

# Overview of Bank Branch Statutory Audit for Beginners

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# Bank Branch Audit

## Major Challenges

1. A Special type of audit different from other statutory audit.
2. Different type of Computer Programme.
3. Lots of information, facts and figures to audit
4. Limitation of time to complete the audit

# Steps to be followed on receipt of Branch Allotment letter

1- Talk to the Branch Manager and discuss with him about the branch working, total business of the branch, amount of advances, nature of advances, nature of branch (rural, industrial etc)

## **2. Nature of Advances**

- MSME, Large Corporate, Loan Against FD/NSC/KVP etc., Housing Loan , Gold Loan
- Agriculture, Infrastructure, LC / other Non Fund Based Advances

**3. Ask BM to send the Jotting report (Account wise Advances Details) as on date on email.**

4. Send him a mail and letter showing the documents required for bank audit.

5. Send him an Audit Engagement letter.

6. Intimate to the Previous Auditor about your appointment

# Various types of Reports to be finalised in Bank Audit

1. Independent Auditor Report
2. MOC (Memorandum of Changes)
3. LFAR (Long Form Audit Report)
4. Ghosh Jhilani Audit Report
5. Various Certificates
6. Tax Audit

# Preparation for Audit in our office

- 1- Finalise the team members – At least 3-4 members
- 2- Have a formal training of the team members-
  - ✓ give them knowledge of the banking business, various terminologies used in the banking
  - ✓ **Divide among them the work to be done**  
LFAR, Certificate verification, Tax Audit, Ghosh Jhilani Audit, MOC, Independent Audit Report
  - ✓ Most Important- Who will be responsible for verification of all the documents on completion of branch.
- 3-Analysis of Jotting Report received from Branch

# Preparation for Audit in our office

- 4- Study of Master Circular, IRAC Norms, Closing Circular of the bank, Various other documents. Take bank audit seminar also.
- 5- Take knowledge of various software commands used in bank audit to draw various reports from system.
- 6- Have a detailed Audit Plan in Hand
- 7- Instructions and Guidelines if any given by the Central Statutory Auditors
- 8- If Possible, Choose the small branch first for audit
- 9- Minimum time required for completion of One Branch – 3-4 days

# Tools to be kept with before going to bank audit

- All the Rubber Stamps
- Letter Head
- Bill Performa
- Pan Drive **and 2 LAPTOP Minimum**
- Soft copy of Master Circulars
- Books and material on Bank Audit
- Material on various software commands for bank audit

# Carry out Bank Audit in the Branch

1. Reach in Branch at time
2. Have Confidence that you know how to conduct the bank audit- First Impression is Last Impression
3. Introduce your team to the Branch Manager and inform him about what job will be carried by which team member.
4. Main Member- Study of the
  - ✓ Previous Year Audit Report
  - ✓ Reports of various audit completed during your period - i.e. concurrent audit, RBIA, other inspection/ Audit



# Carry out Bank Audit in the Branch

5. Physical verification of the Fixed Assets
6. Physical verification of Cash and other security papers
7. Note all the details and documents asked by you but not shown by BM or asked to be shown later.
8. Have atleast more than half day for signing of all the documents and reports.

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of Advances

1. Have Complete Command on IRAC Norms – Master Circular of RBI issued every year on 1st July. Latest Circular No-DBR.No.BP.BC.2/21.04.048/2015-16 dated 1-7-2015
2. All Large Advances (having outstanding more than 5% of the total advances OR Rs.2 Crore whichever is lower) to be checked thoroughly and reported. It is the requirement of LFAR.
3. Other Advances may be audited on selected basis.
4. Verify the charge registration on Immovable Property on CERSAI website in case of Advances against Immovable Property.  
<https://www.cersai.org.in>
5. While checking the Balance Sheet, Tax Audit Report Form 3CD of the borrower- must be downloaded from the Income Tax Website and not just issued by CA.

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of Advances

6. To check in Working Capital Advances, that the limit has been duly renewed and if not renewed within 6 (3+3) months from the due date of renewal, then the account will become NPA. (**Para 4.2.4**)
7. Stock statements should not be older than 3 Months for calculation of DP (**Para 4.2.4.**)
8. Accounts regularized near Balance Sheet date. (**Para 4.2.6.**)
9. In all advances check the security documents properly.
10. Obtain Potential NPA report as on 31<sup>st</sup> Jan and 28<sup>th</sup> Feb and compare it with as on 31<sup>st</sup> March.
11. Check the End use of Advances Given, No case of diversion of funds should be in the account. No heavy cash withdrawal should be.

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of Advances

11. Check in the selected accounts, whether DP is properly calculated.
12. To check whether there are proper transaction in the account in comparison to sales of the borrower.
13. In case of NPA, Check whether any amount of devolvement of LC or Guarantees invoked has been debited in a separate account, because this account will also be treated as NPA (Para 4.2.7.ii)
14. In case of Loan against FD/NSC/KVP etc. - No NPA if adequate Margin (Para 4.2.11.)
15. Loan Guaranteed by Central Govt. – NO NPA but the income recognition on realization basis. And in case of loan guaranteed by State Govt. – May be NPA (Para 4.2.14)

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of NPA Accounts

1. In case any account has been converted NPA, then check other accounts of the same borrower from CustID.
2. Check in NPA account master, the correct value of security and correct date of NPA for the purpose of provisioning.
3. Check whether any NPA account has been upgraded during the year. Whether upgradation is genuine. i.e. Fresh funds have been credited in the accounts.
4. Check that in NPA account there should be no debit transaction. Only credit transaction is allowed.
5. Check the classification of the NPA. i.e. the account which was declared NPA last year should be transferred to Doubtful asset this year. And so on.

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of NPA Accounts

6. In case of NPA accounts, Valuation report is must once in 3 years and in case valuation report is older than 3 years then entire loan is unsecured and provision accordingly and reporting in LFAR.
7. Annual stock audit is must in case of NPA with balance more than 5 Crores.

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of P&L

1. To cross check on sample wise that the rate of interest has been properly entered in the master data.
2. To check whether processing fees, Penal charges, renewal charges have been properly booked by the branch.
3. To check the Processing fees debited at every time review / renewal.
4. Check whether Interest has been properly debited on Deposits taken by the branch.
5. Whether there is any renovation of the Branch and if yes, then applicability of TDS and GST to be checked properly.

# Carry out Bank Audit in the Branch

## Some Important Points in Audit of P&L

### **6. Check the Following Expenses from TDS and GST Reverse Charge Point of view-**

- Security Service Charges
- Payment made to any recovery agent or DSA
- TDS on Provision of Expenses.
- Legal & Professional Charges
- Tour/ Travelling / Transport Exps.
- Any Foreign Payment / Payment made in Foreign Currency (Import of services)

### **7. Any Prior Period Exps. debited**



# Carry out Bank Audit in the Branch

## Some Important Points in Tax Audit

- 1- **Check the following points from Tax Audit Reporting Point of view-**
  - TDS Deductible but not deducted (**may be cases in Interest paid on deposits.**)
  - TDS Deducted but not deposited
  - Details to be reported in Point No-34(a) of the tax Audit Report.
  - TDS Return filing dates
  - In case of Late deduction and/or late deposit of TDS, Interest Provision is required.
  - Whether any type of demand / unusual payments has been debited in P & L a/c
  - Details of Liabilities u/s 43B
  - Repayment of deposits in excess of Rs.20000/- by way of cash.

# Carry out Bank Audit in the Branch

## Some Important Points in LFAR

1. LFAR is an important report on the Functioning of the Branch
2. Each Question of the LFAR should be answered with suitable reasons and should avoid Just Yes/ NO/ NA
3. If any answer is in negative, then give complete detail of the account in which that is negative reporting.
4. Point No-5 (Advances) of LFAR is important as it gives complete questionnaire about the advances.
5. Before start of audit, we must have complete command on the questions asked in LFAR as during audit various points can be filled in LFAR simultaneously.
6. If Auditor has any observation, for which there is no specific question asked, then these observation can be given in the last Point- Miscellaneous.

# Carry out Bank Audit in the Branch

## Some Important Points in Certification

1. Generally all the certificates are already prepared by the branch and one common comment is that all the certificates are system generated.
2. Go through the content of the formats of all the certificates before you start the audit.
3. This is to mention here that these are the certificates and not the audit report.
4. Cross verify all the figures in certificate from the records.
5. 2% Intt. Subvention is given for Short term production credit in agriculture sector disbursed in the year under audit. check the utilization of funds for Direct Agriculture purpose. And if cross verification not possible then give the disclaimer in the certificate. **This subvention will be given for new loans granted upto Rs.300000/- during the year only and @ upto 7% p.a. only (Point no-13 of closing circular)**
6. 3% Interest Subvention given for timely repayments, then cross verify some instances of timely repayments for the loans given in FY immediately preceding the year under audit. **This subvention is not given in the first year of loan given but it is given in the year of repayment of loan. (Point no-13 of closing circular)**

# Carry out Bank Audit in the Branch

## Some Possible Areas for MOC

- Change in Classification of Advances- From Standard to Sub Standard- Doubtful – Loss Assets
- Account already NPA- but no reversal of Income
- Account already NPA and shown secured- but no security value available.
- Performing Account shown as secured – but no security available
- In case of Fresh NPA found out- then pass MOC for change of classification and reversal of unrealised income both.
- Account is NPA but only that account is treated as NPA while all the loans accounts of same borrower will become NPA.
- Wrong rate of Interest charged
- Some Provision of Exps. remain unentered
- Some income remain unaccounted

# Carry out Bank Audit in the Branch

## Discussion with Branch Manager

1. Discuss your reporting points with BM atleast one day before your last day in Branch.
2. Show to the BM, the relevant circular / notification on the basis of which you want to report the irregularity or want to declare MOC.
3. It is the efforts of BM to obtain clean report from Auditor
4. It is the duty of the auditor to report on what is true and fair.

# Carry out Bank Audit in the Branch

## Report Finalisation & Signature

1. The Crux of all audit Exercise is the Audit Report with all disclosure.
2. Donot rely on the prefilled report format given by the Branch. Use your Laptop and soft copies of all reports already available with you.
3. Prepare the report very carefully as if the points found out by you are not reported properly then it is of no use.
4. Preparation of MOC- Have knowledge of the format of MOC used by your bank.

# Carry out Bank Audit in the Branch

## Report Finalisation & Signature

6. Preparation of MOC- Crux of MOC is to disclose what wrong has been disclosed in FS and what should be the correct disclosure.
7. Issuance of UDIN
8. Make sure that all the sets has been duly prepared and properly signed by the BM and the Auditor.

# Carry out Bank Audit in the Branch

## Points to check on Completion of Audit

1. Obtain MRL duly signed by the Branch Manager.
2. Obtain Signed copy of Audit Engagement letter
3. Obtain one set of all the documents signed
4. Cross check all the documents from the list provided by HO for documents to be submitted after audit.
5. Branch Diary duly signed by Branch Manager (2 Copies)
6. Issuance of Bills
7. All the supporting documents, Audit Evidences.



# Carry out Bank Audit in the Branch

## Some Reports necessary for audit

- Study and obtain a copy of all the following reports
  1. Circular on Closing of Accounts
  2. Concurrent Audit Report, if any
  3. Statutory Audit Report, LFAR, Tax Audit Report of Last Year Audit
  4. Any RBI Inspection
  5. **Any Internal Audit / RBIA (Risk based internal audit)**
  6. Any System Audit
  7. List of New Advances sanctioned during the year
  8. List of Restructured account during the year.
  9. List of NPA accounts upgraded during the year

# Carry out Bank Audit in the Branch

## Some Reports necessary for audit

10. List of New NPA account declared during the year. (**called NPA Slippage Summary**)
11. **HO Circular on Credit Appraisal and Sanctioning power**
12. **List of Advances covered under CGTSME Scheme**
13. List of LC devolved and BG invoked during the year.
14. **List of inoperative accounts made operative during the year**
15. MOC if any passed in previous year and in any quarter of current year under audit (Whether proper effect has been taken in accounts or not)
16. Copy of Lease Deed of the Branch Premises
17. Copy of the Service Agreements with the various Service Providers to the Branch.

# Carry out Bank Audit in the Branch

Some Reports necessary for audit

## 18- Some Registers

- Complaint Register
- Advance Application Register
- Sanction / Disbursement Register
- BG / LC Register
- Priority Sector Loan application receipt / sanction / rejection register
- Security Register
- Fraud Register

# *Thank You*

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