

Planning for an Effective Bank Branch Audit



CA Sangam Aggarwal

FCA, LLB, DISA, CCA

M.No-9818911609

[Email-fcasangamaggarwal@gmail.com](mailto:fcasangamaggarwal@gmail.com)

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) **Risk Rating of Branch**
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
- 10- Study the previous year bank audit reports, Balance Sheet, certificates and other documents.**

Tools to be kept with before going to bank audit

- All the Rubber Stamps
- Digital Signature
- Letter Head
- Bill Performa
- Pan Drive **and 2 LAPTOP Minimum, Scanner, Printer**
- 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 and Discussion about
 - ✓ Previous Year Audit Report
 - ✓ Reports of various audit completed during your period - i.e. concurrent audit, RBIA, other inspection/ Audit, IT Audit,
 - ✓ **Risk Rating of Branch, Scale of Branch manager, Sanction Authority of Branch Manager**

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.

SOFTWARE USED BY INDIAN PSU BANKS

PSU Bank	Software Used
State Bank of India	TCS BaNCS
Punjab National Bank	Finacle
Bank of Baroda	Finacle
Canara Bank	Oracle FLEXCUBE
Union Bank of India	Finacle
Indian Bank	TCS BaNCS
Bank of India	Finacle
Central Bank of India	TCS BaNCS
Indian Overseas Bank	Finacle
UCO Bank	Finacle
Bank of Maharashtra	TCS BaNCS
Punjab & Sind Bank	Finacle

Some Finacle commands and its uses

Finacle Command	Uses
HLNGI	Used for loan enquiry like interest details, personal details, installments details, and tenure.
HALHI	Used for overview of CC limit and OD like active limit and superseded limit, o/s balance, review date.
HACLHI	Used for enquiry of CC limit and OD like active limit and superseded limit, drawing power, sanction limit, o/s balance, interest rate (extension of above 2 nd Command)
HACLI	Used for enquiry of transactions in a account like passbook.
HACLINQ	Used for enquiry about specific ledger.
HACS	Used for obtaining information regarding accounts opened and closed during the selected period, by selected code, by specific people.
HFTI	Used for checking transactions by using filters like date, transaction amount, transaction code.

Some Finacle commands and its uses

Finacle Command	Uses
HSPRG	Used for obtaining report regarding stop payment by cheque
HINTTI	Used for enquiry regarding interest rates.
LMS	Used for reports related to locker like locker issuance, surrender, access and rent.
NAR	Used for generating report regarding passports of customers expired.
IBANK8	Used for enquiry about average balance in a account.
IBANK12	Used for generating report regarding accounts opened during the month.
EREG	Used for E-registers maintained by the bank.
ERCS	Used for checking reports and vouchers.

Some Finacle commands and its uses

Finacle Command	Uses
HISRA	Used for generating report regarding inventory present and destroyed in branch at specific date.
HACCDET	Used for obtaining general details of account.
DAR	Used for generating report regarding dormant account reactivated.

Asset Classification and Provisioning Norms

Special Mention Account (SMA) – Early Recognition of Stress

- **SMA-0:** Principal or Interest payment not overdue for more than 30 days but account showing signs of incipient stress
- **SMA-1:-** Principal or interest overdue between 31-60 Days
- **SMA-2:-** Principal or interest overdue between 61-90 Days

Categories of NPA

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graph TD; A[Categories of NPA] --> B[Sub-Standard  
Remained NPA for a period less than or equal to 12 months]; A --> C[Doubtful  
Remained in the substandard category for a period of 12 months]; A --> D[Loss  
Where loss has been identified by the bank and amount is uncollectible];
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Sub-Standard
Remained NPA
for a period less
than or equal to
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Doubtful
Remained in the
substandard
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period of 12 months

Loss
Where loss has
been identified
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Asset Classification and Provisioning Norms

Asset Classification	Period as NPA	Provision
Standard	-	<ul style="list-style-type: none"> • Agriculture and SME : 0.25% • Commercial Real Estate: 1% • Commercial Real Estate – Residential Housing : 0.75% • All other : 0.40%
Substandard (Secured Loan)	Up to 1 year	15%
Substandard (Unsecured Loan)	Up to 1 year	25% 20% (Infrastructure Loan)
Doubtful 1	2 nd Year	25% (Secured Loan) 100% (Unsecured Loan)
Doubtful 2	3 rd & 4 th year	40% (Secured Loan) 100% (Unsecured Loan)
Doubtful 3	5 th year	100%

Carry out Bank Audit in the Branch

Some Important Points in Audit of Advances

- Have Complete Command on IRAC Norms – Master Circular of RBI issued every year. Latest Circular No- **DOR.STR.REC.3/21.04.048/2023-24** dated **1-4-2023**.
- 1. **All Large Advances** (having outstanding more than 10% of the total advances (Fund+Non Fund) OR Rs.10 Crore which ever is lower) to be checked thoroughly and reported account wise. It is the requirement of LFAR.
- 2. Other Advances may be audited on selected basis.
- 3. Verify the charge registration on Immovable Property on **CERSAI website** in case of Advances against Immovable Property.
<https://www.cersai.org.in>
- 4. 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, SMA Report, Red Flag Account** as on 31st Jan and 28th Feb and compare it with as on 31st 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. How the DP is calculated will be discussed further in next slide.**
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 4.2.7.2)
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**)

DP Calculation from Stock Statements

Particulars	Amount
Stock	100,000
Less: Creditors	(20,000)
Paid Stock	80,000
Less: Margin @ 25%	(20,000)
Stock for DP Purpose (I)	60,000
Debtors	100,000
Less: Margin @ 25%	(50,000)
Debtors for DP Purpose (II)	50,000
Total DP (I+II)	110,000

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, Property 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.
8. On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account. This is to ensure whether bank has followed the above provision.

Carry out Bank Audit in the Branch

Additional Cases where asset become NPA

- interest and/ or instalment of principal remains **overdue for a period of more than 90 days** in respect of a term loan,
- the account remains '**out of order**'. It means outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period¹.
- the instalment of principal or interest thereon **remains overdue for two crop seasons** for short duration crops,
- the instalment of principal or interest thereon **remains overdue for one crop season** for long duration crops,

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

Overview of GST on banks

- Interest income – taxable supply but exempted under Notification 12/2017 dated 28.06.2017
 - Interest involved in credit card services – excluded from exemption
- Commission income / Brokerage income / Agency income – taxable
- Account maintenance charges – taxable
- Credit / Debit card charges – taxable
- Digital payment facilities – Single transaction upto Rs 2000 exempted
- Other income like minimum balance charges, cheque bouncing charges, DD issue charges taxable

Overview of GST on banks

- **Exemptions under GST**

- Services by way of
 - extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services);
 - inter se sale or purchase of foreign currency amongst banks or authorised dealers of foreign exchange or amongst banks and such dealers.
- Services by an acquiring bank, to any person in relation to settlement of an amount upto two thousand rupees in a single transaction transacted through credit card, debit card, charge card or other payment card service.

Overview of GST on banks

- **Exemptions under GST**
 - Services by way of collection of contribution under the Atal Pension Yojana
 - Services by way of collection of contribution under any pension scheme of the State Governments
 - Services by the following persons in respective capacities — (a) business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch; (b) any person as an intermediary to a business facilitator or a business correspondent with respect to services mentioned in entry (a);

Overview of GST on banks

- **Place of supply**

- Location of the recipient of services on the records of the supplier of services.
- If the location of recipient of services is not on the records of the supplier, the place of supply shall be the location of the supplier of services
- In case, where the location of the banks or location of the recipient of service is outside India, place of supply shall be the location of the supplier of services (NRO / NRE Accounts)

Overview of GST on banks

- **RCM applicability**
 - Services of recovery agent
 - Services by way of sponsorship
 - Legal services by individual / firm of advocates
 - Services provided by business facilitator to banking company located in taxable territory
 - Security services by any person other than body corporate to a registered person located in taxable territory

Overview of GST on banks

- **Input tax credit**
 - Eligibility restricted to 50% of ITC on input tax credit on inputs, capital goods and input services
 - 50% condition not applicable for ITC on inter branch supplies
- **Invoice**
 - Banks may issue may issue tax invoice or any other document, whether serially numbered or not and issue an invoice even without containing the address of the recipient of service but contains the other information as provided by Rule 46 of the CGST, Rules
 - Option to issue a consolidated tax invoice or any other document in lieu of tax invoice for the supply of services made during a month, at the end of the month, either in physical form or electronically

Clarifications w.r.t. banking sector

Issue	Clarification
Whether ATM constitutes place of business	No
Is it necessary for Banks / insurers to report the details of exempt and non-GST supplies in Table 8 of GSTR-1?	Yes
Is it necessary for Banks / insurers to report the details of invoices in Table 13 of GSTR-1?	Even though banks are permitted to issue invoices which are not serially numbered, they are required to provide details of invoices with specific identification number
Whether payment condition required to be complied with by the recipient to claim the ITC where supplies for services are made between distinct persons?	No

Clarifications w.r.t. banking sector

Issue	Clarification
Whether taxable value of services provided to different customers (unrelated party) at differential rates is to be enhanced	No
If any service charges or administrative charges or entry charges are recovered in addition to interest on a loan, advance or a deposit, would such charges be also a part of the exemption?	Not exempted
To what extent is invoice discounting or cheque discounting or any other similar form of discounting exempt under GST?	Discount also exempted

Clarifications w.r.t. banking sector

Issue	Clarification
Whether interest on a finance lease transaction is taxable under GST?	Yes
Where GST is charged on a supply of service and the amounts due from the customer become irrecoverable as a bad debt in commercial practice, would such GST paid on accrual basis be refundable to the service provider by the Government?	No
Will GST be charged in transactions, where loan of one bank is taken over by another bank?	Yes, on processing fee charged
Whether GST will be levied on sale of re-possessed asset?	Yes

Some important points for Audit perspective- GST

Issue	Verification
List of exempted services - whether exemption has been correctly claimed ?	
Whether GST has been charged on amounts recovered in addition to interest (such as locker rent, folio charges, loan processing fee, late payment fee, lease management fee, rent, management fee etc.) as well as on other supplies like sale of repossessed assets. Prepare reconciliation with GSTR / MIS data	
Whether GST is levied on interest and late fee charges collected from credit card holders?	
Whether requirements u/s 9(3) w.r.t reverse charge have been complied with?	
Whether claim of ITC is consistent with applicable rules?	

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.

Carry out Bank Audit in the Branch

Some Possible Areas for MOC

- 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. Do not 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. H.O. Account appearing in Balance Sheet- **Other Matter Paragraph**
8. **Key Audit Matters**
9. Issuance of UDIN
10. 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

CA. SANGAM AGGARWAL
FCA, LLB, DISA, CCA, B.Com. (H)

Contact – M-9818911609
fcasangamaggarwal@gmail.com