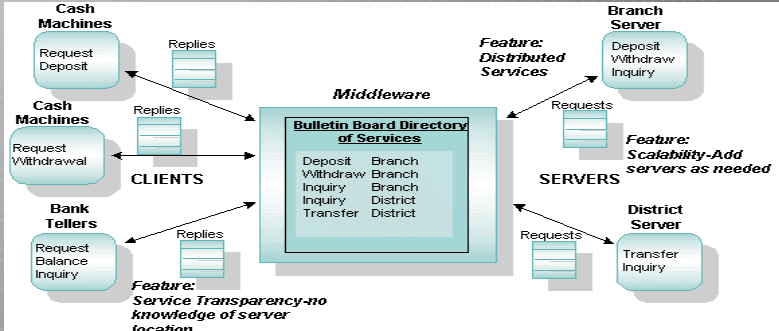




Statutory Audit of Bank Branches - Auditing through CBS



March 17, 2013



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Banks and CBS



- Computerisation in banks has come a long way from manual processes:
 - Ledger posting machines
 - Dispersed desk top computing
 - Supported by end user applications
 - Softwares for banking operations at branches
 - Client – server technologies
 - Exception reporting
 - Centralised banking solutions or Core Banking

Core Banking Solutions



- Server at a central location
- Connectivity to all banking locations
 - Branches
 - ATMs
 - Internet
 - Mobile
- Transaction recorded onto the central server
- Report generations controlled centrally

Banks & CBS...



- For the short timelines available for audit what banks tell us:-
 - CBS is a wonderful tool with transactions captured & processed seamlessly
 - Automated calculations
 - Closing statements generated from CBS
- Can we rely on this information and complete the audit in the short time available?

So to do that, what do we need to know?



- How the CBS is implemented
- What controls are in place to ensure that the CIA principle works unfettered in the bank
 - Confidentiality
 - Integrity

And we have to remove the bogey of not being “IT Smart” and use IT for using our auditing principles

Our basic material for evaluating computerized environment



- SA 315 → Identifying and assessing Risks of Material Misstatement through understanding the Entity and its environment
 - Controls over IT Systems are effective if they maintain the integrity of information and security of data
- Refer Guidance Note on Audit of Banks
 - General guidance on controls in CIS environment

S specific guidance

First steps at the branch



- Take two interviews:-
 - Systems in charge / System Executive (SE)
 - Branch Manager
- Obtain an overview of the systems
 - Software
 - Hardware
 - Network configurations
- Ask the SE of his perception of CIA principle in branch

First steps at the branch...



- SE's views on the questions in the LFAR
- Take written and oral representations that:-
 - System is implemented as designed
 - No modifications are made to the system
 - All problems faced during implementation / upgradation / migration & thereafter are resolved
 - Problems faced have not affected the confidentiality, integrity & availability of data

First steps at the branch...



- Now meet the branch manager & take his view on information gathered from the SE
- Specifically inquire of his methodologies about
 - EOD / SOD process
 - Sign off on MIS & exception reports
 - Any additional responsibility due to implementation of CBS & whether it affects the branch banking business

Some key audit processes



- Access Control Matrix
 - Peruse and inquire whether it matches with users at the branch
 - Satisfy yourself that users in the Branch are aware of the importance of access controls
 - User management
 - Creation / Modification / Deletion / Restoration
 - Inquire whether logs of unauthorised access are available at branch / data centre

Access control matrix - sample



		OBJECTS										
		A	B	C	D	E	F	G	H	J	K	L
Group 1	Alex	W	W	W	R	R	R	R	R	R	R	R
	Brook	R	W	W	R							
	Chris	R	W	W	R	R						
	Denny	R	W	W	R	W	R					
Group 2	Eddie	R	R	R	W	W	W					
	Fran	R	R	R	R	W	W					
Group 3	Gabriel	R	R	R			R	W	W	R		
	Harry	R						W	W	R	R	R
	Jan							W	W	W		
Group 4	Kim	R									W	W
	Lee	R									W	W
	Meryl	R									W	W

Notes:

R Read

W Write and read

Some key audit processes...



- Transaction logs
 - Serial control over all transactions without manual intervention
 - Peruse logs of “heavy days”
- Reports from CBS
 - For business / monitoring / audit & inspection / regulatory reporting
 - For exception transactions

Some key audit processes...



- Access to CBS
 - Request for an independent read alone access
 - In case it is not given, decide whether any reference needs to be made in the audit report / LFAR

- Queries on the database
 - Use the help and expertise of the SE to run queries & generate information needed for the audit

Income – Interest



- Interest rate parameters are controlled centrally
- Obtain list of transactions where interest rate has been entered by branch management
- Ensure that such entry and authorization is as per Access Control Rules
- Review process of interest rate modifications in similar manner
- Test check a few interest calculations

Income – Charges



- As in case of interest rate, parameters for other charges are controlled centrally
- Ensure that the software relates the transaction with the income to be applied
 - Bank Guarantee / LC and its Commission / Charges
 - ATM / Credit Card charges
 - Charges for miscellaneous transactions
 - Number of debits

Advances



- Verify data entry of new sanctions into the CBS
 - Rate of Interest
 - Date of sanction
- Inquire whether loan documentation is controlled through the system
 - If so, whether system prompts for the same
- Whether system prompts for renewals

NPAs



- Inquire whether system identifies NPAs and reverses income
- Check paramterisation of system to identify NPAs:-
 - Defaults in excess of 90 days principal repayment or continuously overdrawn
 - Interest not fully serviced
 - Sanction limit expired and account not renewed
 - Packing credits defaults – running account
- Certain accounts not NPAs
 - Account with credit balance or not outstanding amounts

NPA's...



- Potential NPA → Audit list of defaults nearing but not exceeding 90 days
- Peruse list of customers / accounts with high credits within last week / fortnight of March
- Identify whether there are heavy withdrawals in first week / fortnight of April of customers / accounts in this list
- One customer – one classification
- Upgradation of account
 - Balance within limits

Deposits & Interest thereon



- Ensure proper parameterization of deposit schemes and interest thereon
- Trace a sample of transactions
- Verify calculations of interest expenditure in few cases
- Review process of pre-mandated transactions and whether they have happened as per the mandate
 - Auto sweep account

Office Accounts



- Review various office accounts
 - Suspense
 - Sundry Deposits
 - Inter branch
 - ATM Suspense
 - Rupay Cards
 - Cash Management
- Audit list of outstanding items
- Inquire whether frauds have occurred using

Retail banking & payment systems



- Review process of mobile banking
- Payment gateways
- Aadhaar based payments
- Internet banking
- Special reports generated for clients who have large retail customers
 - Insurance companies / online shopping

Financials Review



- Process of generating financial statements
 - Any manual intervention areas to be focused upon
- Transfer of opening balances
- Reconciling EOD reports with Trial Balance

Audit Conclusion



- Document findings & conclusions
- Discuss them
- Take written and oral representations
- Formulate Audit Opinion

LFAR 2003



- | | |
|--|--|
| <ul style="list-style-type: none">• Whether hard copies of accounts are printed regularly? | <ul style="list-style-type: none">• Indicate the extent of computerization and the areas of operation covered. |
| <ul style="list-style-type: none">• Are the access and data security measures and other internal controls adequate? | <ul style="list-style-type: none">• Whether regular back-ups of accounts and off-site storage are maintained as per the guidelines of the controlling authorities of the bank? |
| <ul style="list-style-type: none">• Whether adequate contingency and disaster recovery plans in place for loss / encryption of data? | <ul style="list-style-type: none">• Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch? |

LFAR 2003...



- For each area one needs to:-
 - Inquire about Bank's policy
 - Level of understanding of the policy and implication if it is not adhered to
 - Evidence of compliance with that policy at branch
 - Peruse action taken on Concurrent & System audit

*Area is too wide to be covered as part of Branch
Statutory Audit if it is to be done diligently*



Thank you

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