



Wester India Regional Council of ICAI

Webinar on Statutory Audit of Bank Branches

Audit Planning, Documentation & Certification

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Agenda

Audit Planning

Audit Documentation

Report Writing

Certification & MOC



Objective



Compliance with:

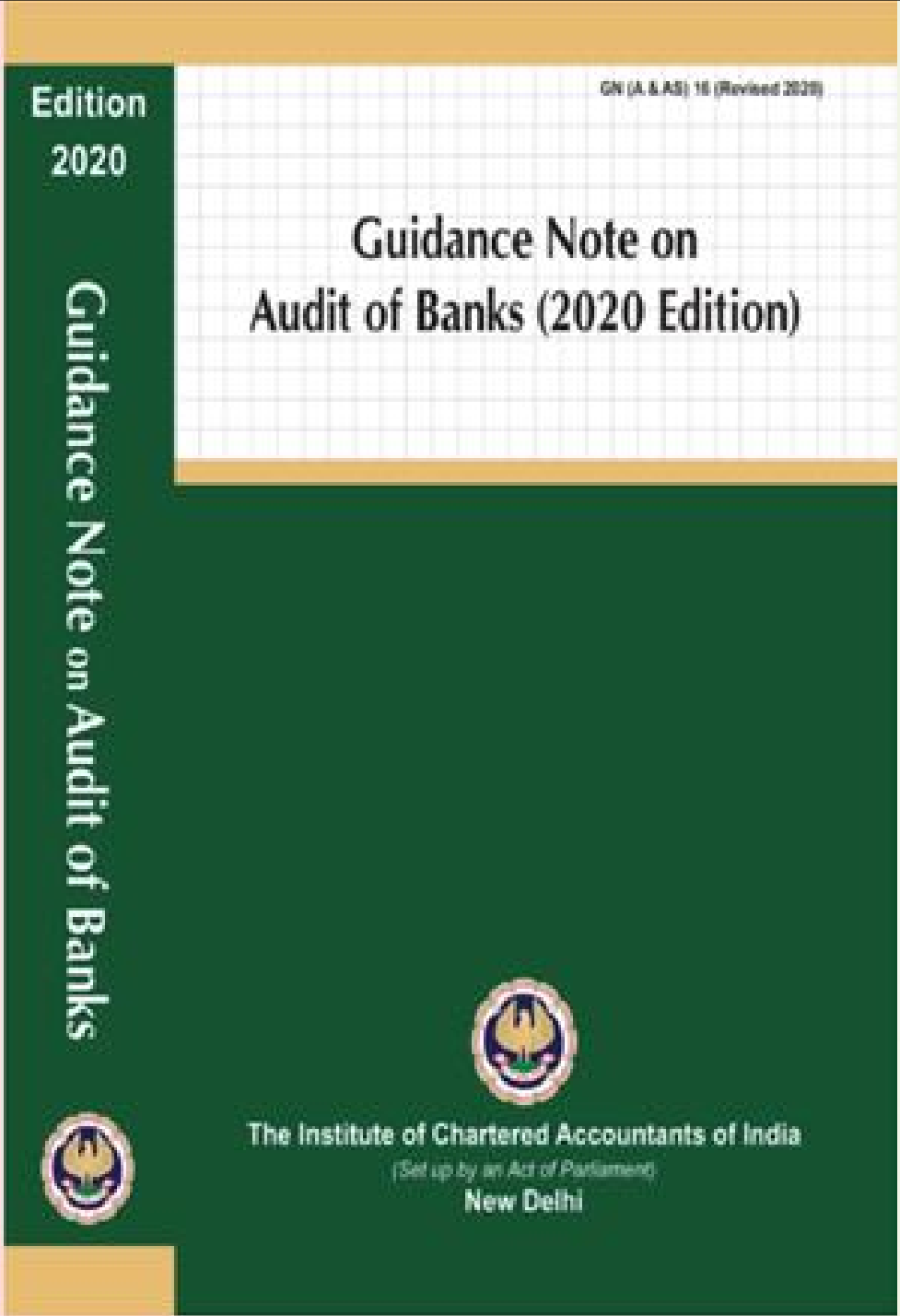
- RBI / ICAI Guidelines**
- Terms of Appointment**
- Accounting Standards**
- Standards on Auditing**

Other Certification work

Effective Reporting

Completion of Work in Time

Read and Follow



Branch Audit

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RBI Circulars 2019 - 2020

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**Covered RBI Circulars hosted on website till
31.03.2020**

Total 276 Circulars issued by RBI

Source – www.rbi.org.in

[Skip to main content](#)

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Language [हिंदी](#)



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- Notifications
- Master Directions
- Master Circulars
- Draft Notifications/ Guidelines
- Index to RBI Circulars

INDEX TO RBI CIRCULARS

RBI Circulars March - 2020

Circular Number	Date Of Issue	Department	Subject	Meant For
RBI/2019-2020/204 DoR.Appt.No.58/29.67 .001/2019-20	31.3.2020	Department of Regulation	Appointment of Managing Director and Chief Executive Officer (MD & CEO) / CEO / part-time Chairperson (PTC) in Banks – 'Declaration and Undertaking' and allied matters	All Private Sector Banks (including Local Area Banks, Small Finance Banks, Payments Banks) and Foreign Banks operating in India
RBI/2019-2020/203 DOR.CO.Leg.BC.No.5 9 /09.07.005/2019-20	31.3.2020	Department of Regulation	Doorstep Banking Services for Senior Citizens and Differently Abled Persons	All Scheduled Commercial Banks (including RRBs) All Payments Banks All Small Finance Banks All Local Area Banks
RBI/2019-2020/202		Financial Inclusion and	Short Term Crop Loans eligible for Interest Subvention Scheme	The Chairman/Managing Director/Executive Officer All Public & Private Sector

- 2020
 - All Months
 - January
 - February
 - March**
 - April
 - May
 - June
 - July
 - August
 - September
 - October
 - November
 - December
- 2019
- 2018
- 2017
- 2016
- 2015
- 2014
- 2013
- 2012
- 2011
- Archives

Ground Work at Office

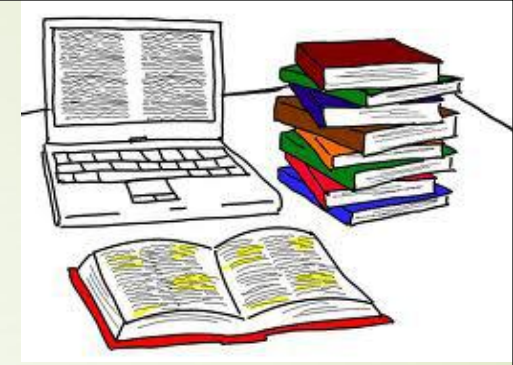
Preliminary Work

Evaluation of Internal Controls

Prepare Audit Program

Overall Time & Manpower Planning

Laying Overall Audit Plan





Audit Planning

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Applicable Act for the Bank

Appointment Letter / Acceptance Letter

Closing Manual of Bank

NOC of Previous Auditor.

Audit Engagement Letter.

Basic Information from branch.

Audit Program / Checklist

Study RBI Circulars

Attend Trainings / Webinars

Have knowledge of current affairs

Standards on Auditing

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SA 200 – Basic Principles Governing Audit.

SA 230 – Audit Documentation

SA 500 – Audit Evidence

SA 400 – Risk Assessment and Internal Control

SA 300 – Audit Planning

SA 220 – Quality Control for Audit Work

SA 299 – Joint Audit of Financial Statements

SA 310 – Knowledge of Business

SA 600 – Using work of another auditor

Knowledge about CAAT tools



Audit Planning

Have knowledge of the:

- **Economy**
- **Banking Industry**
- **Government Policies**
- **Rules & Regulations applicable to the Bank**
- **Products handled by Bank**
- **Complexities involved**
- **Applicability of Accounting Standards**
- **Applicability Auditing and Assurance Standards.**
- **FEDAI Guidelines**



Audit Program



Define broadly the scope of audit.

Include Certificates in main audit plan.

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 – extra focus.

**Physical verification of cash and other securities /
Sensitive Accounts**

**Frauds / Sundry Assets / Suspense Account / Inter
Branch reconciliation**

Contingent Liabilities

Contingent Liabilities not acknowledged

Work at Branch

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“First hand feel” of Branch:

- Previous Years Audited Return**
- Concurrent Audit Report.**
- Internal Inspection Report.**
- RBI Inspection Report.**
- Various Other Audit Reports**
- Review Compliance of these Reports.**



Audit Execution



SA 320 – Audit Materiality

SA 520 – Analytical Procedures

SA 530 – Audit Sampling

SA 220 – Quality Control For Audit Work

Analyse and Evaluate the errors in samples selected

Get the rectification / MOC Passed

Work as per Audit Program and schedule

Prepare reports according to requirement

Qualify in Audit Report if necessary

Audit Trail

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- ➔ **Manual Registers / Records**
- ➔ **Core Banking Solution CBS**
- ➔ **Lack of Adequate Information**
- ➔ **Lack of Adequate Knowledge of system**
- ➔ **Lack of audit Trail**



AUDIT TRAIL

Early Warning Signals

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**

Early Warning Signals

- 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**

Early Warning Signals

- 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 devolvment 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**

Early Warning Signals

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- 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.**

Early Warning Signals

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- 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.**

Early Warning Signals

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- 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.**

Early Warning Signals

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- 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.**

Reporting

SA 700 – unmodified report

SA 701 Key Audit Matters

SA 705 Modification to Opinion

SA 706 Emphasis of Mater / Other Matter

SA 720 Other Information

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.

**Illustrative Format Bank Audit Guidance Note
2019**

Memorandum of Changes – MOC

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Memorandum of Changes (summary)			
	No.	Increase	Decrease
In respect of Income			
In respect of expenditure			
In respect of Assets			
In respect of Liabilities			
In respect of Gross NPAs			
In respect of Provision on NPAs			
In respect of Classification of Advances			
In respect of Risk Weighted Assets			
Other items (if any)			

Long Form Audit Report

Internal control evaluation questionnaire

Comprehensive in scope and coverage

Covers Balance Sheet & Profit & Loss A/c

Important check list for Audit Plan

LFAR Audit Approach

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Read All questions in LFAR

Plan & Design Audit Program to cover all aspects of LFAR

Prepare separate checklists for each point to be reported.

Record the extent of checking / sample selected.

Proper documentation & collecting SAAE during the audit.

Write descriptive answers. Avoid Y/N/NA

Include facts, figures and examples to the extent possible in all answers to the questions.

LFAR Audit Approach

Observations resulting in adjustments to account heads needs to be reported along with MOC

Discuss the contents of report with Branch Management

Obtain Management Representation from Branch Manager on various matters based on Audit.

LFAR is an independent report, hence do not give cross reference or qualifications or MOC in LFAR.

It's a very important report for readers such as SCA and Management of Bank.

Other Certificates

Audit Report is a reasonable Assurance

Audit Certificate is Absolute Assurance

Types of Certificates

- **Branch Returns**
- **Audit Reports**
- **Memorandum of Changes**
- **LFAR**
- **Tax Audit Reports**
- **Jilani & Ghosh Certificate**
- **Other Certificates**

Other Certificates

Capital Adequacy – BASEL I, II, III

DICGC Claims

PMRY Certification

Service Tax

Cash Balance 12 odd days

Investment on Behalf of Head Office

Agricultural Debt Relief

Maturity Pattern of Loans & Advances

Fixed Assets & Depreciation

Interest Subvention

(Exports/ Agriculture)

Other Certificates

IRAC / NPA Related Certificates

Interest Subvention

Restructured Advances

Foreign Currency Assets & Liabilities

Guidance Note for Certificates

Make use of Guidance Note on Reports or Certificates for Special Purpose (Revised 2016) issued by ICAI in September 2016.

Use Disclaimers in reports / certificate such as Ghosh and Jilani Certificates as suggested by Guidance note on Audit of Banks (Revised 2019) issued by ICAI.

Verification of Certificates

Plan the work along with Audit

Audit Program to include Certificates

Verification of data / information is must

Decide the % of testing

Mention the test check on Certificates by preparing report as suggested in GN

Prepare documentation for each certificate signed

Mention 1 UDIN for all certificates for 1 Branch

Questions

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