software solution than an accounting focused software solution
- Re-inventing customer relationships
- Customer dealing with the bank and not with branch
- Global Reach
- Time and Bank have no breaks
- Virtual banking replacing brick and mortar banking

CONCEPT OF CBS AND ITS ADVANTAGES
Trends in Banking Industry (contd...)

- Fully integrated services
- Straight through processing
- Single source for data, information and monitoring.
- Reduction in transaction cost
- Customer Relationship Managements.

CONCEPT OF CBS AND ITS ADVANTAGES
Core Banking Conceptual Design



CONCEPT OF CBS AND ITS ADVANTAGES
Benefits

Technical

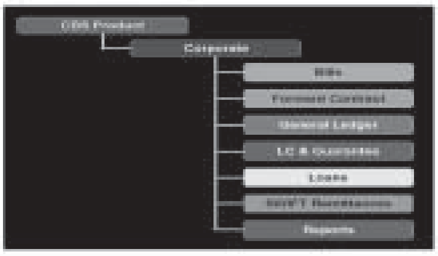
- Multiple branch data in a single database
- Centralised database server.
- Single login for all branches transactions
- Maintenance and troubleshooting from data centre.
- Pooling of technical staff

CONCEPT OF CBS AND ITS ADVANTAGES
Benefits

Bank

- Simultaneous launch of products across all branches.
- Automatic inter branch reconciliation
- Multi currency operations
- Centralised Monitoring
- Unique customer id
- Centralised information
- Location wise centralised clearing operations
- Centralised customer creation and account opening.
- Centralised Audit and Vigilance
- Centralised MIS

CONCEPT OF CBS AND ITS ADVANTAGES
CBS Product Outline



CONCEPT OF CBS AND ITS ADVANTAGES
Concept of Advances

- Extensive Parameterization
- Product Definition
- Interest Rate Master
- Account Level Parameter Reset
- Asset Classification / NPA

CONCEPT OF CBS AND ITS ADVANTAGES
Loan Parameters

1. Repayment Schedule
2. Rate of Interest
3. Repayment Amount
4. Product Code
5. Collateral Code
6. Insurance
7. Document Plan
8. Product Number
9. Interest Rules

CONCEPT OF CBS AND ITS ADVANTAGES
Parameters for Interest

1. Loan Product Parameters
2. Interest Accounting Heads
3. Installment Rules
4. Interest Rules
5. Interest rates
6. The flow

CONCEPT OF CBS AND ITS ADVANTAGES
NPA Concepts - Parameters

- NPA Accounting Heads
- Transfer to NPA
- Enquiry
- Accounting entries at the time of transfer
- Notional Interest Accounting
- Recovery
  > Partial
  > Full

CONCEPT OF CBS AND ITS ADVANTAGES
CBS Architecture

CBS Structure - Retail

- SB/ CA/ OD/ CC
- Loans
- Clearing
- Remittances – Inward/ Outward DD/ PO

CONCEPT OF CBS AND ITS ADVANTAGES
CBS Architecture

CBS Structure – Trade Finance

- Forward Contracts
- LC
- BG
- Collection bills – both inland and foreign
- Negotiated/ purchased bills – both inland and foreign
- Foreign remittances
- Traveller's cheques, foreign DDs and other remittances

CONCEPT OF CBS AND ITS ADVANTAGES
CBS Architecture

CBS Structure – Core Modules

- Accounting and General Ledger
- MIS and report generation
- End of Day and End of Period operations
- Administration module (parameter definition, user management and overall control)
- Inventory module
- Transaction Processing Engine

USEFUL REPORTS FOR AUDIT
Reports Categories

- RBI
- Flash
- Balance Sheet
- Statutory Returns
- Periodical Review Return
- Periodical Statistical Return
- Basic Statistical Returns
- Day Book, Transfer Waste, Balancing & Consistency

USEFUL REPORTS FOR AUDIT

Generation of Balance Sheet as on any date for any level at

A. any office -
B. Extension Counter,
C. Branch,
D. RO,
E. CO,
F. HO,

will reflect Day Book & Balancing figures

USEFUL REPORTS FOR AUDIT
Balance Sheet Supporting Schedules

- Advances & Bills Supporting Sheets
- State & Central Govt Guaranteed Accounts
- Exposure to Sensitive Sector
- Restructured Accounts
- Statement of Recovery on NPA Accounts
- Non Fund Based – Doubtful & Loss Assets
- Sector wise Gross Credit Advances
- Sector wise Asset Classification

USEFUL REPORTS FOR AUDIT
Daybook Consistency Reports

- Daybook
- Balancing Report
- Advances Consistency
- Deposits Consistency
- MIS Consistency

MIGRATION PROCESS AND PHASES
Different Phases of Data Migration

At the branch level:

- Data Cleaning
- Data Mapping
- Data Extraction
- Consistency check
- Data compression and uploading to DIT

MIGRATION PROCESS AND PHASES
Different Phases of Data Migration

At the DIT level:

- Receipt of data uploaded from branch
- Consistency check and generation of error reports
- Rectification of errors at the branch on the basis of error report
- Uploading the rectified data to DIT
- Repeat consistency check and generation of error report and rectification of mistakes at branch level till generation of NIL error report.

MIGRATION PROCESS AND PHASES
Different Phases of Data Migration

At the DIT level: (...contd)

- Blow up of data for conversion flat files into migration staging Tables
- D-Day – (Date of Migration) - Propagation – Population of the data from the staging table to CBS-Live data merges and becomes part of the central database
- Generation of reports like balancing report, etc
- Branch becomes part of CBS and operates under CBS environment on successful propagation

MIGRATION PROCESS AND PHASES
Critical Factor Affecting Data Purity

1. **Advances**

   a. Value of Security
   b. Rate of Interest
   c. Repayment Period
   d. Instalment Amount
   e. Concessions/incentives

   Any other conditions

MIGRATION PROCESS AND PHASES
Critical Factor Affecting Data Purity

2. Deposits

a. Product
b. Rate of Interest
c. Period
d. Date

MIGRATION PROCESS AND PHASES
Critical Factor Affecting Data Purity

3. Non Performing Assets

a. Date
b. Classification
c. Principal Amount
d. Rate of Interest
e. Interest last charged

MIGRATION PROCESS AND PHASES
Critical Factor Affecting Data Purity

4. Non Performing Assets

a. Interest
b. Other Income - Commission etc

5. Expenditure

ISSUES AND CONCERNS OF AUDITORS

1. Interest on TOD in the SB account wrongly mapped during migration.
2. Security value and date of NPA not correctly recorded on migration.
3. Details of bills, LCs, and other terms and conditions are incorrect in the CBS.
4. Several transactions are operated with the manual records after conversion to CBS.
5. The system do not recognize Non-Performing Assets and manual intervention necessary.
6. Interest on NPAs charged.

ISSUES AND CONCERNS OF AUDITORS

7. Provision for NPAs not computed correctly
8. Capital adequacy report not available from the systems
9. The schedule of advances, bills, and supporting sheet are not readily available.
10. Year of doubtful not correctly arrived by the system.
11. MOCs proposed by auditors are not given effect to.
12. Asset Classification not done properly.
13. The rate of interest charged on the loans do not agree with the sanctioned conditions.

ISSUES AND CONCERNS OF AUDITORS

14. TDS exemption certificates received from customers not given effect.
15. Settlement and realization against LCs and Bills and export bills not in accordance with the terms and conditions.
16. Transactions not allowed in expired limit accounts. This warrants temporary extension of limits.
17. System do not allow more than one transaction per day in term loan accounts.

ISSUES AND CONCERNS OF AUDITORS
Important Factors Contributing the Vital Concerns of the Auditors

Defective data migration process – an extremely critical and painful phase during the implementation process.

Matters for careful consideration in data migration.

a. Complete understanding of the data structure in the existing system.
b. One-to-One mapping of the relevant field with the new system.
c. Identifying gaps in the data.
d. Enriching the data
e. Migrating the complete data to the new system.

ISSUES AND CONCERNS OF AUDITORS
Important Factors Contributing the Vital Concerns of the Auditors

f. Remember, "Core Banking solution can process only what is fed into it. Input of erroneous data IN give imperfect OUTPUT".
g. Understanding the prevalent systems and interfaces
h. Understanding the functioning of the legacy environment
i. Understanding of the bank's business goals and the expectations of the management.
j. Technology only an enabler, not a panacea

AUDIT APPROACH AND METHODOLOGY
Audit Approach

Regulatory Warnings

(a) RBI Cir. No. DBS. PP. BC1/11/01.005/2006-07 dated November 16, 2006

I. Banks to consider software based solutions of reputed vendors to make available all regulatory instruction and provide regular updates to the software.

II. Banks should centralise the reporting of the compliance department in fully operational CBS environment. In other cases, compliance department to monitor timely submission of regulatory returns through an appropriate mechanism.

AUDIT APPROACH AND METHODOLOGY
Audit Approach

Regulatory Warnings

(b) ICAI - AAS6 Risk Assessment and Internal Control

(i) The computer information system environment to be considered in designing audit procedures to reduce Audit risk to acceptably low level.

(ii) Make enquiries with regard to existence of (a) Procedures to ensure correctness and completeness of data transmitted. (b) Cross verification of records, reconciliation statement, and control systems between primary and subsidiary ledger. (c) accuracy of computer compiled records are not assumed

AUDIT APPROACH AND METHODOLOGY
Audit Approach

Regulatory Warnings (...contd)

(iii) Emphasis given against acting and accepting the statements and reports purely on the assumption that computer compiled records and reports are accurate and correct.

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Data migrated from the legacy system	Ensure consistency and integrity of data. Verify the data in the master data Mapping of accounts (Verification of the various products and its parameters in the legacy with the product code in the CBS) such as Tables, scheme code, general ledger sub heads Obtain certificate regarding validity of the data migrated and the report conducted for the migration audit.
Report on the errors detected on migration audit.	Obtain copy of the migration audit report and ensure that all mistakes and errors stated therein are corrected.
In case migration audit not conducted.	Recommend for a Migration Audit

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Verification of the day end reports	Obtain a list of reports generated by the system and verify the same. Particulars of certain common reports are given below a. Exceptional report b. List of users c. Access Log d. Rejected/Cancelled entries e. Over-limits/TOD Report f. GL affected Balances Report g. Report on large cash transactions/ KYC & Anti Money Laundering etc.
Verification of system generated transactions and entries such as (a) Interest on loans (b) Interest on deposits (c) Processing charges (d) Classification of Inoperative accounts (e) Updation of interest of certain loans	Get the list of such transactions entered through the system. (a) Obtain a softcopy and hardcopy of the reports generated. (b) Verify at random the parameters such as rate of interest, commission charges, processing charge etc. with the sanction terms and schemes. (c) ensure that the product mapping is correctly made to verify the rate of interest.

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Reconciliation of proxy/ parking transactions	Ensure that all balances in the proxy/ parking transactions accounts are reversed and set off and there are no balances as at the end of balance sheet date. The reasons for long delay in reversing the balances may be obtained.
Control over sundry deposits, sundry assets and other suspense accounts	Obtain a list of such accounts and ensure that all long pending balances are adjusted.

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Advances	
Securities Master	Value of the securities including collaterals such as land, building, stock, and other assets are valued periodically and updated in the system to correctly determine the drawing power. Various field such as date of inspection, insurance, date of valuation, value of securities etc. are correctly stated in the report with reference to periodical reports.
Linking various credit limits of a single borrower	Ensure that all the limits and the corresponding securities of the borrower are linked together to furnish the consolidated outstanding and the aggregate value of the securities.

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Income recognition and asset classification	The system can generate a report showing the over-drawings in various accounts and the status regarding the arrears in the account. The auditor should ensure that all accounts to be classified as NPAs are classified accordingly and necessary entries are made in the system. Income, if any, recognised in respect of those NPAs, has to be reversed. In most of the cases, the classification as an NPA will be done only by the manager in charge of the branch.
Provisioning against NPAs.	The report generated by the system showing the NPAs and the provision required to be verified with regard to the value of securities, date of NPA, and the calculation.

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Deposit Accounts	In most cases, interest on deposit accounts are computed by the system. Here Mapping of the accounts is very important. The auditor must ensure that different accounts under the various scheme code/ tables/ GL subheads are linked correctly with the corresponding product code and subcode in the CBS. Incorrect mapping (linking) will result in revenue loss/ complaints from the customers. If necessary, printouts may be taken of the reports showing interest payable for verification on a random sample basis.
TDS	i. Obtain the list of cases where declaration in 15G/ 15H are obtained and ensure that the accounts of these customers are correctly linked in the TDS table. ii. Verify the TDS master data from the report to ensure that appropriate TDS rates are linked to different types of depositors/ other payees.

AUDIT APPROACH AND METHODOLOGY

Description of the Element to be Verified	Nature of Verification
Automatic Renewal of term deposits after overdue	Check the features available in the system regarding the automatic renewal of term deposits after the due date. Ensure that the interest is correctly charged and appropriate updations are made in the system.
Legal Compliances	
Compliances of Tax Laws, FBT, Service Tax etc.	Ensure that the expenditures are debited in appropriate pre-designated account heads under the GL subhead. The reports may be verified. Compliance with service tax regulations shall be made with reference to this report.
ATM Transactions	Verify the procedure of accounting of ATM transactions and ensure that all such transactions are entered promptly and reconciled periodically.

USEFUL REPORTS FOR AUDIT

Useful Reports

A. General

1. Interest accrual and interest due up to the date of Migration on advances and deposits
2. Assets classification discrepancy report
   a. Advances with overdues for more than 90 days classified as standard assets
   b. Substandard assets for more than 1 year classified as substandard assets
3. Advances master – to check rate of interest, concession, special rates, etc.
   Securities
   Margin

USEFUL REPORTS FOR AUDIT

Useful Reports

A. General

4. Reports showing the list of cases enjoying concessional rate.
5. Voucher Print/ Customer Balance Print/ Customer master Print & Account Master Print
6. Cheque Book issue Register
7. Financial Transaction Report
8. Deposit Reports
9. Loan Reports
10. Reports – Exception reports
11. Audit file inquiry and Printing
12. Inward Clearing Reports
13. Outward Clearing Reports

USEFUL REPORTS FOR AUDIT

Useful Reports

A. General

14. SB, CA, CC & OD reports
15. Term Deposits Reports
16. Term Deposit Loan Reports
17. Demand Drafts Reports
18. Inland Bills Reports
19. Foreign Bills and Remittances Reports
20. Bank Guarantees Reports
21. Documentary Credit Reports
22. Forward Contract Reports
23. Packing Credits Reports
24. IBR Reports
25. Treasury Interface Reports

USEFUL REPORTS FOR AUDIT

Useful Reports

B. Central Bank Reports

(a) General

- i. Advances – BSR 1
- ii. Terms Deposits Reports – BSR 2
- iii. Advances against selected securities – BSR 3
- iv. Report on irregular Accounts – PRR 2
- v. Advances to public sector undertakings – PSR 11
- vi. Distribution of Funds – PSR 2
- vii. Breakup of Deposits and Advances – interest – PSR 16
- viii. Performance under Branch Credit plan – PSR 32
- ix. Statement on interest Accounts – PSR 49

USEFUL REPORTS FOR AUDIT

Useful Reports

B. Central Bank Reports

(a) General

- x. RBI Statement – STR 11
- xi. Flash Report – PSR 1
- xii. Insurance covered Guarantee Report – STR 19
- xiii. Statement on Assisted Exporters – PSR 14
- xiv. Agricultural Loans Return – PSR 29

USEFUL REPORTS FOR AUDIT

Useful Reports

B. Central Bank Reports

(b) Foreign Exchange

1. Forex Turnover Report
2. R Return Report
3. R-Return Report in R5 format
4. Bill of Entry statement
5. Foreign bills ENC statement
6. Foreign Bills SNC statement
7. XOS Statement
8. Format C statement
9. STAT 5,8,9,10 Reports

USEFUL REPORTS FOR AUDIT
Useful Reports

B. Central Bank Reports

(c) Miscellaneous

1. Accounts with Unutilized Sanction limits
2. Advances to Sectors
3. Secure and Unsecured Advances
4. Secure and Unsecured Advances
5. Advances issued under MRTP Act
6. Report on Rejected cheques
7. Statement of Daily Cash Position
8. Credit & Review Program
9. Review of Deferred Payment Guarantees

Applicable Assurance Standards

1. Documentation AAS-3
2. Auditors responsibility to consider fraud and error in an audited financial statement AAS-4
3. Risk assessment and internal planning. AAS-6 –
4. Audit Planning – AAS -8
5. Audit materiality – AAS–13
6. Analytical Proceedings – AAS14
7. Audit sampling – AAS15
8. Knowledge of the business (technology) – AAS20
9. Audit in a Computer Information Systems Environment--AAS29

Documentation

AAS3 - Important factors

- Planning
- Audit evidence
- Internal Control
- Audit conclusion, and
- Reporting

AAS6 – Risk Assessment and Internal Control

- Understanding of the existence of internal controls
- Assessment of inherent risk

Audit Planning – AAS8

- Audit plan to enable an auditor to conduct an effective audit in an effective and timely manner.
- Knowledge about the technology and business of the branch.
- Development of an overall plan
- Developing audit programme and estimating the manpower requirement

Analytical Procedures - AAS14

- To apply analytical procedures at the planning and overall review stage of the project
- Useful analytical ratios
  - Average yield on advances –
  - Average cost of funds - Interest on deposits

Analytical Procedures - AAS14

- Useful analytical ratios (...contd)
  - Percentage of gross NPA to advance
  - Percentage of net NPA to advance
  - Increase in deposits and percentage of increase
  - Increase in advance and percentage of increase
  - Increase in other income and percentage of increase
  - Expenditure and increase/ decrease over expenditure for the previous year.
  - Net Profit for the year and increase/ decrease over the previous year.
  - Average deposit per employee
  - Average advance per employee
  - Average total business per employee
  - Average expenditure per employee and increase over the previous year.

CONCLUSION

- Direction and purpose of audit remains the same. That is to ensure compliance with regulatory and statutory requirement.
- Reasonable knowledge of the technology and the process adopted in the CBS required.
- Extensive use of the availability of useful reports to achieve audit objectives.
- The methodology and approach different.
- Chartered Accountants with rare analytical skill and logical thinking capable of leveraging the technology to discharge their attest function in an efficient and effective manner.
- Use of technology will address the issue of the limited time factor available for audit.
- Provides an opportunity to learn technology.

Core Banking Solutions

thanks

thanks

for your Attention

Fourth Technical Session

VERIFICATION OF ADVANCES

LFAR AND REPORTING REQUIREMENTS, GHOSH & JILANI COMMITTEE REPORTS

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