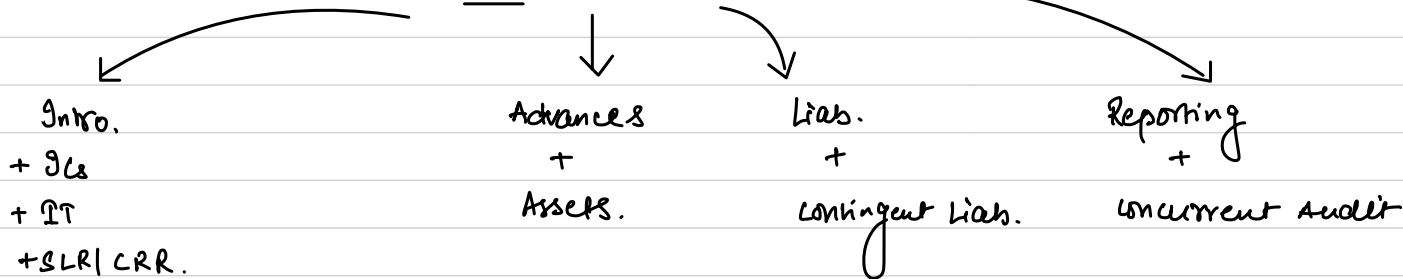
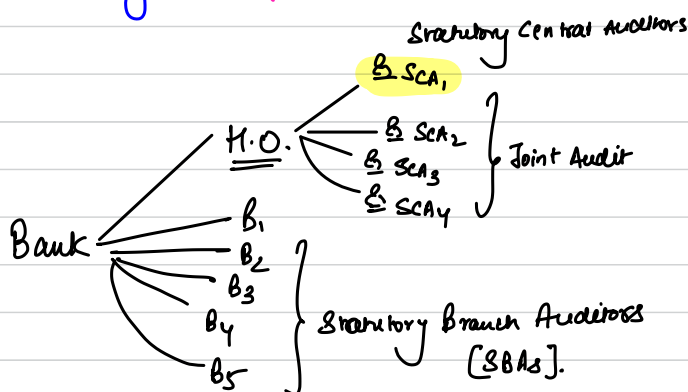


Bank Audit [6-8m].



Spl. Audit considerations

- Particular nature of risks associated with transⁿ
 - Scale of banking operations & sig. exposure in short period.
 - Evolution of technology & net banking & mobiles
 - Development of new products & services [eg UPI / Demat Acc] not matched by AIC & audit practices.
 - high dependence on IT to process transⁿ.



Understanding Risk Mgt Process.

oversight by **Tow**: **BoD** / **CEO** approve risk mgt policies.

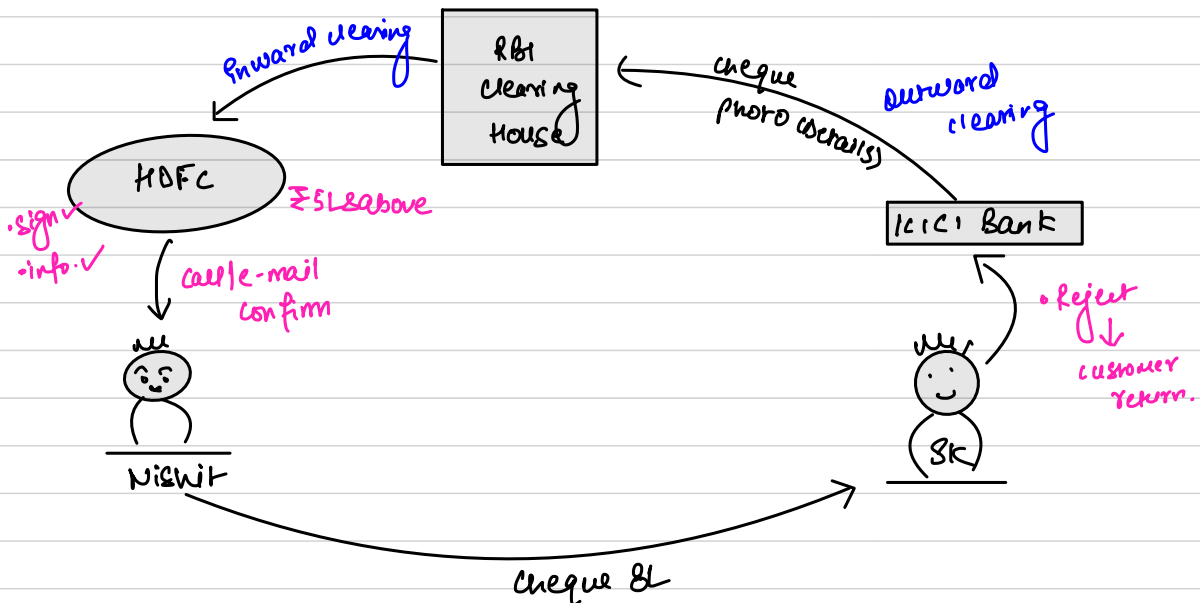
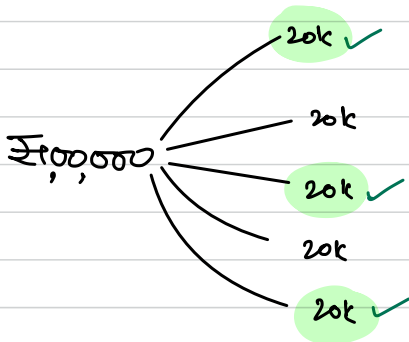
• Identification, measurement & Monitoring of Risks. → Control Activities
 against pre-approved limits & criteria.

eg Advance
 > xxx → higher auth. approval.

- Segregation of duties
- Verification of transⁿ
- physical security.

• Monitoring Activities.
 by Risk mgt unit.
 ↓ info?

• Reliable info. system. that provides Compliance, financial, operational info.
 [CFO]



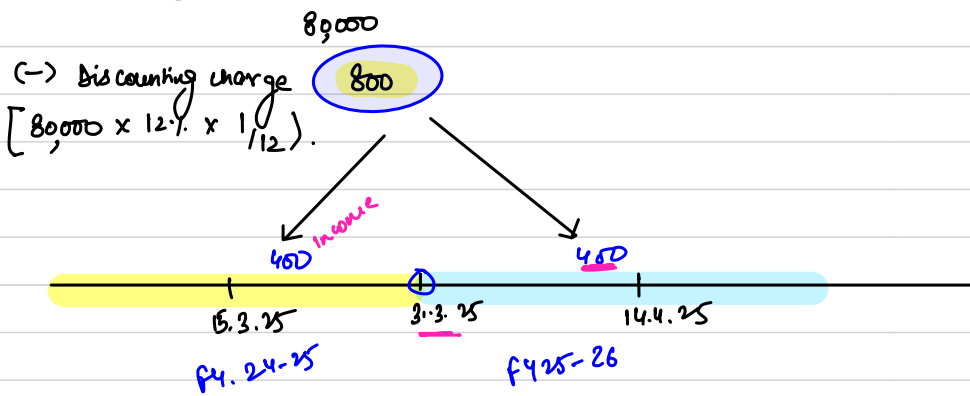


Sp. case: 31st March
 close of fy bill collect \rightarrow B-L \rightarrow reversed
 by Receiving Branch.

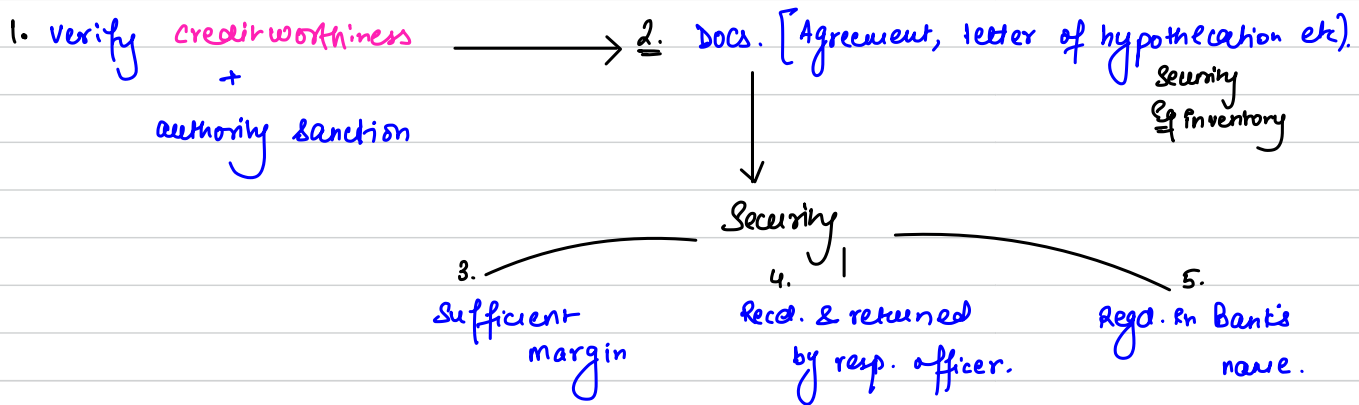
Date 15.3.25

Debtor ₹100000 [Due after 1 month].

(\rightarrow) Security margin (20,000)
 [20%]



Loans & Advances



Sanctioned limit

- overall limit [Net worth, credit score, past cr. history].

Drawing power

- Limit for working capital.

Calculation:

	<u>₹</u>	
• Stocks	x x x	
↳ Damage	(x x x)	
	x x x	
↳ creditors	(x x x)	
	x x x	
Paid stocks	x x x	
↳ Margin %	(x x x)	x x x

ad. goods

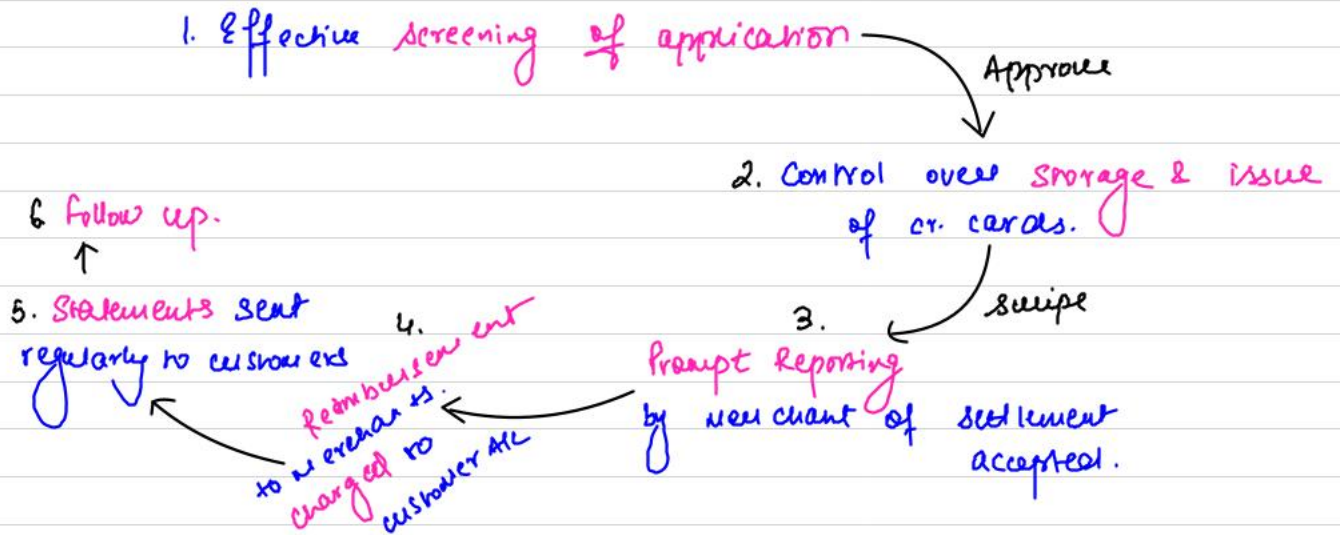
	x x x	
↳ ineligible	(x x x)	
	x x x	
↳ margin %	(x x x)	x x x
		x x x*

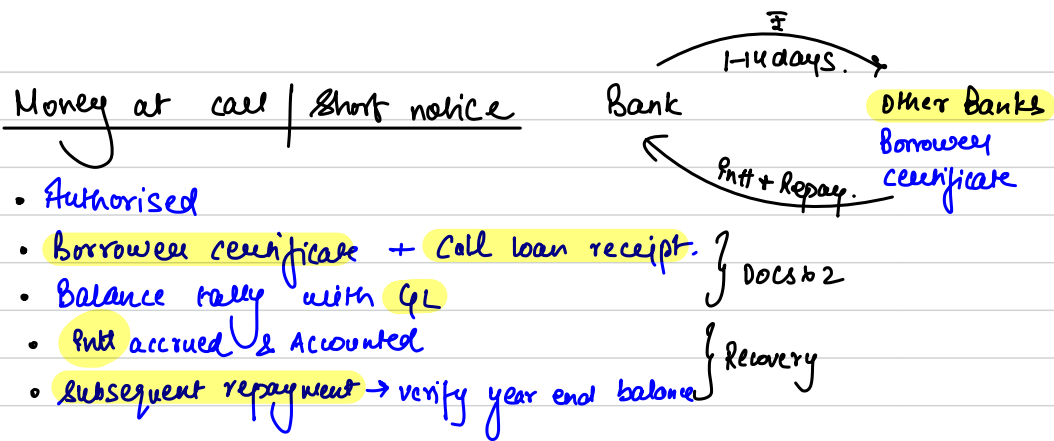
* Restricted to Sanctioned Limit.

Demand Draft



* Credit card operations *





Advances

Substantive Audit Procedures.



- verify correctness of master data
 eg. EMIs, rate of Pmt, loan tenure etc.

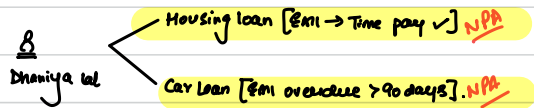
- Sp. Mention A/cs*
- Take list of SMA 1 & SMA 2 borrowers
 [overdue 31-60 days] [overdue 61-90 days].
 - Adversely commented by concurrent auditor / RBI / Internal inspection team

- Check all large advances & others on sample basis.

- Each customer has single customer id for all A/cs.

- Restructured A/cs. [B p12 → loan reap kro]

- Intl — Completeness
 Accuracy



- Quick / Early mortality A/cs
 (Because NPA within 12 months of sanction)

- Analytical pro.

SARE Mortal A/cs

Recoverability of Advances [4M]*

- (Specific)
- Periodic Statement on compliance with T&Cs.

(Income)

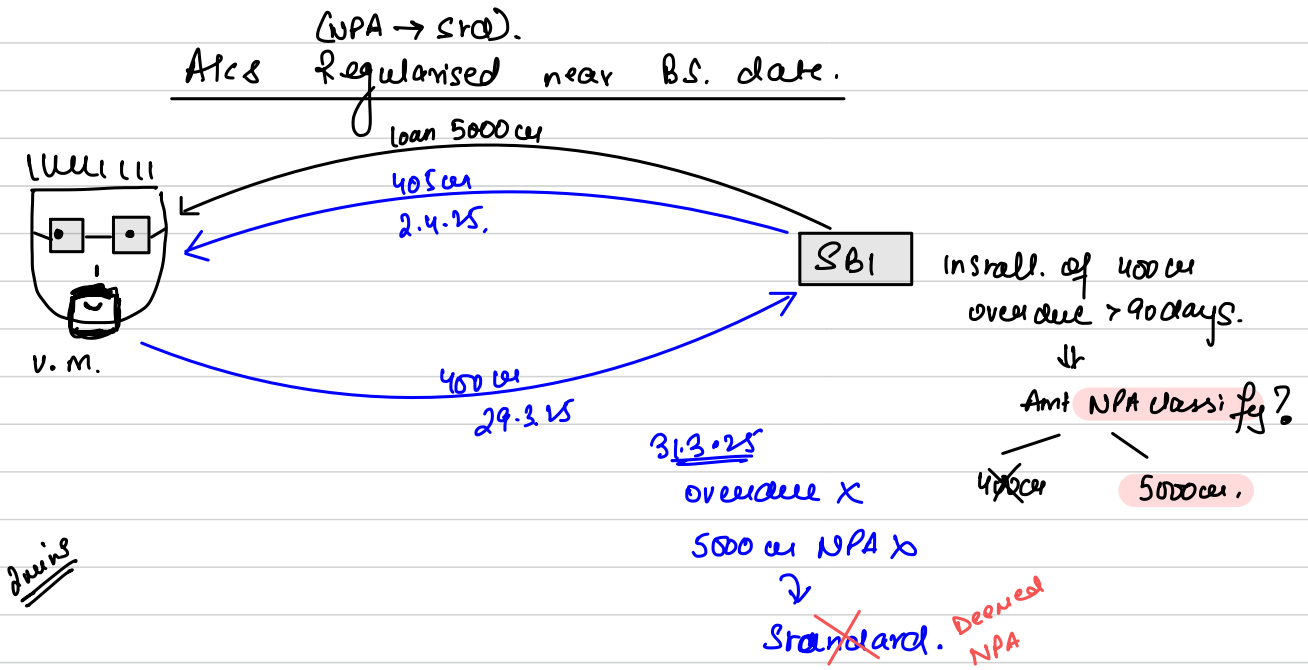
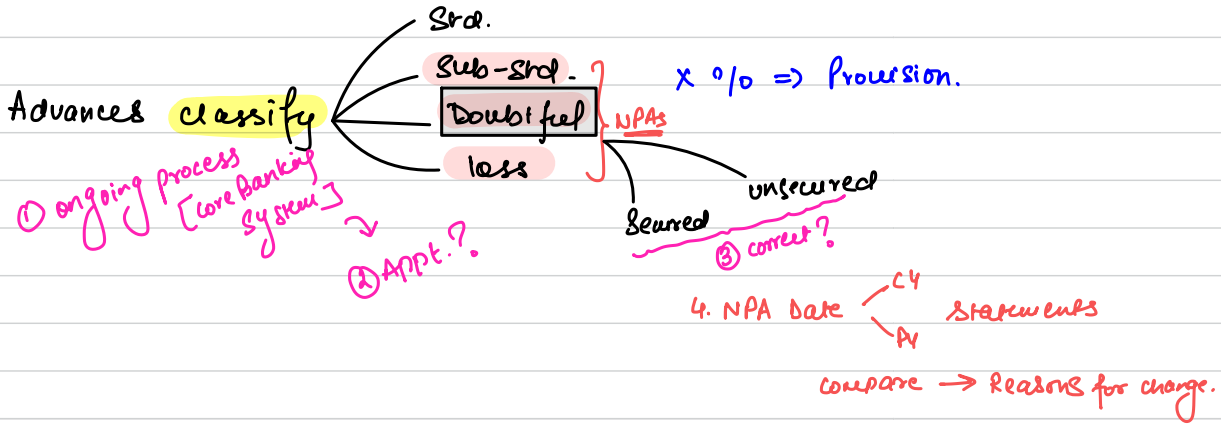
- latest FS.

+

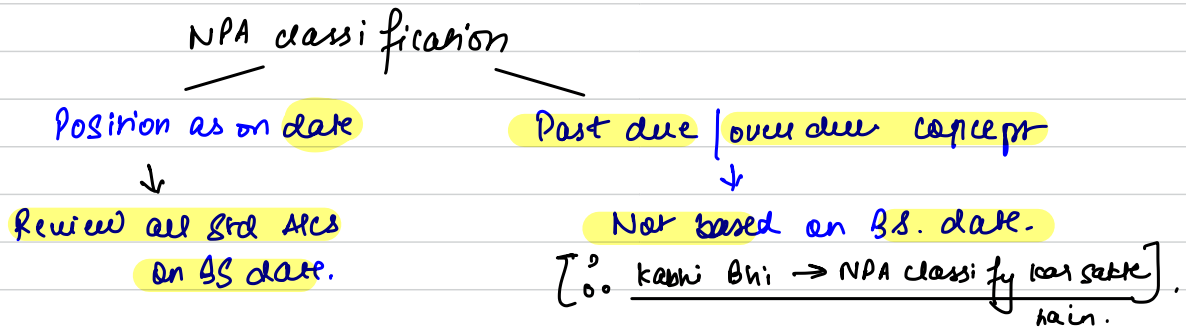
- Report on inspection of security.

- Audit Report

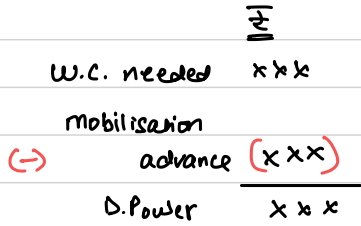
NPA provision



- Payment from **genuine sources** \rightarrow Don't classify as NPA.
- If subsequently branch lends to borrower \rightarrow check genuineness of source of payment.
- If all indicates **inherent weakness** \Rightarrow It's deemed as NPA.



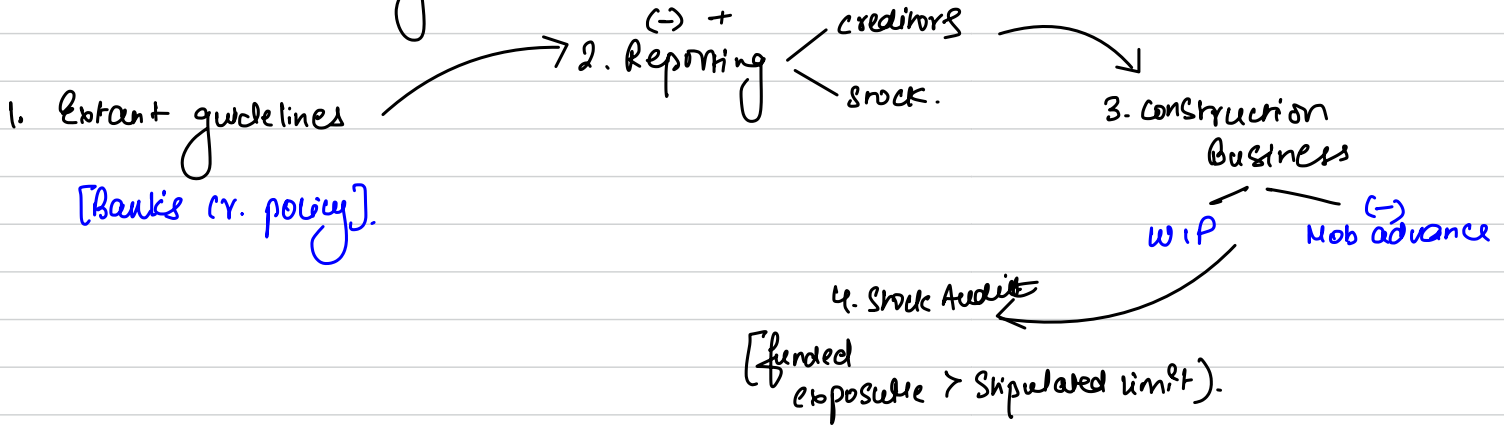
D. Power • Construction Co.



Consortium Advance



Drawing Power

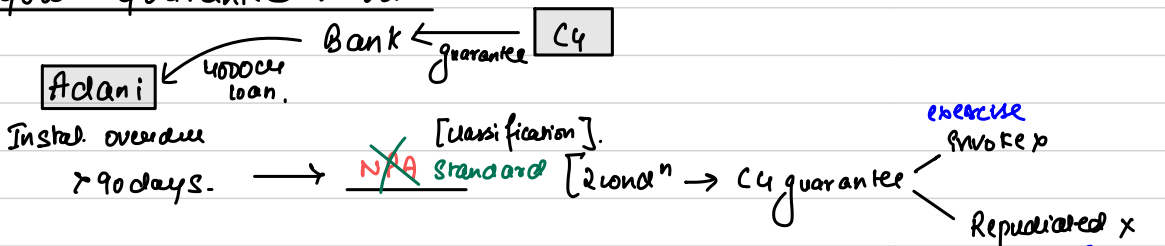


Notes: 1. D.P. \rightarrow latest stock statement \Rightarrow if pts older than 3 months \Rightarrow irregular A/c.

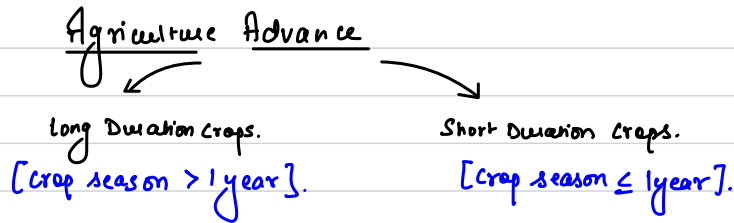
2. A/c with temporary deficiency

- latest stock statement \rightarrow stock value \downarrow
 - o/s bal. > limit
 - limits \rightarrow Due date renewals
- \Rightarrow NPA classify? No

3. Govt Guaranteed Advance



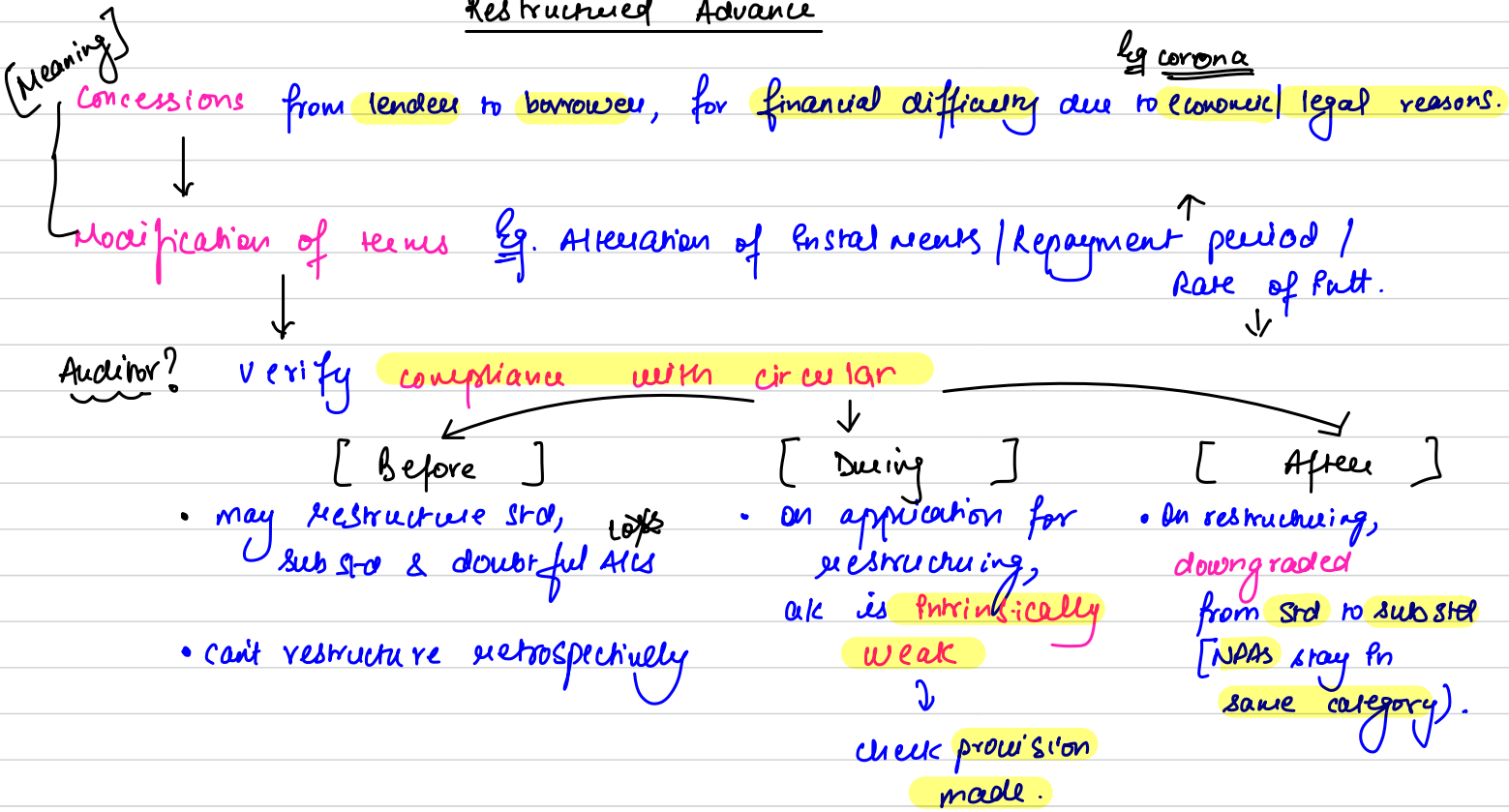
Note: If guarantee not invoked for long \rightarrow Report reasons in LFAR [Long form audit report].



NPA provisions: LDC : install. overdue for 1 crop season.
 SOC : install. overdue for 2 crop seasons.

- Crop season is determined by SLB committee (State level Bankers).
- Agri. advances are mentioned in Master Circular of Lending to Priority Sector

Restructured Advance



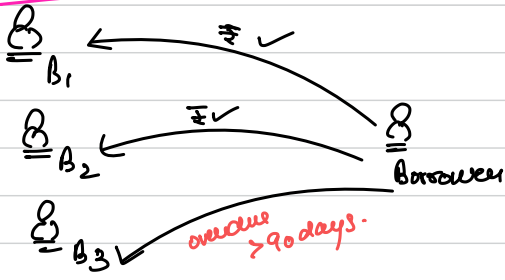
Sale of NPAs

- Board Policy
- min. 2 yrs → books ✓
- Cash basis / ~~credit~~
- x purchased back. [non recourse basis].
- All risks to pdt.

NPA	I.	II	III
Sale	80	100	120
Book value	100	100	100
	[20] loss ↓ P&L	=	20 gain

Remain to meet loss on sale of other NPAs.

Lead Bank

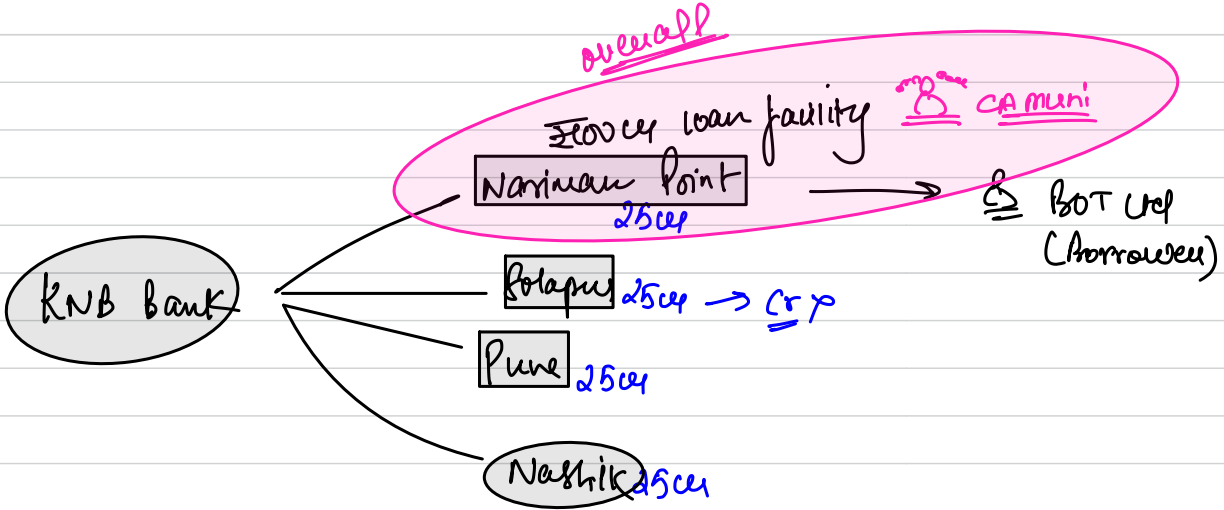


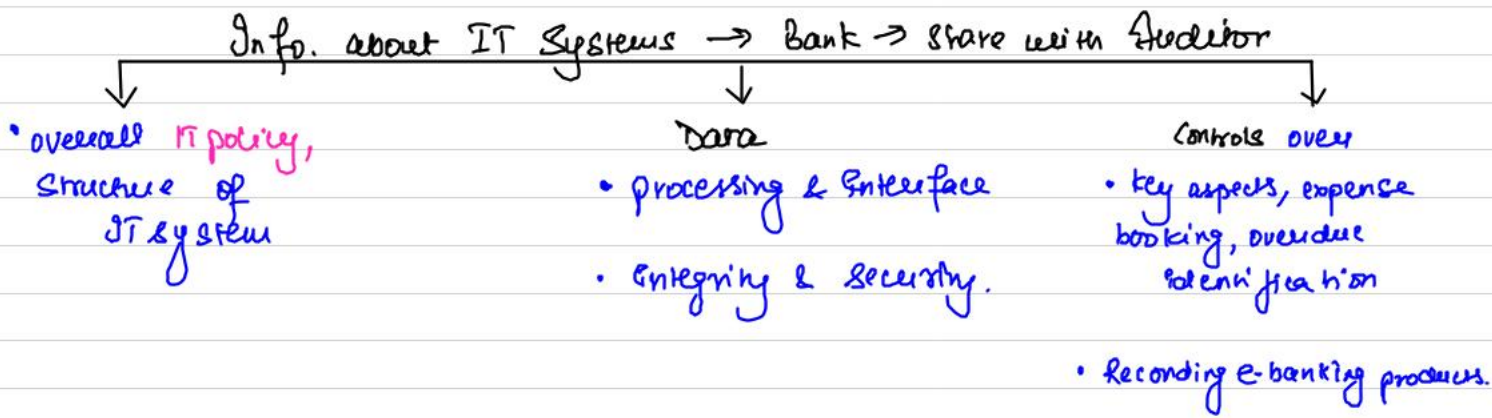
Certificate

Atc → ~~src~~ ~~classif.~~

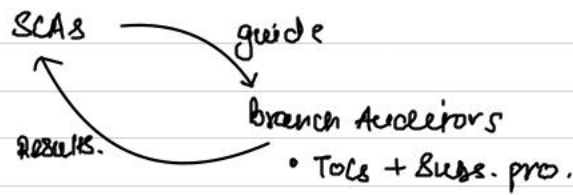
[Record of recovery].

NPA





IT policy Access → H.O. level.



key control aspects → computerised bank

• Data [Authorised, accurate, complete].

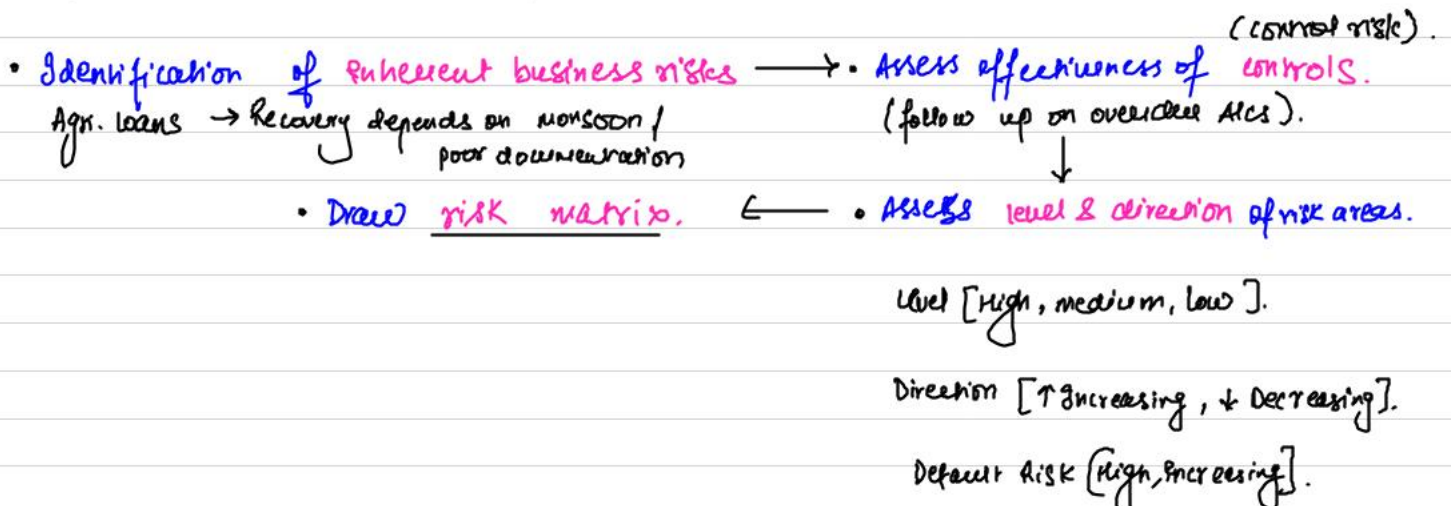
↓
 • In power failure, system should restart without affecting completion of entries & records. (Auto save).

• SODS [Loan Applⁿ Initiate → Approve → Disburse].
 when granting system access to users.

↓
 • Access controls match with staff responsibilities
 ↓
 • prevents unauthorised amendments to programme.

RBIA [Risk Based Internal Audit].

Risk Assessment Process [Bank].



• Fixed Assets. [OB (+) (-) ⇒ CB].

• Balance → ledger & FS.

• OB → F.A.R. (Fixed Assets Register), ledger etc.

• H.O. → Branch Auditor take w.r.

[+] • Acquisition: Authorisation, title deeds, invoices etc..

• Self constructed: Authorisation, contractor bills etc.

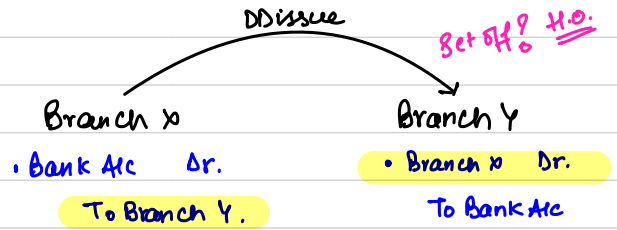
Inter-office (Branch) A/cs.



• Reconciled

• No level

• Date upto which FS done



• No. & amt of o/s entries

• Discrepancies → properly dealt in books.

Intt accrued

• only that can be realised. → • on entire loans & advances. [except NPA].



• sp. focus [Bill discounting].

[Hint: Pmt - C.Y.]

↘ Next year.

• Advance Tax TDS. (TDS certificates / 26AS / Income Tax Returns).

• Shareholding → (general) Its + physical verification + cost charged to fee
 → bulk purchase of security paper. → write off over period of time. valued at cost.

Non Bank Assets Acquired → In Satisfaction of claims

[Meaning] • Immovable props. / tangible assets acquired to satisfy debts due & Intention to dispose off.

verify?

• Docs. [Court order / award of arbitration].



• check ownership with bank or dispute check provision as per AS 29.

• Sec 9 [to hold such property for > 7 years from date of acquisition except for own use].

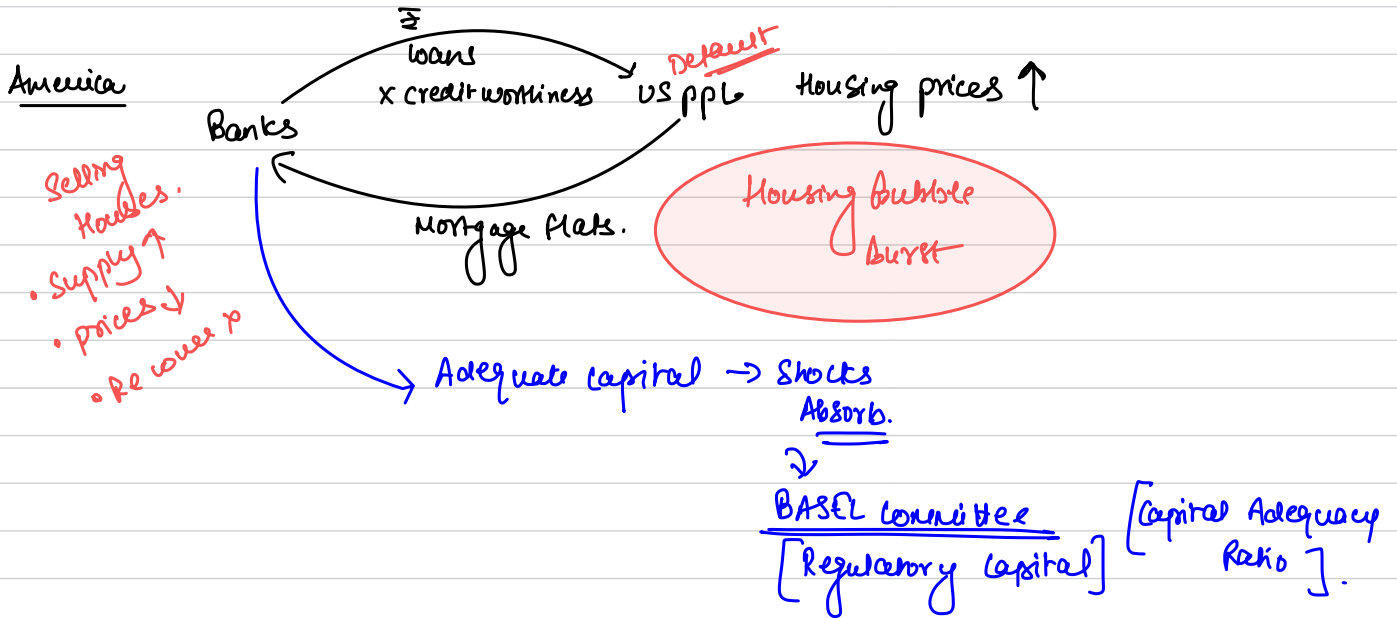
• valuation [Net book value of Advance or NRV of Asset (→ provision) ↓ (lower)].

2mins

2008-09

recession.

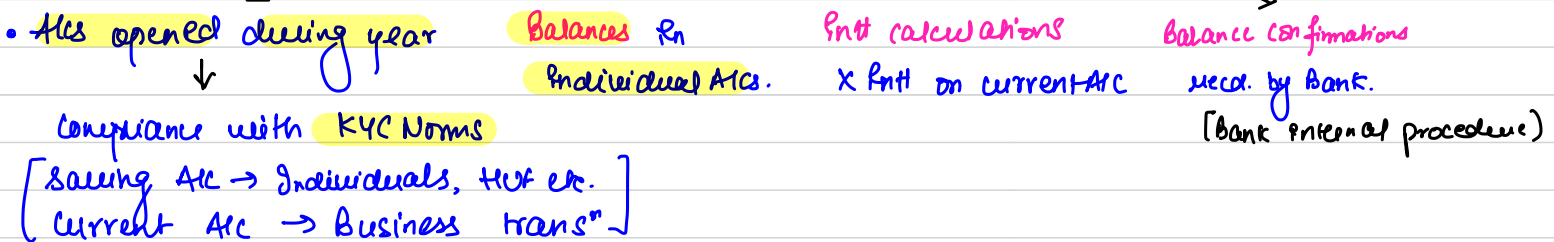
Lehmann Brothers



Verification of Liabilities

current Acc & Saving Acc [MTP Nov'24].

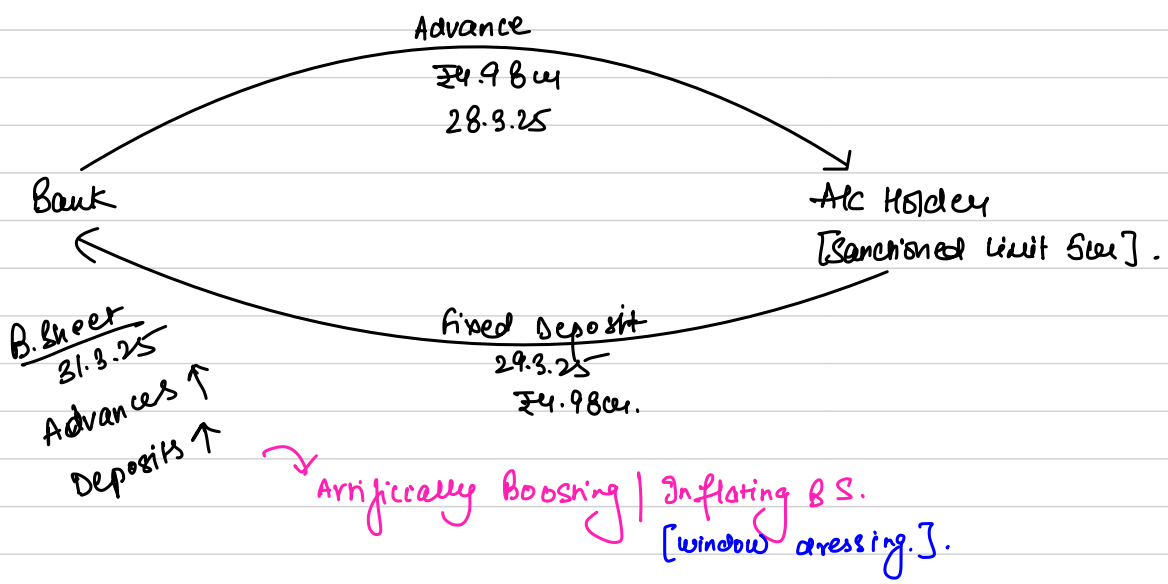
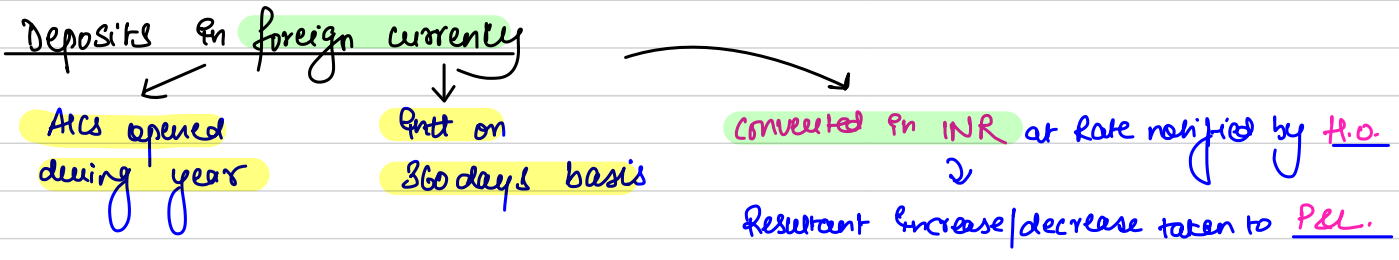
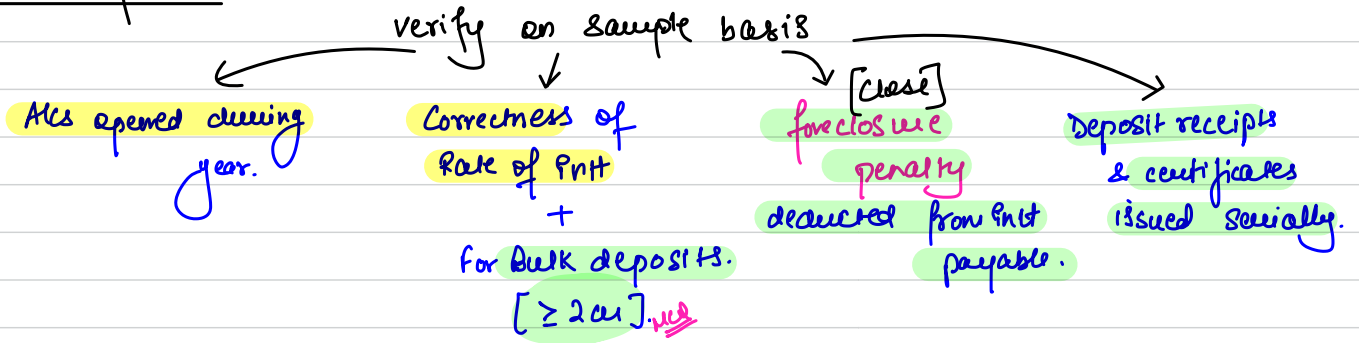
Verify on sample basis



Note: • current Acc (Net Balance) → Advances [x Net off from Liabilities].
overdraft

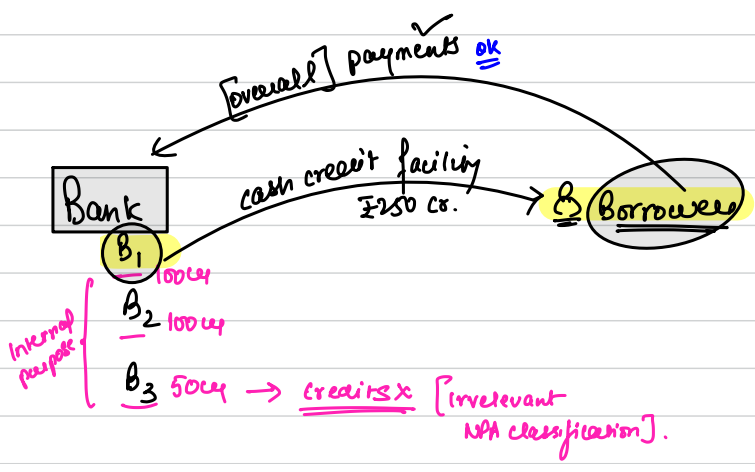
• Inoperative Accs [x transⁿ for 2 years]
↓
Revival / Closure [sample basis]
↓
Authorised.

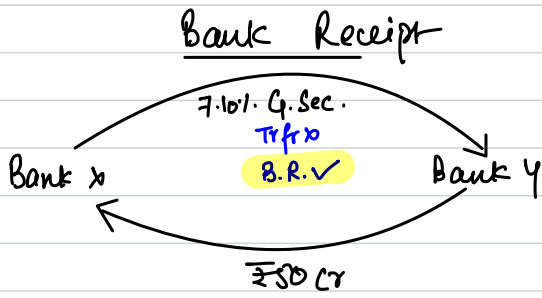
Term Deposits



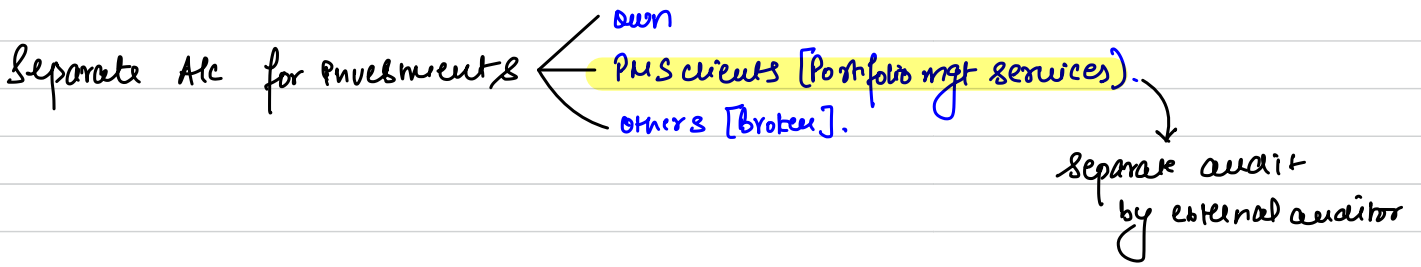
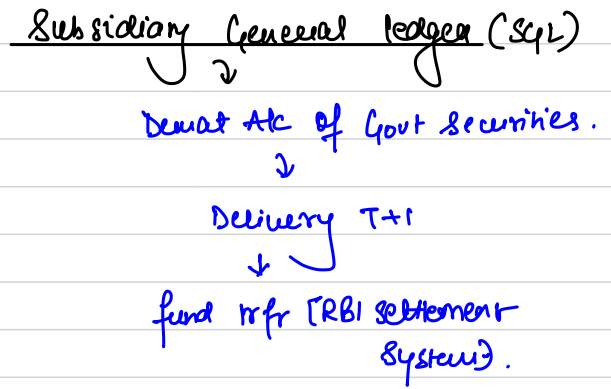
Auditor? • Penal Action [Banking Reg. Act 1949].

• Report in AR + LFAR [Cg guarantee → long time involved]





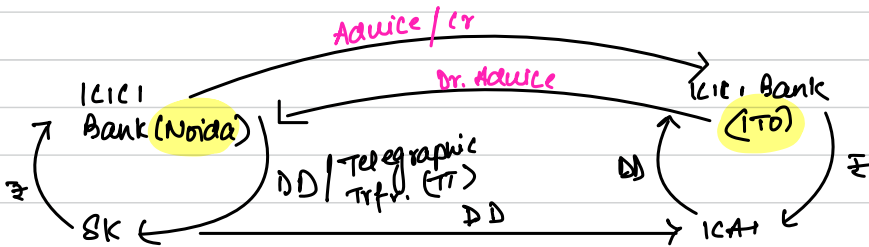
- G. Sec. trfrd to Bank Y on later date with accrued int.



Borrowings

- verify confirmation certificates + other docs.
- SA 505 → External confirmations
- On call / short notice → authorised
- Distinction b/w re-discount / re-finance
 - ↳ included in this head [former heading].

Demand Draft issue → Bills Payable



- Evaluate ICs — forms — DDs should be in STD forms.

unused forms under custody of resp. officers.

authentication — signature checked by resp. officer with sign. book

put code known to resp. officers for coding/decoding of telegrams.

Advice

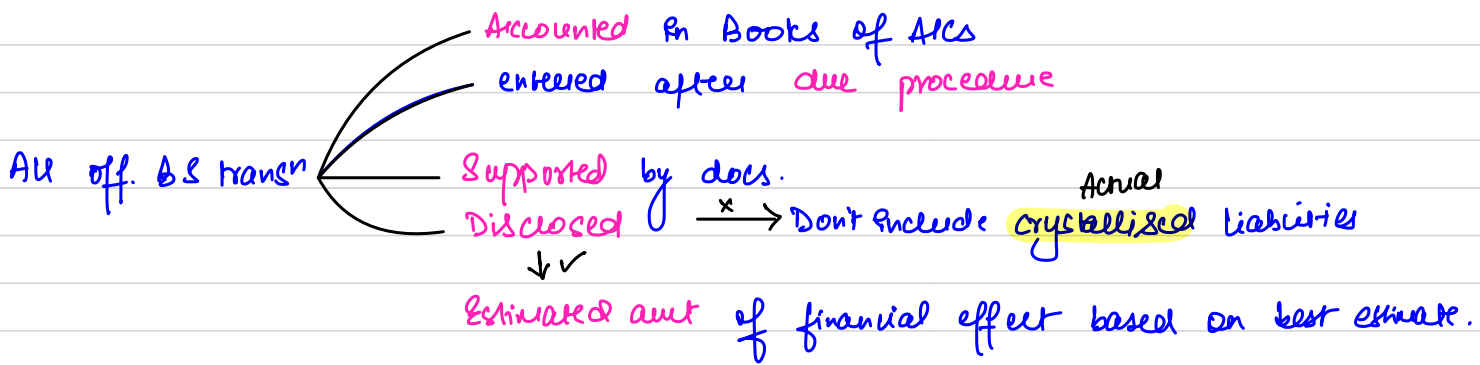
All TEs / DDs issued by branch should be confirmed by advice to branches.

On payment, paying branch sends Dr. advice to originating branch.

- Examine sample of o/s items with registers.
- Also check, Correspondence with other branches → after year end to examine large value items.
[communication].

Contingent Liabilities

Written Representation from mgt (May'22).



* Foreign Exchange *

- Letter of credit: check foreign bills negotiated under L.C.
- Examine extension & cancellation of forward contracts for purchase / sale of forex.
- Ensure balances in NOSTRO A/c in forex within limit.
- Ensure verification of Nostro & Vostro A/c transⁿ & balances.
- Check compliance with RBI & HO guidelines.

External Concurrent Auditor



Total Unit 5 years



Branch wise: 3yrs

Reporting Structure [Concurrent Audit].

① Structured format [Report → ACB]. → 2. zone wise Reporting



4. minor irreg. ← 2. before submission



⇒ discuss issues with Branch mgr

5. fraud. ← Serious irreg. [HO].
IAD CVO Branch mgr



6. Follow up Action.

Bank ^{1 month} [forward Fo. contracts]



Net Buy \$1000



~~Sell \$1000~~ × cover