Vasai Branch of WIRC of
The Institute of Chartered
Accountants of India

Reference on Statutory Bank Branch Audit

Contributors

CA. Pankaj Tiwari	CA. Ketan Saiya	CA. Vinit Jain
CA. Digambar Pednekar	CA. Dayaram Paliwal	CA. Ramanand Gupta
CA. Shweta Jain	CA. Unmesh Narvekar	CA. Pramod Dhamankar
CA. Sumeet Doshi	CA. Preeti Mandhaniya	CA. Sanjay Agarwal
CA. Ramesh Pandey	CA. Karan Verma	CA. Dheeraj Sharma

DISCLAIMER

Due care has been taken to ensure that this publication provides relevant and accurate information. In the event of any mistakes coming to light, we seek your pardon and request the readers to bring such mistakes to our attention for improvements. The information and data in this presentation are solely for informational purpose. It does not constitute any professional advice and it is advised that professional advice be taken before taking any action based on the information provided in this presentation.

Compiled By:

Vasai Branch of WIRC of
The Institute of Chartered Accountants of India
Maxus Mall, B Wing, 7th Floor,
Opp. Temba Hospital, Temba Road,
Near Bank of India
Bhayandar(West)
Thane-401 101.
Contact:-9029868900/ 8655068901
Email-Id:- vasaibranch@gmail.com
Website:- http://vasai.icai.org/

Design by

Finesse Graphics & Prints Pvt. Ltd.
Tel.: 4036 4600

Chairman Communications

Dear Professional Colleagues,

Banking sector is playing a major role in strengthening the economy of the country. The technology driven changes in banking industry brings new kind of risk exposures for banks. Banking is a dynamic activity which has constantly been undergoing a change. Recent frauds and increasing ratio of Non-Performing Assets is creating challenges for banking industry. In this dynamic environment, the auditors of banks, in their own way, play a crucial role in upholding and enhancing the credibility of the banking system. Considering the impact of COVID-19 the role of auditors of bank branches is more vital towards impact of nationwide lockdown on banking industry. For the auditors of bank branches it is necessary to be well equipped in terms of background knowledge of the banking industry to conduct effective and efficient bank audits.

I am pleased to state that the Vasai Branch of WIRC of ICAI is publishing a book titled 'Reference on Statutory Bank Branch Audits'. I am sure this publication will help members and students in quick This e-book is going to help professionals as a tool for quick reference understanding of standard terms as well as procedure to be followed while conducting Bank Audits.

On behalf of entire team I wish to express my sincere thanks to **CA. Nihar N. Jambusaria**, Hon'ble President, ICAI and **CA. (Dr.) Debashis Mitra**, Hon'ble Vice-President, ICAI for their guidance and motivation.

I have great pleasure in acknowledging the contribution made by **CA. Pankaj Tiwari**, my colleagues in Managing Committee of Vasai Branch and the entire team of contributors.

While the audit of thousands of branches of banks to be carried out in a very short period is an onerous task, I am proud to state that our fraternity has been satisfactorily performing this function for decades as per the guidelines and advisories that guide the audit and disclosure processes from time-to-time.

Jai Hind !!!

Your Truly

CA. Abhishek S Tiwari
Chairman
Vasai Branch of WIRC of ICAI

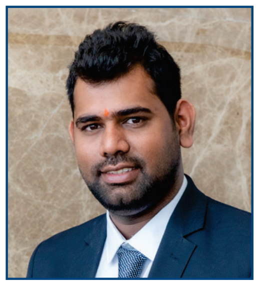
Vasai Branch of WIRC of ICAI 2021-22

CA. Abhishek Tiwari
Chairman

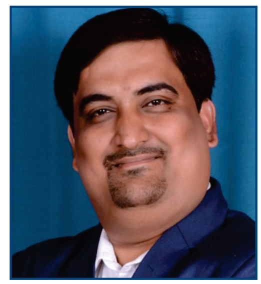
CA. Sorabh Agrawal
Vice Chairman

CA. Lokesh Kothari
Secretary & Treasurer

CA. Xavier Rajan
WICASA Chairman



CA. Ankit Rathi
Immediate
Past Chairman



CA. Vijendra Jain
Committee Member

CA. Amit Agarwal
Committee Member

CA. Lalit Bajaj
Immediate Past
Chairman-WIRC &
Ex Officio Member

CA. Vimal Agarwal
RCM & Ex Officio
Member

Contents

Current Development in Banking Industry

Banking sector developments

Banking has witnessed a significant change in recent times. Owing to the increasing consumer expectancies, regulations, economic changes and constant competition, modern banking has embraced technology. Digital platforms, mobile, internet banking, and payments bank have revolutionized the sector in a substantial way. "The Digital India Moment" has also given the much-needed impetus to the digitization efforts in the banking sector

Banks may have had a volatile 2020 but they continue to be the principal value creators and also the biggest components of the indices with a share of more than 30%. However, year 2021 could be a significant year for the banks with a lot of interesting developments.

1. **Meaningful consolidation in banking**

   The consolidation of PSU banks was announced last year and the government is right in moving towards 4-5 large all-India PSU banks. The idea in 2021 is to actually complete the process of mergers, rationalize operations and costs and integrate the treasuries to create economies of scale.

2. **Transmission of rate cuts to be back ended**

   Despite the RBI cutting repo rates in 2020, the impact on lending rates was less at present. However, that is changing. Since the banks shifted loans to external benchmarking recently, transmission has picked up. Secondly, the government in its recent credit policy focused on liquidity infusion. That will assist quicker transmission of rate cuts.

3. **Better recoveries plus new age defaults**

   The NCLT is likely to complete the recovery for defaulters this year and that would be a big boost for the lenders. But there is also a new age worry on the anvil. In last couple of years, new age NPAs have come up where recovery from assets could be minuscule.

4. **Seamless and low cost banking**

   Banks need to expand their customer base economically and efficiently. The Aadhar based banking gave a good opportunity for such seamless expansion but that has been stalled now. Year 2021 is expected to see customer service-driven banking. For a long time banks have thought like the takers and givers of money. Now, banks are thinking of a platform to bring together lenders and borrowers. That process could be triggered in 2021.

5. **Closer collaboration with Fintechs**

   Most banks are already involved in Fintech in some form or the other but year 2021 could see a serious focus on Fintechs as enablers of Indian banks. Of course, Fintech refers to the confluence of finance and technology. In the last one year, many Fintechs have started collaborating with the banks instead of trying to compete with the banks. This positions Fintech as enablers to last-mile customer connectivity and plays the role that NBFCs and MFIs are playing; albeit with heavy reliance on technology.

6. **Better use of data and analytics**

   Most banks sit on a goldmine of data but do not use it effectively. There are a lot of actionable insights hidden in the data and that is where modern techniques like artificial intelligence and machine learning can be handy. Basic things like mining customer information and creating a suite of products for the customer by leveraging their cross selling platform is a case in effective use of data and analytics. This includes use of robotics and sophisticated UIs for customer interaction as well as getting deep insights from branch level data.

7. **Focus on frauds and cyber security**

   PSU banks are reported to have lost huge wealth to frauds in the last one year and that is just huge. Some of the Banks came in for cyber attacks and lost huge amount. Year 2021 could be all about cyber security, customer data protection and prevention of frauds by pre-emption rather than remedying.

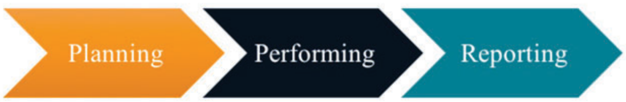
❍❍

Bank Branch Audit Planning

Audit Planning:

An **Audit plan** is the specific guideline to be followed when conducting an **audit, It helps the auditor obtain sufficient appropriate evidence for the circumstances.**

The whole auditing process can generally be divided into three different phases and Proper Planning is required at all the three phases.



Auditing Process:

Reporting phase

deals with making conclusions, reporting to any necessary adjustments to management, and issuing the independent auditor's report.

Audit planning phase

includes procedures such as gaining an understanding of the clients and its business, making risk and materiality assessments, determining an audit strategy, and determining the type of evidence to collect ,based on the risk levels.

Performing Phase

refers to the means of collecting evidence.

Basic expectation from Auditor:

- Integrity, objectivity and independence
- Confidentiality
- Skill and competence
- Working papers
- Planning
- Audit evidence
- Evaluation of accounting system and internal control
- Opinion and report

Planning required at three stages:

A. Pre Commencement of Audit:

B. During the Audit

C. Completion of Audit

A. Pre Commencement of Audit:

- Before we start-Some Ground Work
- Letter seeking information
- Changing scenario in the banking industry
- RBI regulations & other standards
- Important Standards on Auditing

Before we start-Some Ground Work:

- Acceptance letter to appointing authority
- Engagement Letter and scope of work
- NOC from previous auditor
- Basic Information from branch.
- Evaluation of Internal Controls
- Prepare Audit Program
- Overall Time & Manpower Planning
- Audit Files –
  - Permanent Audit File
  - Working Papers File

Letter seeking information:

Before actual commencement of audit a letter may be written to the management of bank asking for following information:

1. Organizational chart of bank and bank branch.
2. List of departments in the bank branch along with name of head of department.
3. Authority and responsibility of each officer in the bank.

4. Details of software used by bank.
5. List of reports generated by the software.
6. Special feature of each banking product.
7. Areas where work has been outsourced to outsiders
8. Accounting policy followed by the bank.
9. Copies of last year annual accounts and current year quarterly/half yearly accounts,
10. Copy of day book.
11. Information of top 10 borrowers for each kind of loan
12. Instructions issued by Head office for closing of accounts.

Changing scenario in banking industry:

- Focus on frauds
- Impact of IBC
- Recapitalisation of PSB's
- Upcoming IND-AS implementation
- GST, E-TDS in Bank Branch Audit and its Reporting
- Bank mergers
- Covid Impact

RBI regulations to be followed:

- IRAC norms and other related circulars
- Frauds classification and reporting
- Cash Reserve Ratio (CRR)/Statutory Liquid Ratio(SLR)
- Capital Adequacy
- Exposure norms
- Guarantees and co-acceptances
- Wilful Defaulters

Auditing standards to be followed:

- SA 200 – Basic Principles Governing Audit.
- SA 210 – Terms of Audit Engagement
- SA 220 – Quality Control for an Audit of Financial Statements
- SA 230 – Audit Documentation
- SA 300 – Planning an Audit of financial statements
- SA 310 – Knowledge of Business
- SA 315 – Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
- SA 320 – Materiality in Planning and Performing an Audit
- SA 400 – Risk Assessment and Internal Control SA

B. During the audit: following are the things which we need to prepare during the course of audit.

- Audit Program
- Work at branch
- Audit Performance
- Internal controls in bank branch
- Additional Controls for Computerized Environment

Audit Program

- Define broadly the scope of audit.
- Identify the thrust areas.
- Set materiality levels standards for each area.
- Lay down over all time schedule.
- Training to Audit staff and special skill if required.
- Weak areas identified during the Audit be given extra focus.
- Physical verification of cash and other securities / Sensitive Accounts
- Frauds / Sundry Assets / Suspense Account/ Inter Branch reconciliation
- Contingent liabilities

Work at Branch:

- Previous Years Audited Return
- Concurrent Audit Report.

- Internal Inspection Report
- RBI Inspection Report.
- Various Other Audit Reports
- Review Compliance of these Reports
- Audit Trail
- Manual Registers / Records
- Core Banking Solution /CBS System

Audit Performance:

- Analyze and Evaluate the errors in samples selected
- Work as per Audit Program and schedule
- Get the rectification / MOC Passed
- Prepare reports according to requirement
- Qualify in Audit Report if necessary

Internal controls in bank branch:

- Banks have a system of job rotation among staff.
- Work of one staff member is invariably supervised / checked by another staff member, irrespective of the nature of work.
- The financial and administrative powers of each official / each position are fixed and communicated to all persons concerned.
- Branch managers have to send periodic confirmation to their controlling authority on compliance of the laid down systems and procedures.
- All branches of a bank have a unique code number which is circulated amongst all offices of the bank
- All books are to be balanced periodically, Balancing is to be confirmed by an official.
- Particulars of lost security forms are immediately advised to controlling so that they can exercise caution.
- Fraud prone items like currency, valuables, draft forms, term deposit receipts, travellers cheques and other such security forms are in the custody of at least two officials of the branch.

Additional Controls for Computerized Environment:

- The system maintains a record of all log-ins and log-outs.
- If the transaction is sought to be posted to a dormant (or inoperative) account, the processing is halted and can be proceeded with only with a supervisory password.
- The system checks whether the amount to be withdrawn is within the drawing power.
- The system flashes a message if the balance in a lien account would fall below the lien amount after the processing of the transaction.
- Access to the system is available only between stipulated hours and specified days only.
- Individual users can access only specified directories and files, A user timeout is prescribed.
- Exception situations such as limit excess, reactivating dormant accounts, etc. can be handled only with a valid supervisory level password.
- Once the end-of-the-day process is over, the ledgers cannot be opened without a supervisory level password.

C. Completion of audit:

- Benefit of Planning in branch audits
- Expectation from branch auditors
- Documentation
- Statutory Audit Report
- Audit of Advances
- Audit of Deposit
- Audit of Trial Balance
- LFAR
- Other reporting and certifications
- UDIN

Importance/Benefits of planning:

- Limitation of time

- Complex transactions - Data constraints - invisibility of data
- Appropriate attention to important areas of the audit
- High volume
- Focus on NPA
- Possibility of frauds
- Professional responsibilities

Expectation from branch auditors:

- From Eyes and ears of CSA
- Effective Reporting
- Work in full adherence to **professional standards** to add comfort to CSA/RBI/ Shareholders/Government
- Compliance with: -
  - RBI / ICAI Guidelines
  - Terms of Appointment
  - Accounting Standards
  - Standards on Auditing
- Completion of work in time

Documentation SA 230:

- work not documented means work not done
- Documentation is the working papers prepared and obtained by the auditor and retained by him in connection with performance of an **audit.**

Audit Documentation depends on factors such as:

- Size and complexity of entity
- Nature of the audit procedures to be performed
- Identified risks of material misstatements
- Significance of the audit evidence obtained
- Nature and extent of exceptions identified
- Audit methodology and tools used

Statutory Audit Report:

- Format as per SA 700 and 701
- Addressed to SCA/Bank
- Compliance with Accounting standards to be mentioned in main report.
- Qualifications can be through Memorandum of Changes or Specific remarks in the last para.

❍❍

Verification of advances with special reference to Income Recognition and Asset Classification (IRAC) norms

The article attempts to cover, verification of advances with special reference to Income Recognition and Asset Classification (IRAC) norms, which are also known as Non Performing Asset (NPA) norms and prudential norms. Article covers summary of key requirements points applicable based on Reserve Bank of India (RBI) Prudential norms except it does not cover norms on Restructuring of Advances by Banks and Agricultural Debt Waiver and Debt Relief Scheme.

As per data available in Public demine, Indian banks wrote off loans worth around Rs 8,83,168 crore in the last ten years, a significant chunk of which came from government-owned banks, the latest data from the Reserve Bank of India shows. Of this, public sector banks (PSBs) alone wrote off Rs 6,67,345 crore worth loans since 2010. This is about 76 percent of the total written-off loans in the decade, while private banks wrote off loans worth Rs 1,93,033 crore constituting about 21 percent of the total chunk. Foreign banks wrote off Rs 22,790 crore loans or 3 percent of the total write-off, the RBI data showed. In the financial year 2019-2020 alone, banks wrote off a total of Rs 2,37,206 crore or about a quarter of the total loan write-offs in the last one decade. Of this, Rs 1,78 lakh crore was by PSBs and Rs53, 949 crore by private banks. These figures do not take into account the loans written off by small finance banks, which is a relatively smaller portion

Situation calls for auditors to be more vigilant while discharging their duties.

We have constraint of limited time to complete the bank – branch audit. Normally, we receive appointment letter in the mid-march and we have to compete the audit by first week or second week of April.

Further reason of concern is banking sector is fraud prone and it again increases our responsibilities in carrying out bank – branch audit. There have been many frauds in banking sector. Official data for fraud is not publicly available however the amounts and number of cases have risen. With increase in online banking / net banking / mobile banking, cyber frauds have increased manifold.

In bank audit, we need to plan very well so we are able to carry out audit effectively. There are various laws applicable in bank audit but we must be updated our self with latest RBI guidelines and requirements for banking sector. All related circulars are available on Reserve Bank of India's website i.e. www.rbi.org.in.

Verification of advances is one of the important aspects of bank audit. While doing verification of advances, impact of irregularities needs to be seen from point of view of its asset classification. Advances are classified based on RBI Guillotines. Originally RBI had health code system which was replaced by IRAC norms in 1992-93. Now income recognition is made objective based on record of recovery.

Any irregularities having bearing on NPA (Non-Performing Asset) status of the /advances needs to be examining carefully. In other words while examining any advances; we need to check what will be the impact of irregularity in advance on its NPA status. As per RBI circular, when asset ceased to generate income, it becomes NPA.

Reserve Bank of India every year issues Master circular for norms for classifications of Advances in to various categories of NPA. This year like every year RBI has issued master circular on 1st July 2015. Key points of the circular are summarized as under:

Type of facility	To be Classified as NPA if
Term Loan	Interest and/or installment of principal, remain overdue for a period more than 90 days.
Working Capital Finances (Over draft and Cash Credit)	If accounts remain out of order for more than 90 days. Out of order: An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'
Bills	The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted
Agricultural Advances	**Short duration crops** The installment of principal or interest thereon remains overdue for two crop seasons **Long duration crops** The installment of principal or interest thereon remains overdue for one crop season. **Natural calamities** Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines contained in RBI circular RPCD. No.PLFS.BC.3/ 05.04.02/ 2012-13 dated July 2, 2012.
Liquidity Facilities	The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006
Derivative Transactions,	The overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.
Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.	

Further advances needs to be classified in to categories as Standard, Sub-standard, Doubtful and loss Asset. Following are criteria for classifications of NPA

NPA Category	Criteria for classification
Sub-Standard Asset	Which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

<table>
<tr><th>NPA Category</th><th>Criteria for classification</th></tr>
<tr><td>Doubtful Asset</td><td>An asset would be classified as doubtful if it has remained in the sub-standard category for a period of 12 months.

A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

For provisioning, Doubtful Assets are further classified as per age in doubtful category, in sub- categories generally called as D-1, D-2 and D-3.</td></tr>
<tr><td>Loss Asset</td><td>A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.</td></tr>
<tr><td>Accounts where there is erosion in the value of security/ frauds committed by borrowers</td><td>In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers it will not be prudent that such accounts should go through various stages of asset classification.

In cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate:

<table><tr><th>Value</th><th>Classification to be done</th></tr><tr><td>Less than 50 %</td><td>Doubtful Asset</td></tr><tr><td>Less than 10 %</td><td>Loss Asset – Full Provision</td></tr></table></td></tr>
</table>

Internal control systems to eliminate the tendency to delay or postpone the identification of NPAs

Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The banks may fix a minimum cut off point to decide what would constitute a high value account depending upon their respective business levels. The cut off point should be valid for the entire accounting year. Responsibility and validation levels for ensuring proper asset classification may be fixed by the banks. The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.

So in any case let's say advance was becoming NPA on 30th June 2015 and there was a doubt about whether that advances needs to be classified as NPA or not? Any such doubt should be resolved by bank by July 2015.

Other issues in classifications of advances as NPA:

<table>
<tr><td>Accounts with Temporary deficiencies</td><td>Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets,

Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months.</td></tr>
</table>

Regular and ad hoc credit limits	Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.
Accounts regularised near about the balance sheet date	The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.
Loans with moratorium for payment of interest	i. In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected. ii. In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates. **In my view, extension in moratorium period should not be allowed afterwards unless justified by strong convincing reason.**
Government Guaranteed Advances	<u>Central Government Guaranteed Advances</u> The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income. <u>State Government guaranteed Advances</u> State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days

Other Points to be considered in classification of an advances as NPA:

- ✓ <u>Asset Classification needs to be done borrower wise and not facility wise</u>, hence even if one small facility is NPA large borrower's all accounts will become NPA
- ✓ Consortium Advances : Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances

✓ Advances against Term Deposits, NSCs, KVP/IVP, etc

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts.

Here plain reading of the RBI circular says advance against life policies need not be treated as NPA. In my personal views intention must be to exempt only advances against traditional plans issued by Life Insurance Corporation of India and not advances against life policies such as ULIP or which are issued by private companies may not be covered by this exemption.

✓ Advances against gold ornaments, government securities and all other securities are not covered the NPA classification exemption.

✓ Valuation of Security for provisioning purposes

With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crore and above stock audit at annual intervals by external agencies Collaterals such as immovable properties charged in favour of the bank should be got valued once in 3 years by valuers appointed as per the guidelines approved by the Board of Directors.

COVID IMPACT / RELEVANT CIRCULARS

It is advisable to read all relevant full circulars available at RBI website, however following is brief summary of the content:

Circular Reference	RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 Dated 27.3.2020
Summaries Points:	

COVID-19 – Regulatory Package

Rescheduling of Payments – Term Loans and Working Capital Facilities

All instalments falling due between March 1, 2020 and May 31, 2020. The repayment schedule for such loans as also the residual tenor will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

Easing of Working Capital Financing

lending institutions may recalculate the 'drawing power' by reducing the margins and shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

Since the moratorium/deferment/recalculation of the 'drawing power' is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower under paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 ("Prudential Framework"). Consequently, such a measure, by itself, shall not result in asset classification downgrade.

The asset classification of term loans which are granted relief shall be determined on the basis of revised due dates and the revised repayment schedule. Similarly, working capital facilities where relief is provided as above, the SMA and the out of order status shall be evaluated considering the application of accumulated interest immediately after the completion of the deferment period as well as the revised terms, as permitted above.

The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

Circular Reference	RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 Dated 17.4.2020

Asset Classification under the Prudential norms on Income Recognition, Asset Classification (IRAC)

As such, in line with the clarification provided by the Basel Committee on Banking Supervision, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms.

Similarly in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), the Regulatory Package permitted the recovery of interest applied during the period from March 1, 2020 upto May 31, 2020 to be deferred **('deferment period')**. Such deferment period, wherever granted in respect of all facilities classified as standard, including SMA, as on February 29, 2020, shall be excluded for the determination of out of order status.

Provisioning

In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

(i) Quarter ended March 31, 2020 – not less than 5 per cent

(ii) Quarter ending June 30, 2020 – not less than 5 per cent

Circular Reference	RBI/2019-20/219 DOR.No.BP.BC.62/21.04.048/2019-20 Dated April 17, 2020

lenders are required to implement a resolution plan in respect of entities in default within 180 days from the end of Review Period of 30 days.

On a review, it has been decided that in respect of accounts which were within the Review Period as on March 1, 2020, the period from March 1, 2020 to May 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from June 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution

In respect of accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 90 days from the date on which the 180-day period was originally set to expire

The lending institutions shall make relevant disclosures in respect of accounts where the resolution period was extended in the 'Notes to Accounts' while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years FY2020 and FY2021.

Circular Reference	RBI/2019-20/245 DOR.No.BP.BC.72/21.04.048/2019-20 Dated 23.5.2020

In respect of accounts which were within the Review Period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from September 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.

In respect of accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

Consequently, the requirement of making additional provisions specified in paragraph 17 of the Prudential Framework shall be triggered as and when the extended resolution period, as stated above, expires.

All other provisions of the circular dated April 17, 2020 shall continue to remain applicable

Circular Reference	RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 Dated 23.5.2020

Rescheduling of Payments – Term Loans and Working Capital Facilities

In view of the extension of lockdown and continuing disruption on account of COVID-19, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) ("lending institutions") are permitted to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

In respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.

Easing of Working Capital Financing

In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,

(i) recalculate the 'drawing power' by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,

(ii) review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.

The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

Asset Classification

The conversion of accumulated interest into FITL, as permitted in terms of paragraph above, and the changes in the credit terms permitted to the borrowers to specifically tide over economic fallout from COVID-19 in terms of paragraph above, will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 **('Prudential Framework')**, and consequently, will not result in asset classification downgrade.

In respect of accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted in respect of term loans, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. The asset classification for such accounts shall be determined on the basis of revised due dates and the revised repayment schedule.

Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), where the account is classified as standard, including SMA, as on February 29, 2020, the deferment period, wherever granted in terms of paragraph above shall be excluded for the determination of out of order status.

All other provisions of circulars dated March 27, 2020 and April 17, 2020 shall remain applicable mutatis mutandis.

Circular Reference	RBI/2019-20/158 DOR.No.BP.BC.33/21.04.048/2019-20 Dated -7.2.2021

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation

Revisions of the date of DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

1. The revised DCCO falls within the period of one year from the original DCCO stipulated at the time of financial closure for CRE projects;
2. All other terms and conditions of the loan remain unchanged.

In case of CRE projects delayed for reasons beyond the control of promoter(s), banks may restructure them by way of revision of DCCO up to another one year (beyond the one-year period quoted at paragraph above) and retain the 'standard' asset classification if the account continues to be serviced as per the revised terms and conditions under the restructuring.

iii. Banks while restructuring such CRE project loans under instructions at above will have to ensure that the revised repayment schedule is extended only by a period equal to or shorter than the extension in DCC

Banks may fund cost overruns that arise on account of extension of DCCO (within the limits as above), subject to the instructions issued vide circular DBOD.No.BP.BC.33/21.04.048/2014-15 dated August 14, 2014 and the mailbox clarification dated April 20, 2016.

It is re-iterated that a loan for a project may be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue). It is further re-iterated that the dispensation at (ii) above is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph (i) (a) above and when the account is still standard as per record of recovery.

At the time of extending DCCO, Boards of banks should satisfy themselves about the viability of the project and the restructuring plan.

All other aspects related to restructuring, income recognition, asset classification, provisioning as applicable for projects under implementation shall continue to apply.

Banks shall ensure that all provisions of the Real Estate (Regulation and Development) Act, 2016 are complied with.

The project loans to CRE sector shall be identified on the basis of instructions issued vide circulars DBOD.BP.BC. No.42/08.12.015/2009-10 dated September 9, 2009 and DBOD.BP.BC. No.104/08.12.015/2012-13 dated June 21, 2013.

PROVISIONING NORMS

Subject to above circulars below were the original provisioning norms, relief as mentioned in above circulars is to be considered.

Standard Assets	(A) direct advances to agricultural and SME sectors at 0.25 per cent; (b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent; (c) advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent (d) all other loans and advances not included in (a) and (b) above at 0.40 per cent

<table>
<tr><td></td><td>Housing loan at teaser rate it will be @ 2%

On newly restructured advances after 1.6.2013 @ 3.5% for March 2014, 4.25 % for March 2015 and @ 5% for March 2016. On old restructured advances @ 2.75%</td></tr>
<tr><td>Sub-standard Assets</td><td><table><tr><td>Secured exposure:</td><td>15% on outstanding balance</td></tr><tr><td>unsecured exposures for escrow accounts available in respect of infrastructure lending, infrastructure loan accounts</td><td>20% on outstanding balance</td></tr><tr><td>Other unsecured exposures:</td><td>25% on outstanding balance</td></tr></table></td></tr>
<tr><td>Doubtful Assets</td><td>Unsecured Portion : 100%

Secured Portion :<table><tr><th>Period for which the advance has remained in ‘doubtful’ category</th><th>Provision requirement (%)</th></tr><tr><td>Up to one year – D1</td><td>25</td></tr><tr><td>One to three years – D2</td><td>40</td></tr><tr><td>More than three years – D3</td><td>100</td></tr></table></td></tr>
<tr><td>Loss Assets</td><td>100 %</td></tr>
</table>

INCOME RECOGNITION

The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re¬negotiated or rescheduled extension of credit.

If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

Reversal of income

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised. **This will apply to Government guaranteed accounts also.**

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Leased Assets

The *finance charge* component of finance income [as defined in ‘AS 19 - Leases’ issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became non-performing, and remaining unrealised, should be reversed or provided for in the current accounting period.

Appropriation of recovery in NPAs

Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

Fraud Cases

We need to examine critically, fraud cases reported in advances, we need to understand methodology and need to find out whether adequate provisioning is done for the loss or not? Also we have to see whether such cases are properly reported to Reserve Bank of India.

Types of Frauds Reported:

Cases of funds diversions are being reported: loan taken for one purpose and utilized for some other purposes. Over valuation of property done to get higher loan than eligible, Export finance taken and no money is received from overseas suppliers and ECGC compliances are not done properly etc,

There have been many cases of fraud cases reported in Gold loan of fake ornaments being given to banks as securities, There have been many frauds in Housing loan area too hence that area also needs to be seen cortically. There have been cases where fake income papers have been submitted, there is no borrower in existence, property is not in existence, same property being sold to more than one purchaser etc.

Certain Practical Points

- In case NPA, the auditor should carefully examine security as it will change the amount of provisioning if advances are found to be unsecured.
- The advance becoming NPA is important date and needs to be examined whether the same is correctly determined as age of NPA determines its provisioning amounts.
- The restructuring of advances should not be repeated restructuring.
- There are various ever greening techniques are being resorted for not classifying advance as NPA, we have to see the advances are being paid off from genuine sources and not by granting fresh advances in any way.

Conclusion

As classification, provisioning and income recognition is governed by RBI norms, we have to carry out audit of advances based on latest RBI norms and directives. Many a time changes in directives comes in February and March also hence we need to keep our eyes on rbi website for such changes (if any) being pronounced. The stringent NPA norms have improved overall quality of advances outstanding. Looking at frauds reported, we need to be very vigilant in verifying correct application of NPA norms.

❍❍

Early Warning Signals (EWS) and Red Flagged Accounts (RFA)

1. A Red Flagged Account (RFA) is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS). These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent. A bank cannot afford to ignore such EWS but must instead use them as a trigger to launch a detailed investigation into a RFA.

2. An illustrative list of some EWS is given for the guidance of banks in 1 to this circular. Banks may choose to adopt or adapt the relevant signals from this list and also include other alerts/signals based on their experience, client profile and business models. The EWS so compiled by a bank would form the basis for classifying an account as a RFA.

3. The threshold for EWS and RFA is an exposure of ₹500 million or more at the level of a bank irrespective of the lending arrangement (whether solo banking, multiple banking or consortium). All accounts beyond ₹500 million classified as RFA or 'Frauds' must also be reported on the CRILC data platform together with the dates on which the accounts were classified as such. The CRILC data platform is being enhanced to provide this capability. As of now, this requirement is in addition to the extant requirements of reporting to RBI as mentioned in Para 3 above.

4. The modalities for monitoring of loan frauds below ₹500 million threshold is left to the discretion of banks. However, banks may continue to report all identified accounts to CFMC, RBI as per the existing cut-offs.

5. The tracking of EWS in loan accounts should not be seen as an additional task but must be integrated with the credit monitoring process in the bank so that it becomes a continuous activity and also acts as a trigger for any possible credit impairment in the loan accounts, given the interplay between credit risks and fraud risks. In respect of large accounts it is necessary that banks undertake a detailed study of the Annual Report as a whole and not merely of the financial statements, noting particularly the Board Report and the Managements' Discussion and Analysis Statement as also the details of related party transactions in the notes to accounts. The officer responsible for the operations in the account, by whatever designation called, should be sensitised to observe and report any manifestation of the EWS promptly to the Fraud Monitoring Group (FMG) or any other group constituted by the bank for the purpose immediately. To ensure that the exercise remains meaningful, such officers may be held responsible for non-reporting or delays in reporting.

6. The FMG should report the details of loan accounts of ₹500 million and above in which EWS are observed, together with the decision to classify them as RFAs or otherwise to the CMD/ CEO every month.

7. A report on the RFA accounts may be put up to the Special Committee of the Board for monitoring and follow-up of Frauds (SCBF) providing, inter alia, a synopsis of the remedial action taken together with their current status.

Annex II

Some Early Warning signals which should alert the bank officials about some wrongdoings in the loan accounts which may turn out to be fraudulent

1. Default in payment to the banks/ sundry debtors and other statutory bodies, etc., bouncing of the high value cheques.

2. Raid by Income tax /sales tax/ central excise duty officials.

3. Frequent change in the scope of the project to be undertaken by the borrower.

4. Under insured or over insured inventory.

5. Invoices devoid of TAN and other details.
6. Dispute on title of the collateral securities.
7. Costing of the project which is in wide variance with standard cost of installation of the project.
8. Funds coming from other banks to liquidate the outstanding loan amount.
9. Foreign bills remaining outstanding for a long time and tendency for bills to remain overdue.
10. Onerous clause in issue of BG/LC/standby letters of credit.
11. In merchanting trade, import leg not revealed to the bank.
12. Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
13. Delay observed in payment of outstanding dues.
14. Financing the unit far away from the branch.
15. Claims not acknowledged as debt high.
16. Frequent invocation of BGs and devolvement of LCs.
17. Funding of the interest by sanctioning additional facilities.
18. Same collateral charged to a number of lenders.
19. Concealment of certain vital documents like master agreement, insurance coverage.
20. Floating front / associate companies by investing borrowed money.
21. Reduction in the stake of promoter / director.
22. Resignation of the key personnel and frequent changes in the management.
23. Substantial increase in unbilled revenue year after year.
24. Large number of transactions with inter-connected companies and large outstanding from such companies.
25. Significant movements in inventory, disproportionately higher than the growth in turnover.
26. Significant movements in receivables, disproportionately higher than the growth in turnover and/or increase in ageing of the receivables.
27. Disproportionate increase in other current assets.
28. Significant increase in working capital borrowing as percentage of turnover.
29. Critical issues highlighted in the stock audit report.
30. Increase in Fixed Assets, without corresponding increase in turnover (when project is implemented).
31. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
32. Liabilities appearing in ROC search report, not reported by the borrower in its annual report.
33. Substantial related party transactions.
34. Material discrepancies in the annual report.
35. Significant inconsistencies within the annual report (between various sections).
36. Poor disclosure of materially adverse information and no qualification by the statutory auditors.
37. Frequent change in accounting period and/or accounting policies.
38. Frequent request for general purpose loans.
39. Movement of an account from one bank to another.
40. Frequent ad hoc sanctions.
41. Not routing of sales proceeds through bank.
42. LCs issued for local trade / related party transactions.
43. High value RTGS payment to unrelated parties.
44. Heavy cash withdrawal in loan accounts.
45. Non submission of original bills.

Early Detection and reporting

1. At present the detection of frauds takes an unusually long time. Banks tend to report an account as fraud only when they exhaust the chances of further recovery. Among other things, delays in reporting of frauds also delays the alerting of other banks about the modus operandi through caution advices by RBI that may result in similar frauds being perpetrated elsewhere. More importantly, it delays action against the unscrupulous borrowers by the law enforcement agencies which impact the recoverability aspects

to a great degree and also increases the loss arising out of the fraud.

2. The most effective way of preventing frauds in loan accounts is for banks to have a robust appraisal and an effective credit monitoring mechanism during the entire life-cycle of the loan account. Any weakness that may have escaped attention at the appraisal stage can often be mitigated in case the post disbursement monitoring remains effective. In order to strengthen the monitoring processes, based on an analysis of the collective experience of the banks, inclusion of the following checks / investigations during the different stages of the loan life-cycle may be carried out:

   a. **Pre-sanction:** As part of the credit process, the checks being applied during the stage of pre-sanction may consist of the Risk Management Group (RMG) or any other appropriate group of the bank collecting independent information and market intelligence on the potential borrowers from the public domain on their track record, involvement in legal disputes, raids conducted on their businesses, if any, strictures passed against them by Government agencies, validation of submitted information/data from other sources like the ROC, gleaning from the defaulters list of RBI/other Government agencies, etc., which could be used as an input by the sanctioning authority. Banks may keep the record of such pre-sanction checks as part of the sanction documentation.

   b. **Disbursement:** Checks by RMG during the disbursement stage may focus on the adherence to the terms and conditions of sanction, rationale for allowing dilution of these terms and conditions, level at which such dilutions were allowed, etc. The dilutions should strictly conform to the broad framework laid down by the Board in this regard. As a matter of good practice, the sanctioning authority may specify certain terms and conditions as 'core' which should not be diluted. The RMG may immediately flag the non-adherence of core stipulations to the sanctioning authority.

   c. **Annual review:** While the continuous monitoring of an account through the tracking of EWS is important, banks also need to be vigilant from the fraud perspective at the time of annual review of accounts. Among other things, the aspects of diversion of funds in an account, adequacy of stock vis-a-vis stock statements, stress in group accounts, etc., must also be commented upon at the time of review. Besides, the RMG should have capability to track market developments relating to the major clients of the bank and provide inputs to the credit officers. This would involve collecting information from the grapevine, following up stock market movements, subscribing to a press clipping service, monitoring databases on a continuous basis and not confining the exercise only to the borrowing entity but to the group as a whole.

Important changes in LFAR for Bank Branch Auditor

➢ Brief Background:

The Long Form Audit Report (LFAR) issued by the Reserve Bank of India used as important measure to identify the lapses and other discrepancies in the functioning of the bank/branch. LFAR also act as a first-hand information for the auditor, regulator and other inspection agencies for a particular bank branch or for the bank. Over a decade the operational and regulatory framework banking industry has undergone drastic change, however LFAR questionnaire remain same since April, 2002.

In recent time, RBI on 5th September ,2020 has notified updated list of LFAR questionnaire which is applicable **from the financial year 2020-21.** The new format of LFAR continues with the more or less all the questions from the earlier format, it has added few specific questions on fund-based and non-fund based advances.

The RBI circular RBI/2020-21/33 Ref.No.DOS. CO.PPG. /SEC.01/11.01.005/2020-21 dated 5th September, 2020 prescribe the format of the following:

a. Annex I for Statutory Central Auditors (SCA);

b. **Annex II for Branch Auditors;**

c. An Appendix as part of Annex II for the specialized branches

d. Annex III on Large / Irregular / Critical accounts for branch auditors.

➢ Scope of the paper:

As the objective of this publication to address the important aspect from the perspective of the branch auditor, hence the coverage has been restricted to discuss and analyse Annex II of the circular which is relevant for the Branch Auditors.

Further, since the updated LFAR has continued with most of the questions from the earlier format this paper primarily will discuss the changes/new questionnaire in the respective areas of LFAR format.

➢ Applicability of LFAR:

LFAR are submitted by both Statutory Central Auditor (SCA's) as well as Bank Branch Auditor (BBA's) on yearly basis. SCA's primarily rely upon the LFAR submitted by BBA's to understand the level of control and process at the branch level. Considering the observations made in BBA's LFAR, SCA's carry out further process to compile and report on various aspect of banks operation in Annex I which is prescribed for Statutory Central Auditor. The quality of the comments/observations highlighted by BBA's in their LFAR plays a very significant role for SCA's and hence reporting on the questionnaire is very critical and important for BBA's.

For the branches which are not covered by statutory audit by BBA's, LFAR in such branches need to be certified by the respective concurrent auditor of the branch.

➢ Important aspects/changes in LFAR for Bank Branch for FY 2020-21:

As per RBI circular dated 5th September,2020, the overall objective of the LFAR for branch auditors is as follows:

Sr. No.	Expectation from Branch Auditor	How it helps overall bank?
1.	Carry out transaction testing and comment upon adequacy of implementation of various policy and regulatory requirement (e.g. Credit policy)	Provides input to SCA's while comment on various aspect in Bank LFAR

Sr. No.	Expectation from Branch Auditor	How it helps overall bank?
2.	Verification of data integrity and data related control system and process (e.g. wrong classification code for Priority Sector and Non-priority sector)	Provides assurance on data used for MIS at corporate office level and for supervisory reporting purposes

The branch auditor should always keep the above objective in mind while conducting the branch audit and reporting in LFAR.

➢ **Some of the important changes in the LFAR questionnaire are as follows along with Role of Branch auditor:**

<table>
<tr><th>Area of LFAR</th><th>Comments for BBA's</th></tr>
<tr><td>1. ASSETS</td><td></td></tr>
<tr><td>1.1 Cash</td><td></td></tr>
<tr><td>(ii) Does the figure of the balance in the branch books in respect of cash with its ATM(s) tally with the amounts of balances with the respective ATMs, based on the year end scrolls generated by the ATMs? If there is any difference, same should be reported.</td><td>BBA always carry out the physical verification of cash and balance in ATM linked to the branch as part of their audit procedure. Several discrepancies have also been reported in this area.
Role of BBA:
➢ No additional responsibility on the part of BBA due to this change.
➢ Need to mention the balances as per GL and as per ATM scroll- difference if any need to be highlighted</td></tr>
<tr><td>1.2 Balances with Reserve Bank of India, State Bank of India and other banks</td><td></td></tr>
<tr><td>(iv) Where the branch maintains an account with RBI, the following additional matter may be reported:
Entries originated prior to, but communicated/ recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest attached to such branches (Give details)</td><td>BBA always considered and verified these entries to avoid any material adjustments as on the balance sheet date.
Role of BBA:
• Additional reporting on the entries recorded after year end to identify any material adjustments at currency chest.</td></tr>
<tr><td>1.3 Money at Call and Short Notice</td><td>Changes under this area are NOT relevant for BBA.</td></tr>
<tr><td>1.4 Advances</td><td></td></tr>
<tr><td>(a) List of accounts examined for audit
<table>
<tr><th>A/c No.</th><th>Name</th><th>FB Bal</th><th>NFB Bal</th></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td>xx</td><td>xx</td></tr>
<tr><td>Branch Total</td><td></td><td>yy</td><td>yy</td></tr>
<tr><td>% covered</td><td></td><td>Z %</td><td>Z%</td></tr>
</table></td><td>BBA always carry out the verification of the all the areas on test check basis. The RBI through inclusion of this clause has asked the branch auditor to include the samples selected as part of the LFAR. This is one of the significant change in this section. Till now, these sample were part of the audit working papers and were not communicated.</td></tr>
</table>

Area of LFAR	Comments for BBA's
	Role of BBA: • Rationale of sample selection need to be clearly documented in the Working papers; • Discrepancies observed by the inspection team in sample reported would require clarification from BBA; • Strengthen the process of documentation for the samples reported under this clause; • Adequate coverage of both Fund based and NFB exposure need to be kept in mind
(b) Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner: ➢ Account No. ➢ Account Name ➢ Balance as at year end	BBA always covered this area as part of the audit process. This only require to report such cases to cross tally the information provided at the bank level to SCA's or RBI. **Role of BBA:** • Verification already covered in NPA area; only reporting of the relevant information
(c) Whether in borrowal accounts the applicable interest rate is correctly fed into the system?	**Role of BBA:** • As part of the audit process, this will be verified for the samples selected. • The BBA should specifically restrict its responsibility by highlighting that the "correctness" has been verified only in respect of the files mentioned above.
(d) Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR/ EBLR (External Benchmark Lending Rate)?	
(e) Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.	**Role of BBA:** • The word "frequent" has not defined in the clause and hence it will subject to judgement of the auditor. • However, BBA can refer RBI circular no. RBI/2020-2021/27 DoS.CO.PPG. BC.1/11.01.005/2020-21 dated 21st August, 2020 on Ad-hoc/Short Review/Renewal of Credit Facilities.
(f) Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?	**Role of BBA:** • This is one of the important area for the purpose of determining the correct Capital Adequacy of the bank. • BBA should verify the same on test check basis and highlight the discrepancies on immediate basis. Significant downgrade in the credit ratings could also give an indication that an account may be classified as NPA.

Area of LFAR	Comments for BBA's
(g) Did the bank provide loans to companies for buy-back of shares/securities?	**Role of BBA:** • Any such cases only need to be highlighted by BBA.
(h) Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate/report is not obtained or not available on record. (In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)	**Role of BBA:** • These are some of the important documents verified during the course of documents. • BBA is responsible to review such report to identify any discrepancies in the account which may have impact on credit worthiness of the customer. • BBA should also highlight the cases where no such report is available with the branch.
(i) Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?	**Role of BBA:** • BBA always carry out such analysis while determining the adequacy of NPA provision. • Before reporting on such clauses, BBA should ensure adequate documents and working papers in place and any discrepancies arising due to above has been dealt with through MOC's.
(j) Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flag Accounts?	**Role of BBA:** • This process is automated in many PSB's. BBA should understand the process in the respective bank. • BBA should also review the average period for which the account continued to remain in RFA list- this may indicate potential fraud in such account.
(k) Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.	**Role of BBA:** • This is always reported by BBA as part of the various annexures to LFAR. • In case BBA were not reporting, the same need to be performed and reported under this clause. BBA can take reference from Annexure on Large Advances.
(l) List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as Non-Performing Asset or Standard Asset during the year and the reason thereof.	**Role of BBA:** • Reason for down gradation should align with classification for e.g. date of NPA in case of restructured account need to be carefully determined.

Area of LFAR	Comments for BBA's
(m) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank? Whether the RBI Guidelines for restructuring on all such cases have been followed. Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?	**Role of BBA:** • This is normally not relevant in many branches, however considering the COVID-19 situation and various RBI schemes this clause may be relevant in many of the branches. • BBA should refer RBI circular on Resolution Framework for COVID-19-related Stress, Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances etc.
(n) Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch? Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?	**Role of BBA** this is normally not applicable to most of the branches and relevant for Top-20 branches.
(o) Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.	**Role of BBA:** • No additional responsibilities only reporting of the information
(p) Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?	**Role of BBA:** • This is normally stated in the closing guidelines/ significant accounting policies of the bank. • BBA should review the same and verify the appropriation in both standard as well NPA accounts. This is mainly because the appropriation policy is different for NPA and Standard accounts.
(q) In cases where documents are held at centralized processing centres / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any	**Role of BBA:** • This is important since now many PSB's have started following Centralised system. • BBA should attach the file wise list of documents not received for the purpose of audit.
2. LIABILITIES	
2.1 Deposits	
(c) Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.	**Role of BBA:** • BBA need to carry out specific testing in this regard and should keep appropriate documents while reporting on the same.

<table>
<tr><th colspan="2">Area of LFAR</th><th>Comments for BBA's</th></tr>
<tr><td>(d)</td><td>Is the branch complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts?</td><td>Role of BBA:
• This is in line with the various issues raised by citizen and other stakeholders over a period.
• In many PSB's, BBA are required to issue a certificate in this regard. The said practice may be now done away in light of this specific reporting by BBA.</td></tr>
<tr><td>3.</td><td>GENERAL</td><td></td></tr>
<tr><td>3.1</td><td>GOLD/BULLION/SECURITY ITEMS</td><td></td></tr>
<tr><td>(a)</td><td>Does the system ensure that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?</td><td rowspan="2">Role of BBA:
• The inclusion of these specific clauses is due to recent frauds/ irregularity reported in this area.
• BBA need to be very careful and should adequately document the process and take the relevant document to support the verification such process. (for e.g. Verification reports etc.)
• BBA should also inquire and verify various control build around the physical security of gold kept at branch.</td></tr>
<tr><td>(b)</td><td>Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?</td></tr>
<tr><td>3.2</td><td>Books and Records</td><td></td></tr>
<tr><td>(a)</td><td>Whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS? If yes, give details thereof.</td><td>Role of BBA:
• This is important considering various operating system used at the branch. BBA should obtain list of various system used (CBS, NPA, ALM, CRAR etc.) and should inquire about the interface between these system.</td></tr>
<tr><td>(b)</td><td>i) In case the branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts and are pending compliance? If yes give details.</td><td rowspan="3">Role of BBA:
• Only to the extent of verifying the existence of such report and verifying any adverse observations in the same.</td></tr>
<tr><td></td><td>ii) Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank</td></tr>
<tr><td></td><td>iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end.</td></tr>
<tr><td></td><td>iv) Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.</td><td>Role of BBA:
• Only to the extent of identifying such areas if any and reporting on the same.</td></tr>
</table>

Area of LFAR	Comments for BBA's
v) Furnish your comments on data integrity (including data entry, checking correctness/ integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level.	**Role of BBA:** • BBA should comment upon based on the audit procedures carried out and should avoid making any general comments under this clause.
3.3 Frauds	
Furnish particulars of: (i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.	**Role of BBA:** • Considering the recent surge in fraud reporting by the banking industry this is very significant and important area of the audit. • BBA should inquire with the branch regarding the process of fraud reporting- generally this process is centralised and handled at Corporate office. • In reported cases, BBA should verify the forensic audit report/internal memo prepared by the bank for reporting on potential risk area etc. • BBA should comment on classifying an account as RFA based on the its verification and comments made in the other part of LFAR.
(ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation.	
(iii) In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud.	
(iv) Whether the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as RFA	
3.4 Implementation of KYC/ AML guidelines	
Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors	**Role of BBA:** • BBA should review the concurrent audit report to ensure the control over KYC and ALM compliance. • BBA should also verify on test check basis the compliance of the same and should include in work paper with supporting documents.
3.5 Management Information System	
Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. Have you come across any instances where data integrity was compromised?	**Role of BBA:** • This is in line with the objective as mentioned in the beginning of this analysis. • BBA should highlight various discrepancies which cannot be rectified through MOC like for e.g. incorrect PSL classification, sector code classification, wrong input of repayment schedule used for ALM purpose which may affect various disclosure and output used for regulatory reporting.

➢ **Conclusion:**

The branch auditor should keep in mind that reporting in LFAR is not post audit event, however the same should be considered as simultaneous process.

Based on recent article in one of the leading professional journal on few lessons for professional, following can be considered as some lessons while reporting in LFAR as well:

REMEMBER	➢ LFAR is "long form" report and hence answer should be descriptive and not in "Yes/No". ➢ All comments/observations should be supported by instances or examples without any general comments.
NEVER	➢ Ctrl+C & Ctrl+V should not be applied for any comments/observations from the previous year report or any other inspection reports.
ALWAYS	➢ Observation/comments should be based on work papers or other audit evidence obtained as part of audit procedures.

Wish you all a very Happy Season of Bank Branch Auditing!!!!!!!!!!!

❍❍

Verification of KYC of Customer

Recent amendment in Master Direction on KYC

Government of India, vide Gazette Notification G.S.R. 582(E) dated August 19, 2019 and Gazette Notification G.S.R. 840(E) dated November 13, 2019, has notified amendment to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005. Further, with a view to leveraging the digital channels for Customer Identification Process (CIP) by Regulated Entities (REs), the Reserve Bank has decided to permit Video based Customer Identification Process (V-CIP) as a consent based alternate method of establishing the customer's identity, for customer onboarding.

2. The consequent changes carried out in the Master Direction on KYC dated February 25, 2016, with the aforementioned amendments to the PML Rules and V-CIP are as under:

A. Changes due to amendments to the PML Rules

a) "Digital KYC" has been defined in Section 3 as capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the Reporting Entity (RE) as per the provisions contained in the Act. Steps to carry out the Digital KYC process have also been stipulated.

b) "Equivalent e-document" has been defined in Section 3 as an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.

c) Section 16 has been amended and accordingly,

I. customer, for the purpose of Customer Due Diligence CDD) process, shall submit:

i. the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 (18 of 2016); or he decides to submit his Aadhaar number voluntarily to a banking company or any reporting entity notified under first proviso to sub-section (1) of section 11A of the PML Act; or

ii. the proof of possession of Aadhaar number where offline verification can be carried out; or

iii. the proof of possession of Aadhaar number where offline verification cannot be carried out or

iv. any Officially Valid Document (OVD) or the equivalent e-document thereof containing the details of his identity and address; and

v. the Permanent Account Number or the equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962; and

vi. such other documents including in respect of the nature of business and financial status of the client, or the equivalent e-documents thereof as may be required by the RE.

II. Provided that where the customer has submitted

i. Aadhaar number under paragraph (c.I.i) above to a bank or to a RE notified under first proviso to sub-section (1) of section 11A of the PML Act, such bank or RE shall carry out authentication of the customer's Aadhaar number using e-KYC authentication facility provided by the Unique Identification Authority of India.

ii. proof of possession of Aadhaar under clause (c.I.ii) above where offline verification can be carried out, the RE shall carry out offline verification

iii. an equivalent e-document of any OVD, the RE shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000) and any rules issues thereunder and take a live photo as specified under Annex I of the Master Direction.

iv. proof of possession of Aadhaar number where offline verification cannot be carried out under clause (c.I.iii) above or any OVD under clause (c.I.iv), the RE shall carry out verification through digital KYC as specified under Annex I of the Master Direction.

Provided, for a period not beyond such date as may be notified by the Government for a class of REs, instead of carrying out digital KYC, the RE pertaining to such class may obtain a certified copy of the proof of possession of Aadhaar number or the OVD and a recent photograph where an equivalent e-document is not submitted.

III. Equivalent e-document has also been permitted for accounts of non-individual customer.

IV. Where a customer has provided his Aadhaar number under paragraph (c.I.i) above for identification and wants to provide a current address, different from the address as per the identity information available in the Central Identities Data Repository, he may give a self-declaration to that effect to the Regulated Entity.

B. Changes due to introduction of Video based Customer Identification Process (V-CIP)

a) Definition of V-CIP has been inserted in Section 3 of the Master Direction

b) The process of V-CIP has been specified in Section 18 in terms of which, REs may undertake live V-CIP, to be carried out by an official of the RE, for establishment of an account based relationship with an individual customer, after obtaining his informed consent and shall adhere to the following stipulations:

i. The official of the RE performing the V-CIP shall record video as well as capture photograph of the customer present for identification and obtain the identification information as below:

- Banks: can use either OTP based Aadhaar e-KYC authentication or Offline Verification of Aadhaar for identification. Further, services of Business Correspondents (BCs) may be used by banks for aiding the V-CIP.

- REs other than banks: can only carry out Offline Verification of Aadhaar for identification.

ii. RE shall capture a clear image of PAN card to be displayed by the customer during the process, except in cases where e-PAN is provided by the customer. The PAN details shall be verified from the database of the issuing authority.

iii. Live location of the customer (Geotagging) shall be captured to ensure that customer is physically present in India

iv. The official of the RE shall ensure that photograph of the customer in the Aadhaar/PAN details matches with the customer undertaking the V-CIP and the identification details in Aadhaar/PAN shall match with the details provided by the customer.

v. The official of the RE shall ensure that the sequence and/or type of questions during video interactions are varied in order to establish that the interactions are real-time and not pre-recorded.

vi. In case of offline verification of Aadhaar using XML file or Aadhaar Secure QR Code, it shall be ensured that the XML file or QR code generation date is not older than 3 days from the date of carrying out V-CIP.

vii. All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process.

viii. RE shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RE shall carry out the liveliness check in order to guard against spoofing and such other fraudulent manipulations.

ix. To ensure security, robustness and end to end encryption, the REs shall carry out software and security audit and validation of the V-CIP application before rolling it out.

x. The audiovisual interaction shall be triggered from the domain of the RE itself, and not from third party service provider, if any. The V-CIP process shall be operated by officials specifically trained for this purpose. The activity log along with the credentials of the official performing the V-CIP shall be preserved.

xi. REs shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp.

xii. REs are encouraged to take assistance of the latest available technology, including Artificial Intelligence (AI) and face matching technologies, to ensure the integrity of the process as well as the information furnished by the customer. However, the responsibility of customer identification shall rest with the RE.

xiii. RE shall ensure to redact or blackout the Aadhaar number in terms of Section 16.

xiv. BCs can facilitate the process only at the customer end and as already stated in para B(b) above, the official at the other end of V-CIP interaction should necessarily be a bank official. Banks shall maintain the details of the BC assisting the customer, where services of BCs are utilized. The ultimate responsibility for customer due diligence will be with the bank.

3. The Master Direction on KYC dated February 25, 2016, is hereby updated to reflect the above changes and shall come into force with immediate effect.

❍❍

Audit of Bank Branch Balance Sheet

a. Fixed Assets in Banks:

- Sub-section (1) of Section 29 of the Banking Regulation Act, 1949 requires the preparation of Balance Sheet in Form A of Third Schedule to the Act. As Schedule 10 of Form A the fixed assets are to be shown under two broad heads which are as follows:
  - *Premises; and*
  - *Other Fixed Assets*
- The premises include the Building and other property owned by the bank and used in the business operations. The other fixed assets include assets such as furniture and fixtures, motor vehicles, office equipments, computers and other application software.
- *Acquisition process:*

  The purchase/acquisition of the fixed assets are usually centralised at the head office, however these can be purchased by the regional or branch offices up to a monetary limit prescribed in the operating guidelines. The bank's fixed assets also comprised of certain assets which are provided by the banks' to staff the records of which are maintained at the office where employee is posted.
- *Maintenance of Records:*

  In certain banks the records for all assets other than premises are maintained at the branches and in certain banks all the records are either maintained at the branch or the head offices. The process of providing depreciation is also difference across various banks viz. Centralised system or provided at the branch level. The auditor should update them self about the practice followed at the branch and should obtain proper communication from the head office on these aspects. In recent time the bank have adopted a centralised system to maintain the records of the fixed assets viz. Fixed Assets Management software wherein the initial records are updated by the head office or centralised team subsequently any modification in the same on account of sale or on account of branch transfer should be updated at the branch level itself.

  The branch management is also responsible for carrying out physical verification of these assets at regular interval and submit the report to the head office or update the changes in the system.
- *Presentation:*

  As discussed above, the fixed assets are classified into two categories in the balance sheet, viz., Premises and Other Fixed assets. The schedule does not provide any guidance on disclosure of assets taken on lease (i.e. Finance Lease) and Intangible Assets; however the same should be shown separately to comply with Accounting standard issued by ICAI.
- *Depreciation:*

  With respect to the Bank's no rates of depreciation on fixed assets have been prescribed separately under the act. The Act requires the auditor to verify the rates of depreciation are appropriate, in case of banking companies, the bank need to follow schedule II of the Companies Act, 2013.
- *Key Areas of Verification during audit:*

  In case the acquisition process is handled at the branch or the records are maintained at the branch, the auditor should verify the following during the audit process:

  a. Premises:

  - Opening Balance- In case of new branch/ new financial year, the auditor should verify the opening balances of the premises with the last year's financials, ledger or Fixed Asset Register (FAR).

- Additions- The auditor should verify the original legal documents for purchase of the premises *(if available)*. In case the asset is constructed by the bank the auditor should verify the approval from appropriate authority and other relevant documents.

- In case the premise is on the lease, the auditor should also verify the improvement to such premises and the amortisation of such leasehold improvement over remaining useful life.

- The auditor should also verify the compliance with AS-10 (Revised) on Property, Plant and Equipment applicable from 01.04.2016 which is based on the principles of Ind As.

- The auditor should also ensure the compliance of Section 9 of the Banking Regulation Act, 1949 which *prohibits that the banking companies can't hold any immovable property for more than period of 7 years* from the date of its acquisition. However, the same is not applicable wherein the immovable *property is acquired for its own use.* The auditor should make specific comment on the same and should send a report directly to Head office in such cases.

- In cases where in the premises have been revalued during the year, the auditor should perform a detailed verification of the treatment in the branch books and compliance with the AS-10 (R) and Guidance Note of Revaluation Reserve.

b. Other Fixed Assets (viz. Furniture & Fixtures, Office Equipments etc.):

The audit process will be similar as compared to audit of a company under the Companies Act, 2013. However following are certain critical checks and controls that auditor should perform:

➢ Verification of system of recording movement of movable fixed assets from one branch to another like for e.g. when the fixed assets is transferred from one branch to another branch the accumulated depreciation relating to such assets are also transferred ;

➢ Verification of Control over such movement and proper authorisation of such movement;

➢ Physical verification of these assets at regular interval and treatment of the discrepancies observed during such verification;

➢ Scrutiny of the repair and renovation expenses to ensure that no item of capital nature are charged to the profit and loss account;

➢ Verification of documents available for sale of a particular fixed assets

The auditor should also verify the additions to the fixed assets and examine that all the expenditure to bring the assets to its working condition has been dealt properly.

The auditor should also verify the *'put to use'* date for the assets capitalised during the year. In most of the banks the same is considered as *'Invoice date'*, however the said practice is in contravention to AS-10 (R) which require the assets to be depreciated from the date such assets are available for use.

b. Current Assets (Other Assets):

Sub-section (1) of Section 29 of the Banking Regulation Act, 1949 requires the preparation of Balance Sheet in Form A of Third Schedule to the Act. As per Schedule 11 of Form A, the Other Assets are shown under following broad heads which are as follows:

- *Inter office adjustment(net)*
- *Interest Accrued*
- *Taxes paid in advance*
- *Stationery and Stamps*
- *Non-banking assets acquired in satisfaction of claims*
- *Others*

The audit of the above financial caption is always top priority for the auditor, since the error or misstatement in these accounts can have serious implication of the financial statement. These accounts are also used to park temporary advances and other suspense balances which are seeds of fraudulent activities. In this section of the chapter will focus on what are the critical points which the auditor should verify while performing the audit of these account balances.

a. *Inter office adjustment (net):*

The above has been dealt in detail in Chapter-9 on Monitoring-Sundry Liabilities, Suspense Account and Sundry Assets.

b. *Interest Accrued:*

This mainly includes the following:

- *Interest accrued on advances*- The bank debits the borrowers account on the respective due date, however there will be certain portion of interest which is accrued but not due on these advances. Like for e.g. the last payment date of interest for the borrower was 15th March 20XX, in this case the interest from 16th March till 31st March is interest accrued but not due on advances.
- *Interest Accrued on Investment:* This include the interest on the investment of the bank in G-Sec and other type of instruments. The interest is accrued on daily basis however settled on a pre-determined date. Till then such interest is accounted as interest accrued.

Branch Auditor Verification:

1. Recomputation- The auditor should on test check basis should recomputed the accrued interest amount manually and should compare the same with the system computation. [Audit Assertion- "Accuracy" (✔)] This will also identify the instances of income leakage if any.
2. Control Total: The auditor should obtain the account wise interest accrual and same should tally with the general ledger balance on a particular cut-off date. [Audit Assertion- "Completeness" (✔)]

- The auditor should also examine the compliance with AS-9 on Revenue Recognition issued by ICAI to ensure that only such interest are recognised which can be realised in the ordinary course of its business.

c. *Taxes paid in advance/Tax deducted at source:*

This is mainly handled at the head office and may not be there at branch balance sheet. Only TDS deducted by the branches and to be deposited with the government is handled at branch and the audit process of these will be similar to those in an audit of other type of entities.

d. *Stationery and Stamps:*

This is one of the important area where the auditor should give special emphasis. In adequate control on these may lead to misappropriation of the most valuable physical asset of the bank i.e. Cash.

Branch Auditor Verification:

1. Physical verification: The auditor should physically verify the stationery and stamps on hand on regular basis especially stationery of security items. Any discrepancies should be reported to the branch and head office immediately. [Audit Assertion- "Existence" (✔)]
2. Recording of expenses: The auditor should verify that the expenses charged to the head are under proper approval and authorisation. These expenses are also supported by the proper evidence in the form of bills etc. [Audit Assertion- "Accuracy" (✔)]

e. *Non-banking assets acquired in satisfaction of claims:*

The above has been discussed in detailed in the above para of the chapter and the auditor should perform those limited procedure on this particular head.

f. *Others:*

This is the residual category and includes the balances not classified specifically under any of the above headings. The audit process for some of the items are as follows:

- Non-interest bearing staff advances: The auditor should verify the relevant documents (if available) for the advances granted during the year along with the bank's policy in this regard.

- Security Deposit: The auditor should verify the relevant documents and other supporting evidence for the same. The auditor should also verify that these deposits have not become refundable.

- Suspense Accounts: The same has been covered separately in the other chapters.

- Prepaid Expenses: The auditor should verify the computation of the prepaid expenses and in case of other entities. The auditor should also verify the basis of allocation of the prepaid expenses along with the relevant documents.

c. Current liabilities (Other Liabilities and Provision):

Sub-section (1) of Section 29 of the Banking Regulation Act, 1949 requires the preparation of Balance Sheet in Form A of Third Schedule to the Act. As per Schedule 5 of Form A, the Other Liabilities and Provisions are shown under following broad heads which are as follows:

- *Bills payable;*
- *Inter-office adjustment(net)*
- *Interest Accrued*
- *Others (Including Provisions)*

The brief details and the audit approach on the above accounts are as follows:

a. Bills Payable:

This mainly includes the instruments against which the bank has received the money, however the same is payable to customer as per his order. This mainly includes DD, Travellers cheque, Pay-orders, Bankers cheque etc.

The auditor should verify and evaluate the internal control on these balances and issuance of the same. Like for e.g. the auditor should verify the following:

- Drafts, Travellers cheque and other instruments are made in standard printed forms as provided by the head office;

- Ageing analysis of the balances outstanding in these accounts and reason for the same should be obtained from the bank branch;

- The MIS reports send to the Head office for computation of DICGC insurance premium and for transfer to DEAF should also be verified by the auditor.

b. Inter-office adjustment(net):

The above has been dealt in detail in Chapter-9 on Monitoring-Sundry Liabilities, Suspense Account and Sundry Assets.

c. Interest Accrued:

This includes the interest payable and interest accrued but not due on deposits and borrowings are to be shown under this head. The interest accrued on the deposits and borrowings are in accordance with the terms of various types of deposit and borrowing. These should not be clubbed with the figures of deposits and borrowing in Schedule-3.

The auditor should perform the following procedure:

Branch Auditor Verification:

1. Recomputation- The auditor should on test check basis should recomputed the accrued interest amount manually and should compare the same with the system computation. [Audit Assertion- "Accuracy" (✔)]

2. Control Total: The auditor should obtain the account wise interest accrual and same should tally with the general ledger balance on a particular cut-off date. [Audit Assertion- "Completeness" (✔)]

d. Others (including provision):

The following items are to be included under this head:

- Net provision for income tax and other taxes;

- Proposed dividend [No more required as per AS-4 (revised)]

- Sundry Deposits such as Margin Deposits, Staff Security Deposit etc.
- Collection in suit filed accounts;
- Provision for expenses; and
- Provision for employee Benefits etc.

The auditor should focus on the following accounts under this head:

a. *Provision for expenses:* The auditor should verify the details and supporting evidence of provision for expenses. The auditor should ensure that the expenses provide on the basis of the management estimates are reasonable and are adequate based on the historical data.

   The auditor should also perform month on month analysis to verify that there are not major variation in the provision for expenses and if any should be dealt properly in the accounts.

b. *Tax Deducted at Source:* The payment of TDS may be centralised or de-centralised. However the auditor should verify that whether the tax has been correctly deducted from the payments as per the provision of income tax act, 1961. The auditor should also verify that whether there is any delay in sending the details to the head office for payment of TDS and if any the auditor should ascertain the reason for such delay.

c. *Other provisions:* The auditor should examine the other provisions and other items of liabilities in the same manner as in case of any other entities.

d. Conclusion & Key take away:

The auditor should obtain age-wise details of major outstanding from both other assets as well as other liabilities. The auditor should also focus on analytical review of these balance like for e.g. Year on Year or Month on Month analysis and should enquired for the reason for any major variance.

The auditor should also take due care in documenting the audit work which helps the auditor to substantiate the opinion framed. The auditor should also refer to SA-230 on Audit Documentation issued by Chartered Accountants of India.

❍❍

Audit of Profit & Loss Account

Verification of Income:

- This article covers limited aspect of leakage in income of bank branches. The main income of bank includes interest income. Penal interest, Various bank's service charges such as cheques return charges, annual account maintenance charges, annual inspection charges on advances, renewal charges, other income – DD commission, bank guarantee commission, any other fees. Commission, charges recovered by bank.

- The banks are functioning under CBS environment, however there may be certain subsidiary records maintained. The auditor should check master data-parameter sets-interest rates fed in computers etc. also as when transaction triggers income the same should be accounted for, as many time even in compute manually charges are to be recovered, for example if cheques have returned bank official should recover necessary charges, further one more such example is timely receipt of stock statement and feeding of correct date of receipt in system, let's say if due date of receipt of stock statement is 10th and if stock statement is received on 18th then same date should be fed in system so computer calculates penal interest for 8 days. Hence auditor will have to understand point of time when income or charges are to be booked and process of booking and it needs to be verified whether set process is being followed or not. The auditor has to check on test basis that all income is booked correctly if he finds errors he has to extend the percentage of check. If scope states extensive checking he may have to do that also. Apart from doing test check auditor should apply various analytical techniques such as ratio analysis, comparative analysis, verifying interest income/expenses as percentage of average advances/deposits. This will help auditor to catch material error if any.

- As we know normally banks intimate changes in rate of interest through circular or e-mails now-a- days, auditor should obtain latest circular/ email for applicable charges and find out as and when changes have happened value date is properly applied. Needless to mention that auditor should be well aware of accounting policies being followed by the bank.

For income leakage, the auditor should look in the following areas:

1. Timely and correct application of interest on all types of loans. The auditor should see the accounts where interest is not charged/less charged.

2. Appropriateness of rate of interest – correct rate of interest as per sanctioned terms, especially, in case of advance against fixed deposit of third party; the interest should be changed additionally,

3. Concessions given to the borrower in the rate of interest on loans should be seen Wherever are revised, the impact thereof on the concessions needs to be seen more carefully

4. In case of NPA accounts, the interest is to be recognized as income only on realization to should be realized out of fresh and genuine credits and not from fresh sanction of loans

5. Penal interest should be verified. The Penal interest is on account of delay in submission of Statements, Non-compliance of the terms of sanction, incomplete documentation Facilities after due date, etc.

6. Temporary overdrafts (TOD) in saving bank accounts or Current accounts.

7. Other income

   a. Insurance/ mutual fund commission.

   b. Locker rent- recovery of locker rent and position of outstanding locker rent

In all above cases, the auditor should not only verify the calculation but also see whether be Applied and accounted for properly.

a. Expenses in Banking companies:

Sub-section (1) of Section 29 of the Banking Regulation Act, 1949 requires the preparation of Profit and Loss Account in Form B of Third Schedule to the Act. As per the said schedule the expenditure is to be shown under three broad heads which are as follows:

- Interest Expended- Schedule 15;
- Operating Expenses- Schedule 16; and
- Provisions and contingencies

The audit of expenses has always been a focus area for every auditor either in audit of banks or audit of companies, since the error or misstatement in the same may have serious impact on the profitability and results of the entity.

In the later part of chapter we will focus only on the audit of operating expenses reflected in Schedule-16 of the Financial Statement.

b. Operating Expenses:

The following items are included under this head:

(a) Payment to and Provision for Employees;

(b) Rent, Taxes and Lighting;

(c) Printing and Stationery;

(d) Advertisement and Publicity;

(e) Depreciation on Banks' Property;

(f) Directors' Fees, Allowances and Expenses;

(g) Auditor's Fees and Expenses;

(h) Law charges;

(i) Postage, Telegrams, Telephones, etc.;

(j) Repairs and Maintenance;

(k) Insurance; and

(l) Other Expenditure

The notes and instructions for compilation of Profit and Loss Account, issued by Reserve Bank, require that in case any particular item under this head exceeds 1% of total income, particulars thereof may be given in the notes.

We are aware that most of the banks in the present scenario are working in the Core Banking System (CBS) environment. However, the overall objective and scope of audit does not change in a Computer Information System (CIS) or CBS environment. Further in most of the banks the payment and provisioning of certain expenses are authorised and accounted at Head Office/ Corporate office. For e.g. Expenses at Sr. No. (a) Payment and Provision for employee benefit; (e) Depreciation on Banks' Property; (f) Directors' Fees, Allowances and Expenses; (g) Auditor's Fees and Expenses etc. are generally accounted at the head office/corporate office of the bank.

Considering the above scenario of CBS environment and centralised accounting of certain expenses, the expenditure at Sr. no. (b), (c), (d), (h), (i), and (j) are more relevant for the audit.

c. Key areas of expenses during audit:

The following expenses are more relevant from the audit perspective which should be covered by the auditor during the audit. The brief details of these expenses are as follows:

i. Rent, Taxes and Lighting:

This item of expense mainly includes the rent paid by the bank branch on building premises, other local body taxes, electricity charges and other similar charges and levies. Considering the size and location of the branch this may be one of the high value expenses and needs to be verified with professional skepticism.

ii. Printing & Stationery:

This is mainly the expense incurred by the branch on books, forms, and other stationery used by the bank branch. In the current banking scenario, there are certain expenses in the nature of printing and stationery incurred by the branch and other stationery particularly security paper like draft forms, cheque books would be received by the branch from the head office.

iii. Advertisement and Publicity:

This mainly includes the expense incurred by the bank for advertisement etc. These advertisements are mainly for announcing new schemes, offers etc. They may also include certain expenses incurred by the branch for publishing legal notices for the auction of the property etc.

*iv. **Law charges:***

Legal charges and other expenses or fees in relation to legal services are included under this head.

*v. **Postage, Telegrams, Telephones, etc.:***

This mainly includes all postal charges like stamps used in the banking industry, telephone expenses incurred by the branches, etc. This will also include internet and broadband expenses incurred at the bank branch.

*vi. **Repairs and maintenance:***

This include mainly the repairs to bank's property, repairs to the computer system at the branch, other annual maintenance charges for other office equipment. This is also one of the high value items and area of errors. For e.g. Determining whether a particular expense is capital or revenue in nature.

*vii. **Other expenditure:***

This mainly includes all other expenses which are not included in any of the other heads, like license fees, entertainment expenses, travel expenses etc.

The auditor should focus on these expenses and should cover 100% vouching and verification of supporting documents of these expenses.

In the ensuing paragraphs, it has been attempted to elaborate the key processes an auditor can perform once he is conducting the audit of bank branch.

d. Audit Approach:

Before starting the audit process for verification of expenses, the auditor should obtain an authorisation matrix for all these expenses which prescribe the limit on authorisation for respective expenditure. The audit approach for verification of these expenses can be explained in two stages:

(a) Vouching and verification:

(a) Rent, Taxes and Lighting:

The auditor should check the following to verify the accuracy and completeness of the rent expenses:

- Whether the branch has a copy of leave and license agreement for the period under audit? If not, check/verify the date of expiration of the agreement has expired and status of renewal of such agreement?
- Whether the amount debited as rent expenses and the amount as per the Leave & License agreement is same?
- Whether the rent expenses include reimbursement of utility expenses as well? If yes, whether the same has been classified appropriately?
- Whether the rent expenses are accounted on monthly basis as per the terms of leave and license agreement?
- Whether the branch is regular in paying the municipal taxes or any other taxes due to the local authority? If there are any disputes whether the bank branch has made adequate provision towards the same?
- Whether the bank has recorded the above expenses for full period under the audit, if not whether the branch has made adequate provision for outstanding amount?

The auditor should verify that adequate provision has been made for the agreements which are expired and pending for renewal as on the date of report. For e.g. In case the rent agreement has expired on 1st April, 2016 and the bank branch is in negotiation with the lessee for the rent amount, the bank should make adequate provision during the interim period.

The auditor should also verify that the vouchers for payment of the rent expense are appropriately authorised as per the authorisation matrix. In case of any diversion the auditor should bring out such discrepancies in the report. In case the rent expenses are directly paid by the head office since the documents i.e. Leave and License Agreement are with the branch, the auditor should verify these expenses and comment in the report.

In case the leave and license agreement has an escalation clause, the auditor should enquire about its treatment w.r.t. AS-19 on Accounting for leases wherein para 23 requires that lease payments under operating lease should be recognised on straight line basis.

In case of lighting and other taxes the auditor should verify that the expenses are relating to for the period under audit and there are no prior period expenses debited in the current period.

(b) Printing & Stationery:

The auditor should verify the following to determine the accuracy and correctness of expenses incurred:

- Whether the expenses are incurred and documents evidencing purchase is received?
- Whether the expenses incurred with approval of sanction of the competent authority?
- Whether these expenses are relating to the current period and whether the same are approved from the Head office?

In some banks, the head office fixes a limit on a particular expenditure and in case the bank wants to incur the expenditure beyond the set limit, prior approval from the head office is necessary to be obtained.

Further the auditor should also verify whether the purchases are made from approved vendors, if any, as approved by the head office.

(c) Advertisement and Publicity

The auditor should verify the following for the expenditure incurred by the branch:

- Whether the invoice and other documents are approved from the appropriate sanctioning authority?
- Whether the expenses are incurred as per the directions from the head office and within the limits as specified by the Head office?

Further the auditor should also verify the publicity material For e.g. advertisement in the newspaper, pamphlets and other materials, to ascertain the genuineness of expenses incurred.

(d) Law charges:

The auditor should verify all legal expenses incurred in connection with various legal services. The auditor should verify the legal charges payable by the bank branch with the list of disputed cases pending at various levels.

The auditor should verify the authorisation of these expenses incurred by the bank branch and should also briefly understand the background of such cases. The auditor should get the list of disputed cases reported by the branch to the head office and should co-relate these cases with the legal expenses incurred. This process of verification may result into identification of certain legal expenses incurred in connection with legal cases which are not reported as disputed cases to the head office.

(e) Repair and maintenance expenses:

The auditor should scrutinise the repairs and maintenance account to ascertain that new fixed assets and substantial improvement to existing assets have not been included in repairs and maintenance.

The auditor should verify and take special care in case large amounts are charged to the profit and loss account under this head.

(f) Other expenditure like Travelling expenses, conveyance etc.:

The auditor should verify all the expenses incurred by the branch other than covered above for e.g. Conveyance, travelling, lodging and boarding expenses etc.

The head office of the Bank prescribes the limit on these types of expense depending upon the category and designation of the employee.

The auditor should verify 100% vouchers of above expenses and should match it with the limits as specified by the bank's head office.

(b) Analytical Procedures:

The auditor should perform the analytical procedure as per SA-520 issued by ICAI, which involves analysis of trends and ratios.

The auditor may compare the amounts of these expenses with the corresponding figures of previous years. For e.g. The auditor should perform month on month rent analysis and verify major variance in the average rent per month.

The auditor should also do ratio analysis of the major expenses incurred as compared to the previous year and should get a brief understanding of the reason in variation.

Illustrative working for Analytical procedure:

Sr. No.	Nature of Expenses	Current Period (in Lakhs)	Previous Period (in Lakhs)	% change	Reason for variation
1.	Rent expenses	15	10	50%	The branch has taken additional premises at ABC for setting up the ATM facility and hence the rental expenses are higher as compared to previous period.

The auditor should prepare the similar analysis for all the expenses and should discuss the same with the branch management at the time of discussing the draft report.

The auditor should also do a monthly trend analysis of the above expenses and should discuss any major variation in the current period. In case the auditor believes that the reasons given by the branch management are not satisfactory the auditor should highlight the same in the auditors' report.

e. Conclusion & Key take away:

As quoted by Robert H Montgomery, Montgomery's Auditing, 1912, *"The skills of an accountant can always be ascertained by an inspection of his working papers"*. The auditor should also take due care in documenting the audit work done which will serve as an Insurance paper at the time of peer review or any other reviews conducted by ICAI or any other Statutory Body. The auditor should also refer to SA-230 on Audit Documentation issued by Chartered Accountants of India.

❍❍

Audit Documentation in Bank Branch Audit (including Tax Audit)

- **Role of audit documentation in general audit [SA-230]:**
  - The Standard on Auditing(SA)-230 deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. These audit documentation provides an evidence of the auditor's basis for a conclusion and also provides an evidence that the audit was planned and performed in accordance with SA's.
  - The audit documentation serves a number of additional purposes including the following:
    - Assisting the engagement team to plan and perform the audit;
    - Enabling the engagement team to be accountable for its work;
    - Retaining a record of matters of continuing significance to future audits;
    - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
  - In the recent year, the Quality Review Board (QRB) has issued various reports on its finding with regards to the compliance of technical standards (Accounting Standard, Standard on Auditing etc.) after review of the audit documentation/ audit working papers of several audit firms. The report interalia includes several critical observations with respect to the compliance of audit documentation. These observations are discussed in the later part of the paper.

- **Role of audit documentation in Bank Branch Audit (BBA):**
  - The importance of the audit documentation become more significant in the Bank Branch Audit due to the onerous responsibility on the Branch Auditor. The Branch auditor is expected to complete the audit of any size of the branch in the maximum seven days. This creates lot of challenges on the part of the Branch auditor to complete the statutory audit along with the audit documentation.
  - The documentation of the audit work done by the Branch Auditor also becomes more important as the Statutory Central Auditors' (SCA's) place heavy reliance on the work done by the Bank Branch Auditor (BBA).
  - The documentation of work done in bank audit is very important considering as the same is open to the inspection by Quality Review Board, Peer Review and other regulators.
  - In the recent year, the Quality Review Board has reported certain observation specifically relating to bank audit such as:
    - *Working for Provision of NPA's are not available in respect of the branches allocated to the firm;*
    - *Computation of NPA for the Bank was not documented and without adequate documentation it was not clear how the assets were identified as standard or otherwise.*
    - *Long Form Audit Reports annexures were not linked to work papers wherever possible.*
    - *In LFAR, there were unreconciled difference, wherein it was stated that pending final clearance the overall impact on the account in the opinion of the management of the company will not be material/significant. However, how this assertion was validated/ evaluated by the firm was not documented.*

- *In respect of classification of NPA on receivables, the Audit Firm did not have in their file, the veracity of the classification of NPAs.*

▪ The above observation raised a significant doubt on the work performed by the Bank Branch Auditor/ Statutory Central Auditor. These type of the observation also raise lot of concern on the quality of the audit work and its impact on the reliance placed by the other auditors.

- **Key Areas of documentation in Bank Branch Audit:**

In the bank branch audit there are several areas where the auditor need to prepare audit documentation, however following are the key areas where the auditor should prepare the audit documentation with more diligence:

a. Documentation for Appointment formality & Planning:

- It has been observed in various review reports that there is lack of audit documentation as far as planning of any audit is considered. It has also been seen that the auditor does not keep proper documentation with respect to the appointment formality.

- Like for e.g. in case of a new appointment the branch auditor should obtain the No-Objection Certificate from the previous auditor. The branch auditor should also ensure that the Code of Ethics are complied with before commencing the audit assignment.

- Generally, the appointment letter from the banks comes at very last minute and the auditor should take utmost care in completing the appointment formalities to avoid any non-compliance or any lapses in the same.

- The list of minimum documents to be kept in the audit file is separately given in Annexure to this paper.

b. Documentation while doing verification of advances:

- This is one of the most significant area of bank audit and takes approximately 50% of the total time spent in the audit. This process start with selection of the samples to verify the sanctioning and disbursement process of the advances and completes with the reporting on large advances in the LFAR.

- The documentation in this stage requires the auditor to include all the steps performed at various stages. The auditor should start documenting the sample selection process or the key points kept in mind while selecting the sample for verification of documents.

- In documenting the sample selection process the auditor should also include whether he/she has selected certain sample based on comments made in the Inspection Report, Concurrent Reports etc.

- The auditor should prepare a comprehensive checklist which covers the requirement for various type of facilities sanctioned and disbursed by the bank. This checklist should also include the various regulatory parameters prescribed by the RBI like for e.g. while verifying whether the housing loans are permitted within the prescribed LTV ratio, the audit team should also mention the actual ratio as well rather than stating Yes or No. The above checklist should be based on the latest guidelines issued by the RBI as well as based on their internal credit instructions.

- The auditor should ensure that the above comprehensive checklist should be containing more about the characteristics tested during the audit instead of reply in the form of Yes or No. Since the SA-230 requires identifying the characteristics of specific items tested so as to identify any inconsistencies or deviations. Like for e.g.:

Audit Process	Auditor's Reply	SA-230 requirement
Whether the loan has been sanction by an appropriate sanction authority?	Yes	Yes, by Mr. Satish Singh (AGM- Credit) on 11th September, 2017

- The auditor should also include their specific observation on these sample selected for verification along with the management responses. Post receipt of the replies from the branches, it is advisable for the auditor to include its concluding remark on these observations. The remarks should clearly state that whether these replies are to the satisfaction of the auditor or being taken to branch audit report or LFAR.

- The observation under the checklist should be linked to the comments in the LFAR wherever possible.

c. ***Documentation while verifying IRAC Norm (Non-Performing Assets):***

- This is second most critical area any bank branch audit wherein the auditor spends at least 30% of the total time. The audit process at this stage again involves sample selection and specific testing based on the auditor judgement. Like for e.g. an auditor may do 100% verification of all the Non-Performing Accounts more than Rs. 5 crores and do a test check verification for all the loans below such threshold limit.

- The auditor should also prepare a complete working for the NPA computation. In all the Public Sector Bank (PSB) an auditor is expected to certify various annexure on Non-Performing Assets (NPA). While certifying these annexures the auditor should ensure that the figures reported in these annexures are reconciling with the working prepared by the team.

- The auditor should also include details of Valuation Reports, Financial Statement etc. considered while computing the NPA Provision. The auditor may take the photocopies or the scan copies of these reports for the future reference.

- The auditor may sometime apply his/her professional judgement either in identifying an account as NPA or in evaluating the adequacy of the provision. The auditor should adequately document these judgments and prepare a proper note for the same. The auditor also obtain specific representation required from the Branch Management on any of these issues.

- In certain cases, the auditor may identify an account as NPA or suggest certain additional provisioning on the advances. The auditor should prepare a proper working for the same and keep this in the audit record.

- The auditor should document the discussion with the branch manager on the NPA accounts more particularly on high value advances.

- In many of these PSB's the identification and provisioning on the NPA's are through system, as per of the documentation the auditor is advised to compute the date of NPA based on the IRAC Norms and compare the same with the system date. The auditor should also keep the relevant system screen shot whenever necessary keeping the client confidentiality in mind.

d. ***Documentation for Other Areas of Audit & Certification of Annexures:***

- The audit of advances and the non-performing assets are the core areas of the audit in the bank branch audit. However, the auditor is also expected to audit the other areas of the bank to certify the true and fair view on the whole financial statement.

- The auditor should obtain adequate audit evidence for the other areas as well like for e.g. Cash Balance certificate along with Cash Balance Register, ATM balance, Fixed Asset verification reports etc.

- The auditor should also carry out the scrutiny of the Balance Sheet and Profit & Loss account to see any unusual item or any unusual trends. The auditor should direct its team member to carry out the variance analysis of the significant items of financial statement and should document the reason for the same. The auditor should also document the reason for any significant variation and should assess whether the same need to be brought to the attention of the bank's management.

- In most of the PSB's, the auditor has to certify various annexures pertaining to different areas such as Priority Sector Advances, Sensitive Sector Advances etc. Some of these annexures are directly relied upon by the Statutory Central Auditor (SCA's) at the time of issuing the consolidated certificate or for other provisioning purpose. The branch auditor should ensure that these annexures/ certificates issued by the auditor are properly supported with the documentary evidences. The auditor should carry out the audit of Priority Sector advances/ Sensitive sector advances on test check basis to check the correct classification of these advances.

- In certain cases, the branch auditor is required to issue certain certificate for certain benefits where there is a possibility that due to lapses on the part of the bank the ineligible customer may have received certain benefits. Like for e.g. Interest Subvention claims to the Farmers, the auditor should ensure that he/she has obtain appropriate documents to certify these certificate which at later stage may be subject to scrutiny by the Reserve Bank of India or any other Regulator.

e. *Documentation for Auditors' Report, LFAR & MOC's:*

- This is also one of the critical stage of the bank audit wherein the auditor finally concludes on all the points and issues a final report on the financial statement of the bank.

- The auditor should prepare a complete list of all the issues identified during the course of the audit across all the areas at the Branch. The auditor should incorporate the replies received from the branch management on each of these points.

- The auditor should include his/her conclusion on each of these points so as to indicate whether he/she is satisfied with the reply from the branch management or the issue need to be included in the auditors' report or the same will be reported in the LFAR.

- The above Master Sheet will help the auditor to have a complete control on all the points/observation raised and the way the same have been concluded. The format of the master sheet can be as follows:

Query No.	Area of Operation	Observation of BBA	Branch Reply	Conclusion	Reference point in LFAR/AR

- The branch auditor is also required to issue a Long Form Audit Report (LFAR), wherein the auditor is required to state many factual information like for e.g. Cash Retention Limit etc. It has been observed that the Branch Auditors do not keep the supporting documents for these comments in the LFAR. Hence it is advisable to the branch auditor to prepare a complete set of audit documentation for the LFAR.

- The auditor is also required to comment upon the advances beyond a certain threshold limit. These annexures are normally prepared by the bank's management; the auditor is required to give his/her comments. The auditor should keep the appropriate audit evidences for these comments and should also keep the supporting evidences for the same.

- In the PSB' branch audit, the audit adjustment entries are passed through Memorandum of Changes (MOC's) wherein the auditor need to suggest the changes like for e.g. Classifying an Account as NPA, Additional Provisioning on NPA Accounts, correction in the returns etc. These MOC's are normally dealt at Regional/Zonal office level.

- The auditors should keep all the appropriate documents/ relevant supporting for each MOC's suggested at the Branch. Like for e.g. if the MOC suggest classifying an account as NPA, the auditor should clearly document the reasons for the same. These evidences will be helpful to the auditor in replying any query either from the Head office/ Regional office or by SCA's at later stage.

- During the course of verification of security documents, the auditor may have observed that the security values are not appropriately accounted which require certain additional provisioning. It has been observed that the auditor suggests the MOC's for the same however fails to produce any proper working paper or supporting document for these additional provisioning.

f. *Documentation for Tax Audit u/s 44AB:*

- As part of the bank branch audit, the auditor is also required to carry tax audit u/s 44AB of Income Tax Act,1961. The format of the tax audit report and the relevant annexures are provided by the Head office to these branches.

- Out of the various clauses as per Form 3CD report, there are only 5 to 6 clauses are required to be audited at the bank branch level. Like for e.g. reporting u/s 40A(2)(b) under clause 23, CENVAT Credit details under clause 27 are not applicable at the bank branch audit.

- The auditor should clearly identify the areas/ clauses which need to be verified at the branch audit level and the auditor should prepare its audit documentation for those areas. The clauses which are not applicable to the bank branch, the auditor should include its remarks against each of these clauses.

- One of the important clauses to be verified at the bank branch level is clause 34 pertaining to compliance of TDS provisions. The auditor should prepare its own work paper to certified the information reported under this clause.

- In cases where in the opinion of the auditor, the branch management has not complied with the TDS provision the auditor should keep relevant necessary documents as part of it working paper.

g. *Conclusion:*

- The audit documentation for any audit is incomplete without obtaining the management representation letter. The branch auditor should obtain specific representation on the matters identified during the course of the audit. It has been observed that sometime the branch auditor does not obtain management representation at all or sometime obtain the representation on the matter which is significant audit area.

- The audit documentation is said to be the insurance paper for the audit firm and should be prepared with more diligence and care. The auditor should prepare these documentations on timely basis preferably during the course of the audit rather than after the end of the audit.

- At the end it is very famous saying which goes as follows:

> *"The skills of an accountant can always be ascertained by an inspection of his working paper."*
>
> **Robert H Montgomery**

Illustrative List of Minimum required documents in Bank Branch Audit file:

Stage of Audit	Minimum documents for Audit Documentation	Yes/No
(A) Appointment formality & Planning	- Appointment Letter from Bank; - Reply to Appointment Letter - NOC received from Previous Auditor - Partner/Proprietor declaration submitted to Bank - Audit Programme indicating the Areas Allocated *[Bank Branch Audit Programme in the GN on Bank Audit Can Be Considered as base]* - Details of Team Member indicating the experience *[to reflect the proper mix of Junior and Senior Staff]* - Agenda of Meeting with Branch Manager and Minutes of Meeting with the Manager	
(B) Verification of Advances:	- Loan book as on Cut-off Date along with List of New files sanctioned - Sample Selection work paper *[indicating the various parameter adopted for selecting the samples]* - Comprehensive Checklist of Verification of Advances - Issue Memorandum- Advances shared with Branch Manager	
(C) Verification of Non-Performing Assets	- List of NPA Accounts as on Cut-off date - Sample Selection work paper *[indicating the various parameter adopted for selecting the samples]* - NPA Provision Work paper - List of Diversion observed and List of Cases with inadequate Provision - Issue Memorandum- Advances shared with Branch Manager	
(D) Other Areas of Audit & Certification of Annexures	- Cash Balance/ ATM Balance/ Bank Balance with Other Bank certificates - Analytical Review of major items of Balance Sheet and Profit & Loss Account - Work paper listing Various Annexures/Certificates issued along with the work done and nature of audit evidences obtained against each of these certificates - Fixed Asset Verification Report - Issue Memorandum- Other Areas shared with Branch Manager	

Stage of Audit	Minimum documents for Audit Documentation	Yes/No
(E) Auditors' Report, LFAR & MOC's	- Master Sheet for all the query/observation raised in Branch Audit - Audit Evidences for the information/facts stated in LFAR - List of MOC's suggested at the Branch along with Supporting working/documentary evidences	
(F) Tax Audit u/s 44AB	- Working Paper/documentary evidence for verification of various clauses in Tax Audit report - Audit Evidence/documents supporting the comments made in the Tax Audit Report - List of Clauses not applicable/applicable at Head Office along with auditor's comments.	
(G) Final Annexures and Other Reports	- Final Signed Copy of the Financial Statement along with Auditors' Report - Signed copies of various annexures and certificates - Management Representation Letter	

❍❍

Summary of Important Circulars for Bank Branch Audit (FY 2020-21-PSB/SCB Bank Branch)

- **Brief Background:**

  The Reserve Bank of India (RBI) at frequent interval issues various circulars/notifications/guidelines applicable to all the regulated entities viz. Scheduled Commercial Bank's (SCB's), Regional Rural Banks (RRB's), Non-Banking Financial Companies (NBFC's) etc. These relevant guidelines can be obtained from www.rbi.org.in / Notifications/Master Circulars/Master Directions etc.

  In the earlier period, the RBI had a practice of issuing the Master Circulars on various subject matter in month of July every year. These Master Circulars were issued primarily for two reasons; (a) compiling all the relevant circular/notifications issued in the relevant period and (b) any new guidelines to be amended in the scope of the Master circular. However, this practice has been discontinued since few years and there is no ready source available to refer all the circulars issued in particular period on a particular subject matter.

  Hence, inclusion of such chapter compiling all the important circulars in this publication is important from the perspective of the Bank Branch Auditor.

- **Scope of the paper:**

  The paper deals with the circulars/notifications issued by the RBI other than the Master Directions/Master Circulars issued on various subject matters. The Master Circular and Directions can be referred on the RBI website. The listed circulars/notifications deal with the specific area of operation which are relevant from the perspective of the Bank Branch Auditor (BBAR).

  The paper also covers some brief audit procedures which can be performed while conducting the Branch Audit to verify the compliance of these circular. The paper covers all the relevant circulars issued between the periods 1st March 2020 to 28th February 2021. However, the paper excludes the COVID-19 circular which were relevant for FY 2019-20.

  The paper excludes from its scope the circulars/notifications which are mainly from the perspective of Statutory Central Auditors (SCA's) for e.g. Prudential Framework for Resolution of Stressed Assets (High exposure), Disclosure in the "Notes to Accounts" to the Financial Statements - Divergence in the asset classification and provisioning etc.

- **Summary of some important circulars issued by RBI:**

<table>
<tr><th>Subject</th><th>Brief details *</th></tr>
<tr><td>Priority Sector Lending - Lending by banks to NBFCs for On-Lending

Date: March 23, 2020

RBI Reference: - RBI/2019-20/179

FIDD.CO.Plan.BC.No.19/04.09.01/2019-20</td><td>As per earlier circular dated August 13,2019 the bank credit to registered NBFCs (other than MFIs) for on-lending will be eligible for classification as priority sector. This benefit is available to the banks subject to the following condition;

<table>
<tr><th>Class of Borrower</th><th>Limit on Lending by NBFC</th></tr>
<tr><td>Agriculture</td><td>For 'Term lending up to ₹10 lakh per borrower</td></tr>
<tr><td>Micro & Small enterprises</td><td>up to ₹20 lakh per borrower.</td></tr>
<tr><td>Housing</td><td>to ₹20 lakh per borrower.</td></tr>
</table>

The above benefit was available upto 31st March 2020. With the new circular, it has been decided to extend the priority sector classification for bank loans to NBFCs for on-lending for FY 2020-21.</td></tr>
</table>

Subject	Brief details *
	Role of BBAR: From previous year a specific certificate needs to be issued by the SCA's with respect to the correct classification of the loans under priority sector across various categories at the branches. The SCA's mainly audit the Top-20 branches of the banks and hence the compliance of the above need to be mainly verified by the bank branch auditor. The auditor should verify the compliance of the conditions laid down by the above circular on sample basis and also should inquire with the branch manager about the compliance of the same.
COVID19 Regulatory Package - Asset Classification and Provisioning Date: August 17,2020 RBI/2019-20/220 DOR.No.BP. BC.63/21.04.048/2019-20	The circular highlights that the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. Further, in respect of accounts in default but standard provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters.
COVID-19 – Regulatory Package Date: May 23, 2020 RBI/2019-20/244 DOR.No.BP. BC.71/21.04.048/2019-20	The main highlight of the circular is as follows: • To extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans/cash credit/overdraft; • to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021; • The conversion of accumulated interest into FITL and the changes in the credit terms permitted to the borrowers to specifically tide over economic fallout from COVID-19 will not result in asset classification downgrade **Role of BBAR:** The Branch auditor should review the compliance of the above and should ensure that the FITL converted out of interest has been repaid by 31st March 2021.
Credit flow to Micro, Small and Medium Enterprises Sector Date: July 02, 2020 RBI Reference: - RBI/2020-2021/10 FIDD.MSME & NFS. BC.No.3/06.02.31/2020-21	This circular notifies the new criteria for classifying the enterprises as Micro, Small and Medium enterprises. The new criteria will come into effect from July 1, 2020. Other important points of the circular are as follows: • The calculation of investment in plant and machinery or equipment will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961. [the Written Down Value (WDV) as at the end of the Financial Year as defined in the Income Tax Act and not cost of acquisition or original price] • In case of a new enterprise, where no prior ITR is available, the investment will be based on self-declaration of the promoter of the enterprise and such relaxation shall end after the 31st March of the financial year in which it files its first ITR.

Subject	Brief details *
	• Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification. In case of an upward change in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise will maintain its prevailing status till expiry of one year from the close of the year of registration. **Role of BBAR:** This is one of the significant development during the year for MSME segment. The branch auditor need to verify the compliance of these conditions. Considering the first year of implementation of the circular, there could be various interpretation issues may arise the auditor should consider them while determining the eligibility/ ineligibility of particular entity as MSME.
Ad-hoc/Short Review/ Renewal of Credit Facilities Date: August 21, 2020 RBI Reference: - RBI/2020-21/27 DoS.CO.PPG. BC.1/11.01.005/2020-21	This was an area of apprehension by the auditor as well as RBI and an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals. Considering the same, RBI has directed that banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons. Banks are also advised to capture all the data relating to regular as well as ad-hoc/ short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. **Role of BBAR :** This was and will be the area of debate in the bank audit. The management interpretation of the circular is different as compared to the auditor. The branch auditor should assess the cases of ad-hoc and short renewal during the year and should also check the history of the customer. Adhoc or short renewals are only an option provided to the banks in case of administrative difficulties and should not become a practice by itself. The cases of short renewals are higher in retail CC loans as against the corporate CC loans and hence the responsibility of the branch auditor is higher as compared to the SCA's.
Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances Date: August 06, 2020 RBI Reference: - RBI/2020-21/17 DOR.No.BP. BC/4/21.04.048/2020-21	Considering the COVID-19 situation, existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions (a) The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020; (b) The borrower's account was a 'standard asset' as on March 1, 2020. (c) The restructuring of the borrower account is implemented by March 31, 2021 (d) The borrowing entity is GST-registered on the date of implementation of the restructuring. **Role of BBAR :** This circular has extended the benefit to March 2021 from the earlier period. The audit process and verification remain similar to earlier period.

<table>
<tr><th>Subject</th><th>Brief details *</th></tr>
<tr><td>Resolution Framework for COVID-19-related Stress

Date: August 06, 2020

RBI Reference: -

RBI/2020-21/16

DOR.No.BP.
BC/3/21.04.048/2020-21</td><td>The RBI issued restructuring scheme to ease the effect of COVID-19 on the borrower across the sector. This circular list certain categories of borrowers / credit facilities shall not be eligible for a resolution plan under this framework.

Further, the reference date for the outstanding amount of debt that may be considered for resolution shall be March 1, 2020.

The circular further deals with following:

A. Resolution of Stress in Personal Loans

B. Resolution of Other Exposures

C. Asset classification and provisioning

D. Disclosures and Credit Reporting

Role of BBAR :

The branch auditor should evaluate the compliance of various conditions as listed in the above scheme. The auditor should also evaluate the effects of these changes as implemented in the system.</td></tr>
<tr><td>Long Form Audit Report (LFAR) – Review

Date: September 05, 2020</td><td>The RBI has issued new format of LFAR in following manner:

• Annex I for Statutory Central Auditors (SCA)

• Annex II for Branch Auditors

• An Appendix as part of Annex II for the specialized branches and

• Annex III on Large / Irregular / Critical accounts for branch auditors.

The revised LFAR formats are required to be put into operation for the period covering FY 2020-21 and onwards.

Role of BBAR :

The branch auditor should carefully go through the various changes or new clauses/questions added in the LFAR. The revised format of LFAR has only added new clauses. All the old clauses are continuing from previous year. Some of these clauses may require the branch auditor to perform certain additional audit procedure.</td></tr>
</table>

*(*Please refer full text of circular for more details and guidance)*

- **Conclusion:**

  The Government & the RBI has continued various relaxation in the form of additional days in past due criteria, interest subvention schemes for domestic as well export manufacture, restructuring scheme etc. The MSME borrowers accounts for approximately more than 50% of the advances at the branch, in light of the same the roles and responsibility of the branch auditor has increased further as compared to earlier period.

  The above are certain important circulars/notifications which should be looked at by the Branch Auditor with professional skepticism. The Bank Branch Auditor should also go through the circulars applicable to the specific branches such Foreign Exchange Branches etc. The auditor should also go through the relevant Master Circulars/Master Directions/Other Circulars issued by the Reserve Bank of India from time to time.

Wish you all a very Happy Season of Bank Branch Auditing!!!!!!!!!!!

❍❍

Important Finacle Commands

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
1	AALI	A/c Abnormal Limits/Details Inquiry
2	ABMR	Report of Accounts Below Min Balance
3	ACCBAL	Components of Account Balance Inquiry
4	ACDET	Account Balance Details
5	ACLI	Account Ledger Inquiry
6	ACI	Customer Accounts Inquiry
7	ACLPOA	Office Account Ledgers Print
8	ACLPCA	Customer Account Ledger Print
9	ACMP	Account Master Print
10	ACSP	Account Selection Print
11	ACTI	Account Turnover Inquiry
12	ACTODI	Account TOD Inquiry
13	ADVC	Print DR/CR Advice to Customer
14	AFI	Audit File Inquiry
15	AFINQU	Audit File Inquiry
16	AFP	Audit File Print
17	AICR	Advanced Interest Collected Report- Bills
18	AINTRPT	Interest Report for Accounts
19	AITINQ	Account Interest Details Inquiry
20	ALMSP	Agricultural Loans Master Sheet Print
21	ASTI	Amount-slab Table Inquiry
22	ATI	Abnormal Transactions Inquiry
23	ATMBRPT	Balances outstanding in MBBCASH001, ATMCASH001, ATMTEMP001 where balance not equal to ZERO.
24	BDTR	Bills due Today report
25	BEHI	Bills Events History Inquiry
26	BGCLOSE	Guarantee close register printing
27	BGPRINT	Guarantee printing
28	BI	Bills Inquiry
29	BICR	Bills Interest Collected Report
30	BICS	Bills Collection Schedule
31	BKTI	Bank Table Inquiry
32	BR	Balancing Report
33	BRBPR	Balancing report bills purchased
34	BRCR	Balancing report bills collection
35	BRRBPR	Bills Register Report - Bills Purchased

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
36	BRRCR	Bills Register Report - Collection Inward/Outward
37	BRTI	Branch Table Inquiry
38	CALLRPT 1	Call over Report for SB and CA Accounts
39	CALLRPT 2	Call over Report for CC and OD Accounts
40	CALLRPT 3	Call over Report for Loan Accounts
41	CALLRPT 4	Call over Report for TDA Accounts
42	CALLRPT 5	Call over Report for DD
43	CALLRPT 6	Call over Report for office Accounts
44	CALLRPT 7	Accounts with interest table code Zero.
45	CALLRPT 8	TDS details for a given Cust-Id
46	CALLRPT 9	Interest details for a given Sol-Id.
47	CALLRPT 11	Pay slip reconciliation/outstanding Report
48	CALLRPT 12	Interest certificate Only for TDR for a grievance.
49	CALLRPT 14	Inward Clearing File Generation
50	CALLRPT 15	Statement of Service Tax
51	CALLRPT 16	Statement of PPF Transactions
52	CALLRPT 17	BCTT Download for a Branch
53	CALLRPT 18	BCTT Consolidation for Zonal Offices
54	CBM	Customer Becoming Major
55	CHGIR	Charges Income Report
56	CHRGADV	Charge Advice Printing
57	CTI	Calendar Table Inquiry
58	CUACLI	Inquire on Your Account Ledger Entries
59	CUBI	Bills Inquiry
60	CULAC	Customer Accounts List
61	CULI	Customer Unutilized Limit Inquiry
62	CUMI	Customer Master Inquiry
63	CUS	Customer Selection
64	CUSTBALP	Printing of Customer Balances
65	DCEXPLST	Report on DC Expired
66	DCLIABRG	DC Liability Register
67	DCQRY	Document credit Query
68	DCQRYP	Documentary Credits Query Printing
69	DCREG	Documentary Credits Register Printing
70	DCRPTS	DC Reports and Advices
71	DDIC	DD Credits Inquiry
72	DDID	DD Debits Inquiry
73	DDII	Specific DD Issued Inquiry
74	DDIP	Specific DD Paid Inquiry
75	DDIR	DD Issue Reports

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
76	DDP A->	DD Issued Summary
77	DDP B->	DD Issued Register
78	DDP C->	DD Paid Summary
79	DDP D->	DD Paid Register
80	DDP E->	DD Cancellation & Rectification Summary
81	DDP F->	DD Cancellation & Rectification Register
82	DDP G->	DD Consolidated Summary
83	DDP H ->	All Summary A, C, E, G
84	DDP I ->	All Registers B, D, F
85	DDP J ->	All Summaries & Registers
86	DDP2 A ->	Drafts Issued Schedule
87	DDP2 B ->	Drafts Issued Register
88	DDP2 C ->	Drafts Paid Schedule (other than Ex-advice)
89	DDP2 D->	Drafts Paid Register (other than Ex-advice)
90	DDP2 E->	Drafts Paid Ex-advice Schedule
91	DDP2 F->	Drafts Paid Ex-Advice Register
92	DDP2 G->	Drafts Reversing Debits Schedule
93	DDP2 H->	Drafts Reversing Credits Schedule
94	DDP2 I->	Drafts A/c Schedule
95	DDP2 J->	All Schedules A, C, E, G, H, I
96	DDP2 K	All Registers B, D, F
97	DDP2 L	All Schedules & Registers J, K
98	DDPALL	Print all unprinted DDs
99	DDPRNT	Print a DD
100	DDREPRNT	Reprint a DD/ Print advice
101	DDXFER	Advice of Drawing Printing
102	DEPINT	Interest calculator for deposits
103	DEPMOD	Deposit Modeling
104	DRP	Deposits Receipt Print
105	DTCS	Display Tran Code Summary
106	DTR	Deposit Transactions Report
107	DUDRP	Deposits Receipt Print [Duplicate]
108	ECGCRPC	ECGC PREMIUM REPORT FOR RPC
109	EFI	Employee File Inquiry
110	EXCPRPT	Exceptions Report
111	FBADVP	FOREIGN BILLS ADVICE PRINT
112	FBBR	FOREIGN BILLS BALANCING REGISTER
113	FBCS	Foreign Bills Covering Schedule
114	FBECGC	ECGC PREMIUM REPORT FOR BILLS
115	FBHI	Foreign Bills History Inquiry

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
116	FBI	Foreign Bills Inquiry
117	FBP	Foreign Bills Printing
118	FBRPR	Reserve Payment Register
119	FI	Fate Inquiry
120	FOIQ	FAB Outward Clearing Instrument Inquiry
121	FTI	Financial Transactions Inquiry
122	FTR	Financial Transactions Inquiry & Report
123	FWCHI	Forward Contract History Inquiry
124	FWCLIAB	Forward Contract Liability Register
125	FWCODLST	List of Overdue and Matured FC
126	FWCQRY	Query on FC
127	GDET	General Deposits Details
128	GI	Guarantee Inquiry
129	GILR	Guarantees Issued cum Liability Register
130	GP	Guarantee Printing
131	GPI	Guarantee Parameters Inquiry
132	GSPI	General Scheme Parameters Inquiry
133	GURFIMU	Reference File Inquiry Menu
134	HACCBAL	Balance details of an Account
135	HACCDET	General Details
136	HACIMU	CRV - Account Level Menu
137	HACLHI	Limit Details
138	HACLI	Transactions Inquiry
139	HACS	Account Selection
140	HACTI	Account turnover details
141	HADVC	Print DR/CR Advice to Customer
142	HAITINQ	Account Interest Details Inquiry
143	HBKQRY	Bank Level Query Option
144	HCELI	Collateral Entity Linkage Inquiry
145	HCRVMU	Customer Relationship View- Main Menu
146	HCUACC	Accounts of Customer
147	HCUCA	Current Account of Customer
148	HCUCC	Cash Credit of Customer
149	HCUDET	General details of Customer
150	HCUIMU	CRV - Customer Level Menu
151	HCULA	Loan Accounts of Customer
152	HCUMAT	Forthcoming Maturities of Customer
153	HCUOD	Overdraft Accounts of Customer
154	HCUPSD	Portfolio details of Customer
155	HCUS	Customer Selection

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
156	HCUSB	Savings Account of Customer
157	HCUSEL	Customer Selection
158	HCUSUM	Summary details of Customer
159	HCUSWP	Sweep details of Customer
160	HCUTD	Term Deposits of Customer
161	HCUTI	Turnover Summary of Customer
162	HDCDET	Delivery Channel transaction details
163	HFTI	Financial Transactions Inquiry
164	HICI	Inward Cheques Inquiry
165	HII	Hot Items Inquiry
166	HINTCI	Interest Table Code Inquiry
167	HINTTI	Interest Rate Details Inquiry
168	HIOGLT	Inquire on GL Transactions
169	HIOT	Inquire on Transactions
170	HLAGI	Loan Account General Inquiry
171	HLAI	Loan Inquiry
172	HLAMOD	Loan Modeling
173	HLAOPI	Loans Overdue Position Inquiry
174	HLAPSP	Loan Account Pass Sheet Print
175	HLARSH	Loans Repayment Schedule Report
176	HM	Help Maintenance
177	HOCI	Outward Cheques Inquiry
178	HOCIP	HOC Inquiry cum BA(R) Print
179	HODBCH	Bill and Collection History Details
180	HOIQ	Outward Clearing Instrument Inquiry
181	HOPQ	Outward Clearing Pattern Inquiry
182	HPARTINQ	Inquiry on Partitioned Account
183	HPBP	Passbook Print
184	HPSP	Pass Sheet Print
185	HRTHQRY	Rate list History Query
186	HTD	Term deposit transaction details
187	HTDINT	Term deposit interest details
188	HTDSIP	TDS Inquiry & Printing
189	HTDTAX	Term deposit tax deduction details
190	HTFIN	Customer Trade Finance Inquiry
191	HTINQ	Hot Items Lookup
192	HTODCS	TOD Criteria and Selection
193	IBADVP	Customer Advice Inland Bills
194	IMI	Inventory Movement Inquiry
195	IMR	Inventory Movement Report

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
196	INQACHQ	Inquire Account Number for a Cheque
197	INTCERT	Interest Certificate Print
198	INTSI	Interest Slab Inquiry
199	INTTI	Interest Table Inquiry
200	IOCLS	Inquire On Clearing Transaction Sets
201	IOGLT	Inquire on GL Transactions
202	IOT	Inquire on Transactions
203	ISAR	Inter Sol Audit Report
204	ISI	Inventory Inquiry Split and Merge-EM
205	ISIA	Inventory Inquiry Split and Merge
206	ISTR	Inter Sol Transaction Report
207	ITCI	Interest Table Code Inquiry
208	ITI	Instruments Table Inquiry
209	LAGI	Loans General Inquiry
210	LAITCI	Loan Interest Table Code Inquiry
211	LAOPI	Loans Overdue Position Inquiry
212	LAPSP	Loan Account Pass Sheet Print
213	LLIR	Limit Liability Inquiry/Report
214	LNDI	Limit Node Details Inquiry
215	LNHTIR	Limit Node History/Tran Inquiry/Report
216	LNI	Limit Node Inquiry
217	LVSI	Loan Interest Version Slabs Inquiry
218	MNTPST	Maintain PST Table (Modify & Inquiry)
219	NEWOLDAC	New Old Account
220	OIQ	Outward Clearing Instruments Inquiry
221	OPQ	Outward Clearing Part Tran Inquiry
222	OTRINQ	Offline Transaction Inquiry
223	PARTINQ	Inquiry on Partitioned Account
224	PBP	Pass Book Print
225	PCLSO	Print Clearing Schedule
226	PDADI	Past Due A/c Details Inquiry And Report
227	PDML	Print/Display Media List
228	PENDDRP	Pending Deposits Receipt Print
229	PHINQ	Inquiry on History of Partition A/c
230	PICS	Print Inward Clearing Schedule
231	PICW	Print Inward Clearing Waste
232	PLIST	Pending Installments List - Recurring Deposits
233	PLR	Party-wise Liability Register for PC
234	PRR25	PRR25 Report of rejected cheques
235	PRR38	Statement of Daily Cash Position

SRN	COMMANDS	FUNCTIONS OF FINACLE MENU
236	PRRTL	Rate list Printing
237	PRTINQ	Print Queue Inquiry
238	PSR32	Sanction Limits for Accounts based on Sector &Sub- sector codes
239	PTW 1	Full Transfer Waste
240	PTW 12	System Generated Transactions
241	PTW 2	Only Verified Transaction
242	PTW 3	Only Unposted Transaction
243	PTW 4	Only Unverified Transaction
244	QBR	Quick Balancing Report
245	RBTI	Register Table Balance Inquiry
246	RDD	Rate-wise Distribution of Deposits
247	REDRP	Reprint Deposits Receipt
248	REJREP	Rejected Instruments Report/Advice
249	RENHIST	TD Renewal History Details
250	RINTINQ	Interest Inquiry for RPC Accounts
251	RINTRPT RPC	Account Interest Report
252	RPCRPT RPC	Account Report
253	RRCDI	Reference Code Inquiry
254	RTHQRY	Rate list History Query
255	SCWRPT	Shroff Cash Report
256	SDD	Scheme-wise Distribution of Deposits
257	SEL	Superseding Expired Limits
258	SIETR	SIs Executed Today Report
259	SII	Standing Instructions Inquiry
260	SIRP	Standing Instructions Register Printing
261	SMI	Swift Messages Inquiry
262	SPRG	Stop Payment Register
263	TCPI	Teller Wise Cash Position Inquiry
264	TCPIA	Teller Wise Cash Position Inquiry / All
265	TDSIP	TDS Inquiry & Printing
266	TEI T	Transactions Exceptions Inquiry
267	TI	Transactions Inquiry
268	TODCS	TOD Criteria and Selection
269	TODRP	TOD Register Printing
270	TRANINQ	Tran Inquiry
271	TRANLIST	Tran list display
272	TRTRI	Treasury Transaction Report and Inquiry
273	TVSI	Term Deposits Interest Slabs Inquiry
274	VCHR	Print DR/CR Voucher

MOTTO

य एष सुप्तेषु जागर्ति कामं कामं पुरुषो निर्मिमाणः ।
तदेव शुक्रं तद् ब्रह्म तदेवामृतमुच्यते ।
तस्मिंल्लोकाः श्रिताः सर्वे तदु नात्येति कश्चन । एतद् वै तत् ।।

Ya eṣa supteṣu jāgarti kāmam kāmam purūṣo nirmimāṇah I
Tadeva śukram tad brahma tadevāmṛtamucyate I
Tasminlokāh ṣritāh sarve tadu nātyeti kaścan I Etad vai tat II

That person who is awake in those that sleep, shaping desire after desire, that, indeed, is the pure. That is Brahman that, indeed is called the immortal. In it all the worlds rest and no one ever goes beyond it. This, verily, is that, kamam kamam: desire after desire, really objects of desire. Even dream objects like objects of waking consciousness are due to the Supreme Person. Even dream consciousness is a proof of the existence of the self.

No one ever goes beyond it: of Eckhart: ‘On reaching God all progress ends’.

Source: Kathopanishad