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Concurrent Audit System - Bank's

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Concurrent Audit System - Bank's

- **Regulatory Guidelines**
- **Applicability & Coverage**
- **Opportunities for CA's – Practicing or Industry Member's**

RBI Guidelines :

RBI/2019-20/64 DBS.CO.ARS.No.BC.01/08.91.021/2019-20

September 18, 2019 – Concurrent Audit System

- **Applicable** - All Scheduled Commercial Banks (other than Regional Rural Banks), Small Finance Banks, Payments Banks and Local Area Bank

RBI Guidelines : RBI/2019-20/64 DBS.CO.ARS.No.BC.01/08.91.021/2019-20 September 18, 2019

Coverage

- The **scope of work** to be entrusted to concurrent auditors, **coverage of business/branches**, etc. is left to the **discretion of the head of internal audit of banks**, with the **due prior approval of the Audit Committee of the Board of Directors (ACB)/Local Management Committee (LMC)** in case of foreign banks) of the bank.
- Banks may, however, ensure that **risk sensitive areas** identified by them as per their **specific business models** are covered under concurrent audit. The **detailed scope** of the concurrent audit may be determined and **approved by the ACB/LMC**. The broad areas of coverage under concurrent audit shall be based on the identified risk of the unit and must include **random transaction testing of sufficiently large sample of such transactions** wherever required. **Minimum areas of coverage are given in Annex.**

RBI Guidelines : [RBI/2019-20/64 DBS.CO.ARS.No.BC.01/08.91.021/2019-20](#) September 18, 2019

Coverage contd.. Annex- Minimum areas of coverage under Concurrent Audit

- 1. Cash transactions including physical verification of cash, etc.
- 2. Loans & Advances including physical verification of securities, delegation of Powers for sanction, Security Charge Creation, end use verification of funds, monitoring of accounts with excess drawings, monitoring of projects, etc.
- 3. Adherence to KYC / AML guidelines including monitoring of transactions in accounts, compliance with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS), monitoring of transactions in new accounts/staff accounts, reporting of CTR/STR, etc.
- 4. Remittances/ Bills for Collection including SWIFT transactions, monitoring of overdue statements (bills purchased / discounted / negotiated, etc.).
- 5. House Keeping including reconciliation of accounts, monitoring of General Ledger/Subsidiary General Ledger/Parking Accounts, opening of internal accounts, etc.

RBI Guidelines : RBI/2019-20/64 DBS.CO.ARS.No.BC.01/08.91.021/2019-20 September 18, 2019

Coverage contd.. Annex- Minimum areas of coverage under Concurrent Audit

- 6. Treasury operations.
- 7. Non fund based business.
- 8. Foreign Exchange transactions.
- 9. Clearing transactions.
- 10. Verification of Merchant Banking Business.
- 11. Verification of Credit Card / Debit card business.
- 12. Conduct of employees, mis-selling of products, etc.
- 13. Compliance to RBI guidelines and internal Policy guidelines issued from time to time

Appointment of Auditor

- The option to consider whether concurrent audit should be done by **bank's own staff or external auditors** (which may include retired staff of its own bank) continues to be **left** to the **discretion of individual banks**.
- The head of internal audit in the bank should participate in selection of concurrent auditors where such function is outsourced and should be responsible for the **quality review (including skills of the staff employed)** of the work of the concurrent auditors reporting to her/him. It may, however, be ensured that if any partner of a Chartered Accountant firm is a Director on the Board of a bank, no partner of the same firm should be appointed as concurrent auditor in the same bank.
- In case the bank has engaged its own officials as concurrent auditors, they should be experienced, well trained and sufficiently senior. The staff engaged in concurrent audit must be **independent of the branch/business unit**, where concurrent audit is conducted.

Accountability

- If external firms are appointed and any **serious acts of omission** or commission are noticed in their working, their appointments may be cancelled after giving them reasonable opportunity to be heard and the fact shall be reported to ACB/ LMC of the bank, RBI and ICAI
- The bank should frame a **policy for fixing accountability** in cases of serious acts of omission or commission noticed in the working of bank's own staff or retired staff, working as concurrent auditors.

Tenure, Remuneration

- ACB/ LMC of the bank shall decide the maximum tenure of external concurrent auditors with the bank. Generally, tenure of external **concurrent auditors** with a bank shall not be more than **five years on continuous basis**. Further, the age limit for retired staff engaged as concurrent auditors may be capped at 70 years. However, no concurrent auditor shall be allowed to continue with a **branch/business unit for a period of more than three years**.
- The **remuneration** to be paid to external concurrent auditors shall be **decided by the ACB/ LMC of the bank**. The remuneration shall be commensurate with the scope and coverage of audit, skill sets required, number of staff required and the time to be devoted for the audit.

Review of effectiveness, Reporting System

- **ACB/ LMC** of the bank should **review the effectiveness** of the Concurrent Audit system as well as the performance of the concurrent auditors on an **annual basis** and take necessary measures to suitably strengthen the system.
- **Banks' Internal Audit Department** should develop a **reporting system** for concurrent auditors with the approval of ACB/LMC.
- A **quarterly review** containing important features brought out during concurrent audits **should be placed before the ACB/LMC**. The zone-wise findings of concurrent audit may be reported to ACB/LMC on a quarterly basis
- Whenever **fraudulent transactions** are detected, they should **immediately be reported** to Internal Audit Department (Head Office) as also to the Chief Vigilance Officer as well as Branch Managers concerned (unless the branch manager is involved)

RBI Master Direction :

RBI/DBR/2015-16/18 Master Direction DBR.AML.BC. No.81/14.01.001/ 2015-16 Updated as on May 04, 2023

- **Applicable** - The provisions of these Directions shall apply to every entity regulated by Reserve Bank of India, more specifically as defined in 3 (b) (xiii) below, except where specifically mentioned otherwise.
- **Coverage** - Concurrent/internal audit system to verify the compliance with **KYC/AML policies and procedures**. Submission of quarterly audit notes and compliance to the Audit Committee.

RBI Guidelines :

RBI/2020-21/37 Ref. No. DoS.CO.PPG./SEC.03/11.01.005/2020-21 September 14, 2020 - Automation of Income Recognition, Asset Classification and Provisioning processes in banks

- **Applicable** - All Scheduled Commercial Banks (other than Regional Rural Banks), Small Finance Banks,
- **Coverage** – Banks shall not resort to **manual intervention / over-ride in the System** based asset classification process. In any exceptional circumstance where manual intervention is required to override the System classification, it must have at least two level authorisation. Such delegation of powers for authorizing the exceptions should be as per the Board approved policy of the bank (by CEO, in case of unavailability of Board) and preferably should be done from the centralised location and suitably documented. Further, any such intervention shall have appropriate audit trails and **subjected to audit by concurrent** and statutory auditors. **Detail reports of such manual intervention shall be placed before the Audit Committee / Audit Head** (banks having no Board) regularly.

RBI Guidelines :

RBI/2020-21/27 DoS.CO.PPG.BC.1/11.01.005/2020-21 August 21,2020 - Ad-hoc/Short Review/Renewal of Credit Facilities

Applicable - All Scheduled Commercial Banks (other than Regional Rural Banks), Small Finance Banks, All Urban Cooperative Banks

Coverage – RBI reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and banks should avoid frequent and repeated adhoc/short review/renewal of credit facilities without justifiable reasons. Further, the **processes governing review/renewal of credit facilities** should be brought under the scope of **concurrent/internal audit/internal control mechanism** of banks with immediate effect.

RBI Instruction :

RBI instruction to Controlling Officer dated July 29, 2019 – Verification of Currency Chest Balances by Concurrent Auditors

- **Applicable** – All Bank's having Currency Chest
- **Coverage** – Reporting of Currency chest transactions in the E-Kuber system. All daily currency chest transactions (Deposit/Withdrawal/Remittance/Diversion/opening-closing balances) should be verified by Concurrent Auditors of the bank on weekly basis.

RBI Instruction :

RBI instruction to Chairman /MD /CEO dated July 17, 2019 – Opening & Operations in Internal / Office Accounts

- **Applicable** - All Scheduled Commercial Banks (other than Regional Rural Banks), Small Finance Banks, Payments Banks
- **Coverage** – Ensure proper control over the opening and operation of internal (office) accounts. It includes reconciliation, tracking, purpose, long pending entries etc.

RBI Risk Based Supervision :

RBI may suggest concurrent audits through Risk Based Supervision

- **Value dated transaction**
- **Swift Reconciliation**
- **Priority Sector Lending**

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

IFSCA/2022-23/GN/GLO01.—International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 dated 28th October, 2022

- **Applicable** – All the Gift City Unit Branches of Banks
- **Coverage** – Regulated Entity's AML/CFT framework should be subjected to **periodic audits**. Such audits should be performed **not just on individual business functions but also on a Regulated Entity-wide basis**. Auditors should assess the effectiveness of measures taken to prevent ML/TF.

CDSL & NSDL Guidelines :

- **CDSL** - CDSL/AUDIT/DP/POLCY/2022/189 April 01, 2022
- **NSDL** - Circular No.NSDL/POLICY/2022/136 October 03, 2022

- **Applicable** – All depository of CDSL or NSDL respectively
- **Coverage** – DP Operations

Critical Areas under Concurrent Audit System

- **Treasury Operations**
 - **Credit Audit Wholesale Banking, SME, Retail Assets, Micro Finance**
 - **Retail Assets Operations Process**
 - **Priority Sector Lending Classification and Monitoring**
 - **Central Processing Centre – Trade Finance activity**
 - **Big Volume Retail Liabilities Branches & High risk branches classified under Internal Audit**
 - **Cash Management System (CMS)**
 - **Central Processing Unit – Account Opening KYC & related data point checking**
 - **AML Audit & Mis-selling of Products**
 - **Central Processing Clearing Activity**
 - **Internal Office Accounts**
 - **Gift City Branch**
 - **Currency Chest**
 - **Swift Reconciliation**
 - **Value dated transactions**
- Depository Operation, Portfolio Investment Scheme (PIS)**

Pointer for Robust Implementation of Bank's Concurrent Audit System

- **All Regulatory guidelines mandating areas / activities / units under Concurrent Audit (CA)**
- **Banks Guidelines / Product Program or Policy / Processes mandating CA**
- **Bank's may have separate Concurrent Audit Policy**
- **Annual Review on Risk sensitive areas identified by the bank's Head Audit as per specific business models of the bank; such units will be covered under concurrent audit**
- **Audit Scoping / Checklist / Sampling methodology for areas/activities/units under CA**
- **Design Standard Audit Report format**
- **Standard and legal vetted empanelment letters and Service level agreement or terms and conditions**
- **Proper infrastructure support to CA like computers, seating arrangements, mails etc.**
- **Review of draft reports and audit work of CA.**
- **Comprehensive Tracker to for reports tracking, fees, legal documents, 5 and 3 years limitation, Software ID and password**

Audit Committee of Board – Approval for empanelment's, fees, scoping and quarterly reporting on final outcome

ICAI Publication :

- **Manual on Concurrent Audit of Banks (2016 Edition) October, 2016**
- **Guidance Note on Audit of Banks (2023 Edition) March, 2023**



Thank You

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