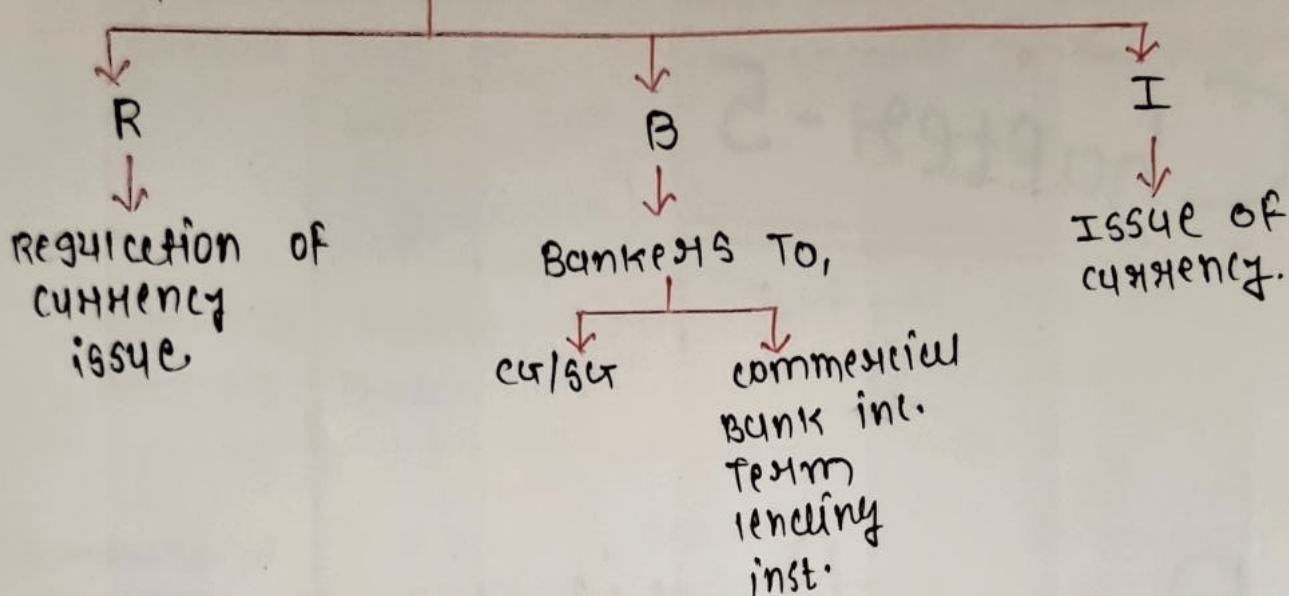


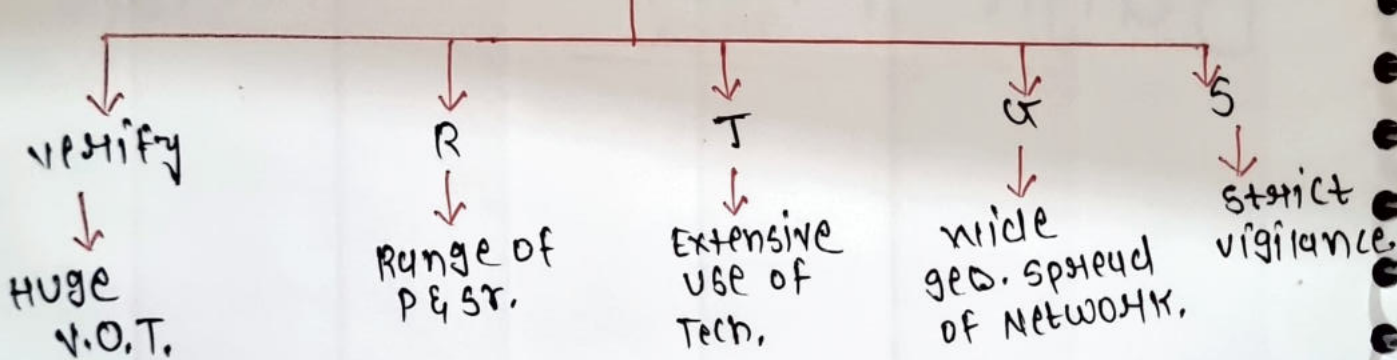
# Chapter-5

## Bank Audit

• Imp. function of RBI :-



• peculiarities involved in bank :-



• Types of Bank Audit Report to be issue :-

Along with Main Report following shall be issue by SCAs :-

• GHOSH & JILANI :-

→ status of compliance by banks with regards to implementation of Reco. of ghosh committee and jilani committee ICS/credit system.

with regards to ghosh committee, fraud and malpractices.

- **SAW :-** SLR Requirement (Report on compliance)
- **LONG :-** LFAR (30th June every year)
- **Irregularities :-** if notice, whether attention require.
- **in :-** Adequate & effective ICFR for B.C. [Co. Act 2013]
- **THE :-** Report on Treasury operation, whether conducted as per RBI instruction.

• **AIR :-**

↓  
Asset classification. → Income recognition, & provisioning  
→ AS per RBI guidelines.

- **RATIO :-** Report on ACDR in Budget ahead.

• Reporting for Nationalised Bank & SBI :-

↳ to see following, whether, ...

- F.S. provide T&FV
- Adequate info./EXP. given by Bank which satisfy Auditor.
- Transaction made within power of Bank.
- Adequate return from Branch received.
- Any other viz, necessary

# Bank Audit Approach

## A [Audit plan]

It should be drawn based on,

- C: No. of compliance in Pre-Report.
- A: Nature of adverse feature
- R: A.R. based on breach of CS
- O: Nature & No. of operation.

## Advantage of E.T.D.

- I & A susceptibility of FS MMS & E that enable auditor (ET) to consider apt. response.
- Better dele. of MMS.
- Helpful in determine procedure to be found if fraud identified.
- To address the fraud, assess need to appoint specialist.

## C [Control environment]

it includes,

- effective seq. of duties.
- physical securities & contingencies planning.
- accurate measurement.
- approval of Trans.
- setting up limit.

## E [E.T. discussion]

- personnel performing (+) expert = Eng. Team.
- done at planning stage.
- should be docs.
- hold to gain understanding of bank & IC

E.T.D. includes. →  
may occur  
occur in P.Y.

- ERROR method by which fraud might be perpetrated by G.Plan.
- Audit response → ER, PR, SR
- Need to maintain PS
- Alert for info. that indicate MMS.

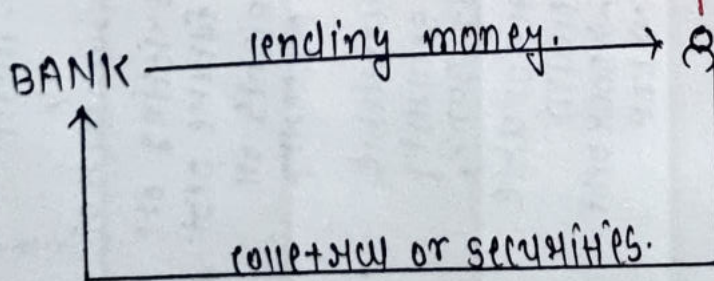
- Form and content of F.S.:
- sec. 29(1) & (2) of BRA, 1949.
- Applicable To → B.C + SBI + RBI + NB
- SCH-III of BRA 1949 FORM-A and FORM-B  
BIS P&L

- Appointment and Remn. of auditor:

Types of Bank.	Appointing Authority	Remn.
N.B.	BOD	RBI [consult with CG]
OTHER B.C.	SH @ AGM.	sec. 142 of CO. ACT, 2013.
RRBs CG 50% SG 35% SP. Bankr. 35%	concerned BANK. [APPY. OF CG],	-

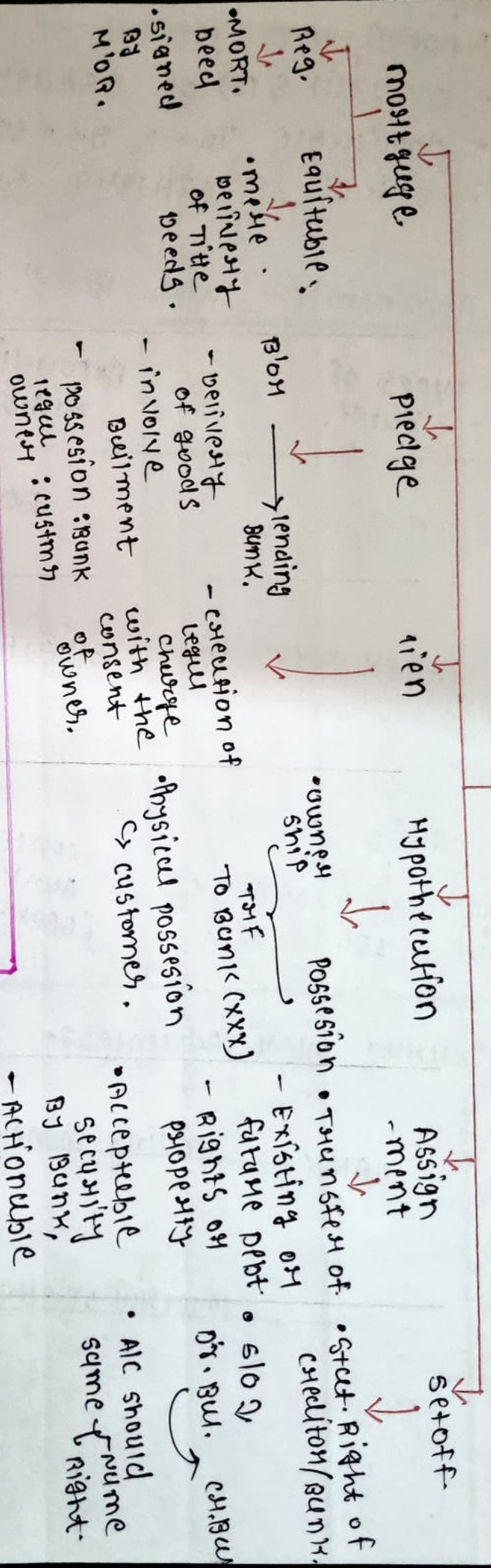
PRIOR APPY. OF RBI

- Security over Advances:-

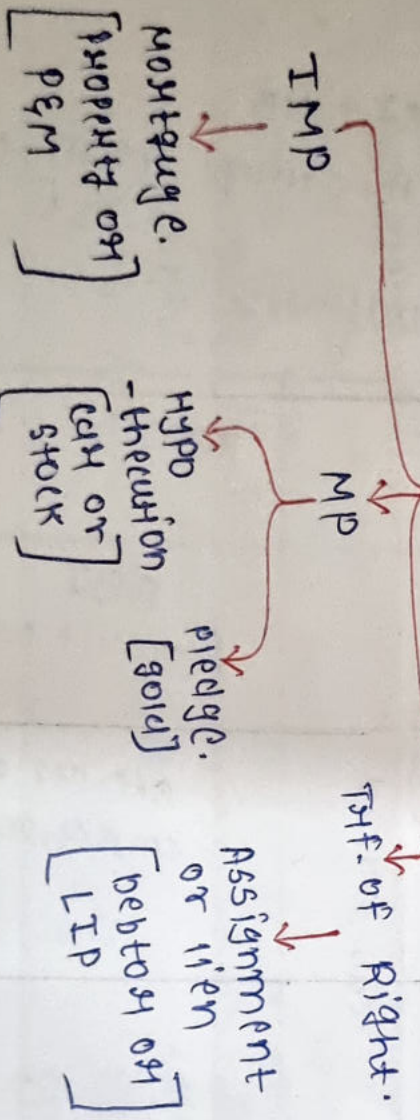


BANK HAVE legal power to sell the c/s in case of default in repayt. within time.

# MODES OF CREATION OF SECURITIES



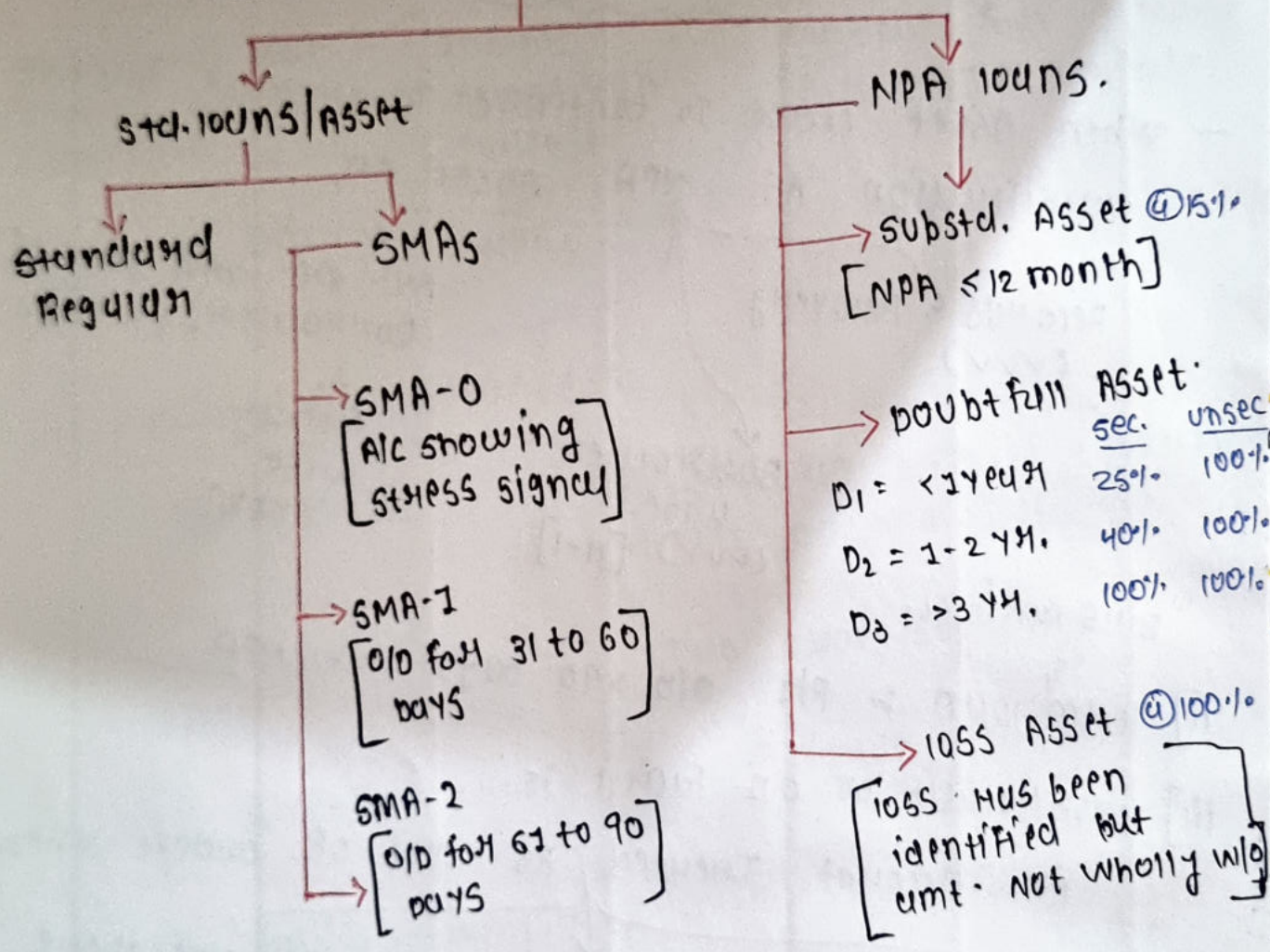
## SECURITIES



• actionable claim  
 ↳ BOOK DEBT  
 ↳ LIP

• A/c should name same & right.

# Classification of ADVANCES [AS PER RBI PRUDENTIAL NORMS]



Doubtful Asset Provisioning:

Category	Sec.	Unsec.
D1 = < 1 year	25%	100%
D2 = 1-2 year	40%	100%
D3 = > 3 year	100%	100%

Loss Asset @ 100%  
[Loss has been identified but amt. not wholly w/o]

# NPA

- When Asset cease to continue to generate income
- classification AS NPA based on,

Records & Recovery  
(✓✓✓)

Avl. sec. and N.W of  
Borrower. (xxx)

Borrower  
wise,  
(✓✓✓) [N-1]

facility  
wise  
(xxx)

Bills pay./disc.

i.] Term loan & PI  $O/D > 90$  days  $\rightarrow$  NPA

ii.] cash/credit or o.d. facility :-

An Account Treated AS out of order when,

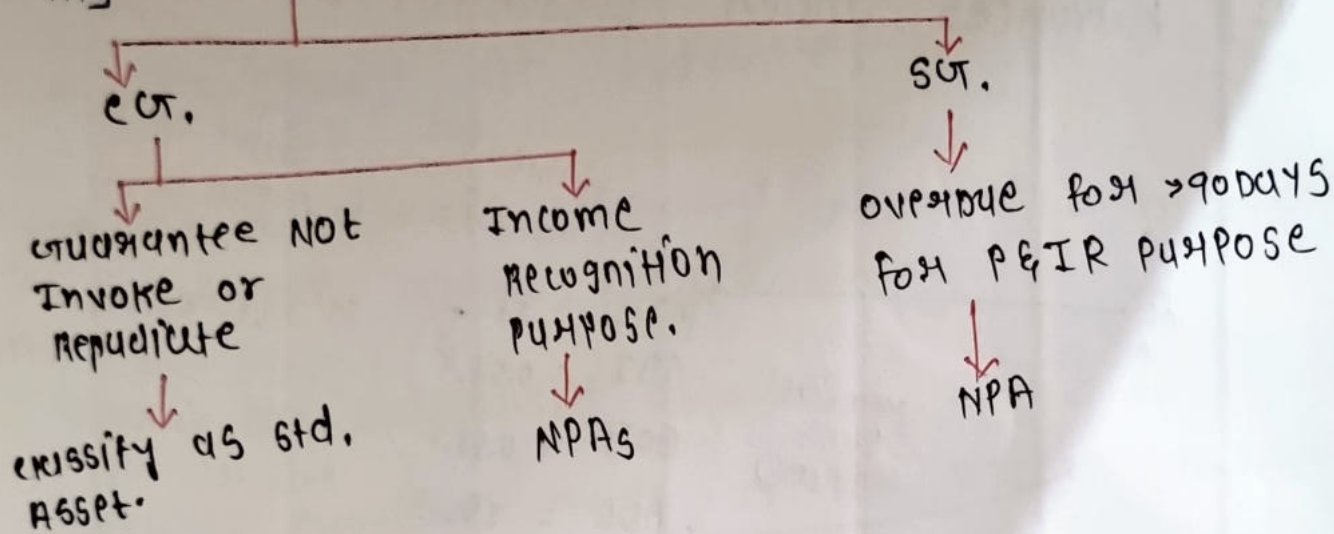
$O.S.B. > SL/DP$   
Credit continued

$O.S.B < SL/DP$   
No credit  
Int. for  
90 days

credit are there  
but not enough to  
cover interest  
debited.

N-T :-  
 Max has two loan  
 cash loan      Request  
 Home loan      Request  
 → NPA on Borrower wise  
 → Not facility wise.  
 → ∴ Both loan is NPA.

### iii] GOVT. GUARANTEED ADVANCES:-



### iv.] AGRICULTURAL ADVANCES:-

Particulars.	Treated as NPA if installment of PI OD <del>&gt;90 days</del>
<ul style="list-style-type: none"> <li>• short duration crop.</li> <li>• long duration crop</li> </ul>	Two crop season, one crop season,

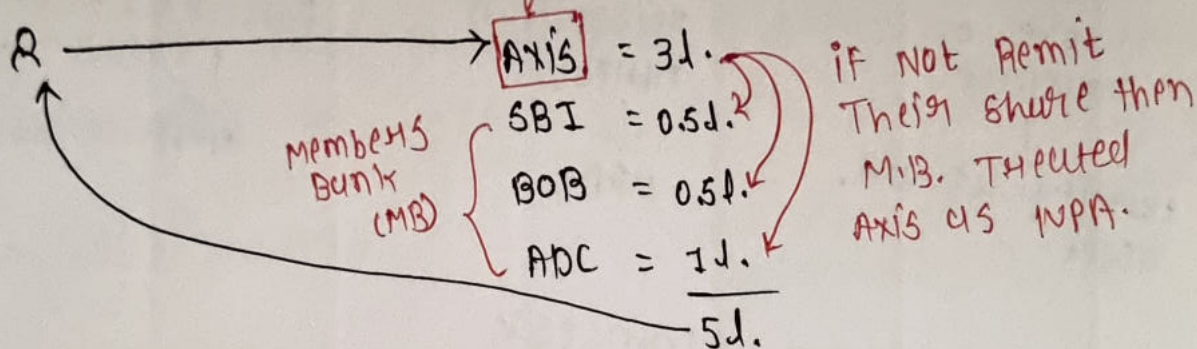
### v.] Credit Card Account (CCA):-

Bank gives option to user to pay either TAD or MAD

↓  
 if not paid within 90 days from next statement date. (Gap b/w two stat & 1 month)

↓  
 NPA.

## vii] Advances under Consortium :-



vii] Advances Against T.D. / INPs / KVPs :- if Adequate margin N.A. then NPA.

## • EROISON in value of securities :-

if R.V. < 50% of value assessed by bank and approved by RBI

**doubtful Asset**  
i.e. NPA.

R.V. < 10% of OSB in loan A/C

**LOSS ASSET** i.e. NPA

it may either w/o or provided by Bank.

NOTE :- For Drawing Power Refer Text Book pg. 10.26.

# Audit of Advances

→ The Auditor is primarily concerned with obtaining evidence about the following.

Now: No Unrecorded Advances

Picture: Provision made as per RBI Norms, AS, GAAP

Video: Basis of valuation of advances is APPT. and properly applied

40 :-

D<sub>1</sub> - Adv. represent amt. due to the bank.

D<sub>2</sub> - O/S at the date of Bal. date.

D<sub>3</sub> - supported by loan document & other docs.

D<sub>4</sub> - Adv. are disclosed, classified and describe.

→ Auditor obtain SAAE about Advances by study of ICS and by

Examining.

- ① validity of Recorded Amt
- ② loan docs.
- ③ E, E, V of security

② Reviewing operation of Account

③ carrying out APPT. A.P (SA 520)

• Evaluation of ICs over Advances:-

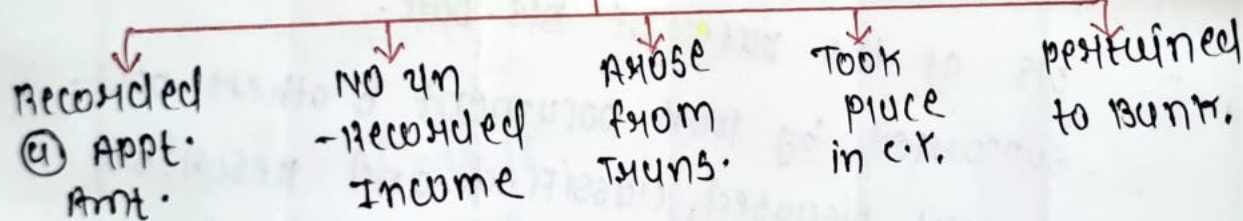
→ IC over Advances includes,

- credit worthiness of borrower.
- Necessary docs. should be executed.
- D.P. Register should be updated every month.
- A/c should within DP & SL.
- ↑ if not then brought to the notice of controlling authority.
- each Adv. A/c operation should review at least once in a year, and more in case of large Adv.

NOTE: detail elaboration on pg. 10.29. (M2)

• Audit of Revenue items:-

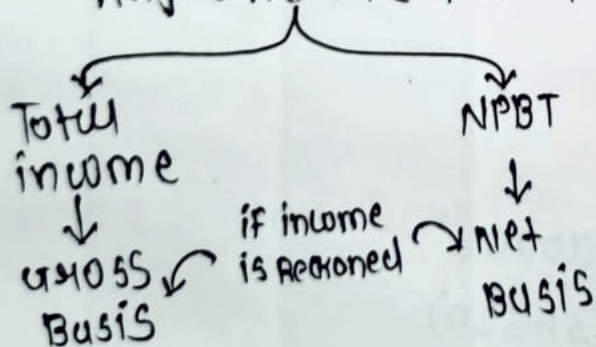
→ Auditor's concern regarding Audit of Revenue item. obtain Reasonable Assurance that income is,



Particulars

Basis for Recognition

• Any Income > 1% of



Accrual Basis

- Immaterial income
- int. fees, commission.
- uncertain income

Cash Basis

Accrual Basis

Cash Basis

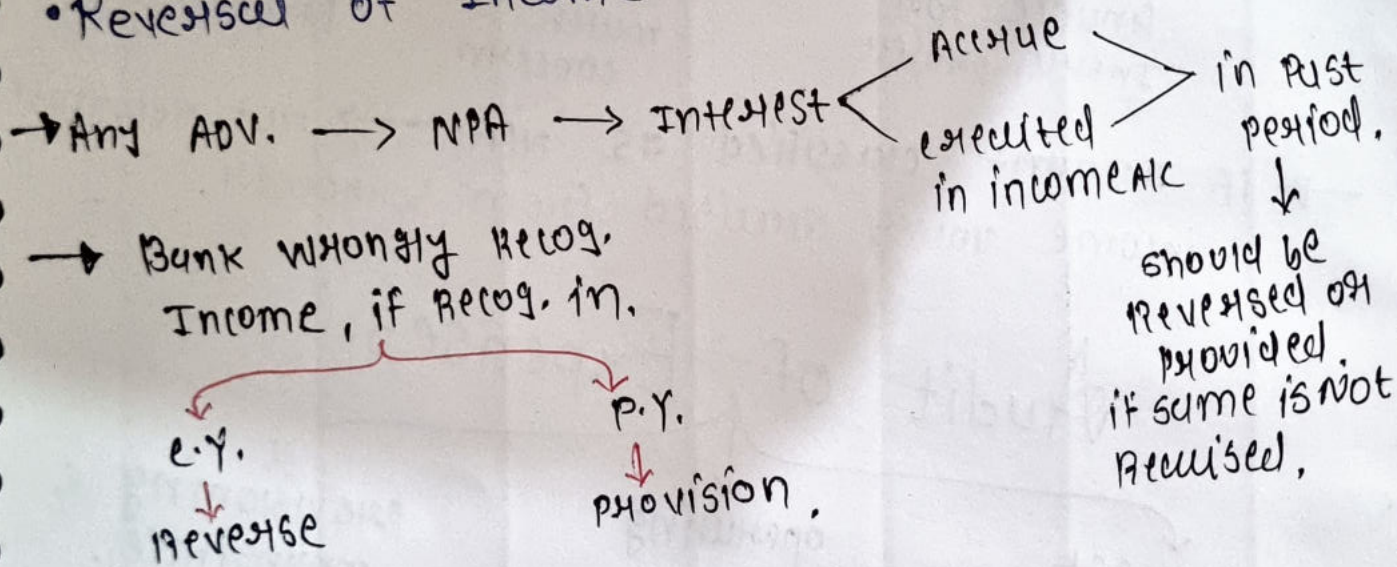
• fees & commission as a result of re-negotiation / G.H. of OIS Debt

• Int. on T.D./INPs/KVPs / LIP Adv. against

Accrual Basis.

on due date provided adequate margin is there.

• Reversal of Income :-



→ Large debit in int. income A/c not explain

↓  
then inquiry by Auditor should be done

# Take out Finance

method of financing

whereby loan procured  
intention used to  
replace the initial  
one.

Objective.

Expand source of  
finance for  
Infra. project

Address  
All m/s  
- match  
concept.

Boost Avl. of L.T.  
finance for  
project

→ if Account classified as NPA. → Not Recognise  
income unless received from borrower.

# Audit of Expenses.

Interest  
Expense

operating  
Expense.

provisioning &  
contingencies.

- Auditor concerned with Reasonableness of interest
- Analyse ratio of int. paid on deposits, & borrowing
- compute Avg. ROI with p.y. figure and Analyse any material diff.
- Recalculation int. upto BSD. [ensure]
- Int. rate according to RBI norms / Int. extd. Reg.

- Study and Evaluate IC and Autho. process.
- Examine any divergent trend.
- perform SAP
- verify Exp. with supporting docs.
- check calculation whenever required.

- ensure that provision made as required by Regulator
- verify loan classifi. on sample basis for understand how bank compute Pro. for Std. Asset & NPAs.
- check whether Pro. for Taxation Appt. calculated or not
- Examine other provision,

- Reason for c.c. limit interest variance is,
  - c.c.l. may not fully utilised,
  - large account sanctioned that result in lower int. income,
- commitment Auditor of Bank cannot accept stat. audit of same Bank or any of its Branch i.e. Internal auditor cannot accept stat. audit during same year, of same Bank.