



*Planning & Documentation for
Statutory Audit of Bank Branches
- core banking environment*

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Importance and Objectives

- ★ Compliance with:
 - ↪ RBI Guidelines, notifications & circulars
 - ↪ Accounting Standards & Standards of Auditing
 - ↪ ICAI Guidelines (incl. code of conduct)
- ★ Sensitive Industry
- ★ Public Accountability & responsibility
- ★ Limited time
- ★ Quality of work
- ★ Reporting Effectiveness



Topics Covered

- Audit Planning
 - Pre commencement
 - Post commencement
 - Execution / conduct
 - Conclusion / reporting

Well planned is half the work done



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Pre commencement

- Appointment Formalities
- Understanding the Scope of work
- Audit Team & meeting the management
- Audit Approach
- Audit Planning

Appointment Formalities



- Open a separate File
- Letter from the Bank
- Letter to previous Auditor for NOC
- Letter of Engagement (SA 210)
- Declaration of Indebtedness & other such declarations
- Status of other assignments



SA 200 (Revised)- Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

Requirements:

- Ethical Requirements Relating to an Audit of FS
- Professional Skepticism
- Professional Judgement
- Sufficient Appropriate Audit Evidence and Audit Risk
- Conduct of an Audit in Accordance with SAs

Knowledge of the Business



Auditor should obtain knowledge of the business of the banks which enables him to identify transactions and practices which have a significant effect on the bank's financial statements.



Sources of information

- Past Experience
- The Banking Regulation Act, 1949
- RBI Circulars – Master Circular
- Bank's Internal Guidelines
- Industry Journal/Publications/Annual Accounts
- ICAI Guidance Note
- Recent Events – News Papers, press, stock exchange



Scope of Work

- BS & P&L – – True and Fair View
- Analysis / Ratios
- IRAC Norms
- Assets – physical existence and their condition
- Documentation
- Internal Control & Systems Review
- Compliance of statutory regulations and RBI Guidelines



Work Effectively & Smartly



Given the time allotted to us, this is a pre-requisite

Important Standards on Auditing



- SQC 1 – Quality Control
- SA 200 – Overall Objectives in Accordance with SA
- SA 210 - Agreeing The Terms Of Audit Engagements
- SA 230 – Audit Documentation
- SA 300 – Planning an Audit
- SA 315 – Identifying & Assessment of Risk
- SA 320 – Materiality
- SA 500 – Evidence
- SA 580 – Representations



Audit Team & meeting the management

- Selection of Audit team
- Internal & External Training
- Meeting with the Central Statutory Auditor
- Meeting with the Bank Branch Manager



Audit Approach

- Verification of the Internal Control System in the branch
- Inspection, Observation and Inquiry
- Identify the risk areas
- More of Analytical procedures
- Materiality - Sample Checking to be done
- Full verification of certain advances
- Review of internal, concurrent, RBI inspections reports etc.



Audit Planning (SA-300)

- Prepare a comprehensive program for substantial checking that covers all the areas
- More weightage to risk prone areas and areas where IC is weak
- Ensure that all SA are followed
- Define the scope of work, identify specific areas, set materiality levels, assign responsibilities and stick to time schedules



Post commencement

- List of Requirements @ commencement
- Understand the profile/business of branch
- Internal Controls system @ branch
- Knowledge of CBS and other software used by the bank



List of Requirements at Commencement

- RBI Master Circulars
- Bank's Internal Policies (HO circulars etc.)
- Closing circular
- RBI inspection Report
- Internal Inspection and Concurrent audit Reports
- Other information about branch (NPA etc)
- Previous year's AR & LFAR
- Significant accounting policies of the bank
- Understanding the computerised environment



Understand the profile/business of branch

- Structure of the bank as a whole
- Nature of business – specialized branch
- Currency chest
- Inspectorate
- Training center



Internal Controls system @ branch

- SA 315 “identifying and Assessing the Risks of MM through understanding the Entity and its Environment”
- Adequacy of IA, Concurrent Audit, Inspection, Systems Audit & Vigilance
- Authorization levels
- Segregation & Rotation of Duties
- Maintenance of records & documents
- Safeguard of assets, property & stationery



Knowledge of CBS and other software used by the bank

- Understand the systems & transaction it records
- Access to primary records & entry level transactions
- Check critical IT & Manual controls
- Data processing & interface with various systems
- Data integrity & security
- Systems Audit
- Other softwares – MIS, payroll, FA registers, consolidations etc.
- Independent checks



Execution & Conduct

- IRAC Norms verification
- NPA Provisioning as per RBI guidelines
- Verification of security & documentation thereof
- Custody of assets & property
- Inter branch reco, sensitive & suspense accounts
- Expense & Depreciation checking
- Statutory compliances



Conclusion / reporting

- AR as per Revised SA 700, SA 705 & 706 & The Banking Regulation Act
- LFAR with annexure, large advances etc.
- Tax Audit Report, other reports & certifications
- MOCs
- Discuss with management
- MRL
- Statement of mandays & OPE



Checklist

- Master list of all advance accounts – funded and non-funded
- Sanctioning powers at the branch and higher authorities and Sample Sanction letter
- Bank's internal policies & SAP
- List of all new loans sanctioned during the year
- List of NPA & advances rescheduled/restructured
- List of accounts up/down graded during the year
- Concurrent/ Inspection reports
- Selection of accounts for verification



Actual Conduct of Audit

- Final Audit Program
- Time Schedule
- Audit Verification Process
- Query writing
- Review of Concurrent / Internal Audit Reports etc.
- Status of observations
- Multi tasking
- Final discussion with management
- Management Representation (MRL)



Practical Experiences

- Query writing (smartly and efficiently)
- Authenticity of documents submitted by the borrower / guarantor and KYC norms
- No insurance/Inadequate insurance of security
- Stock audit/ Internal Inspection not done
- Original documents relating to security missing
- Loan sanctioned by H0 & no documents available

Practical Experiences



- Inter Branch Reconciliation is Pending
- Non Understanding of CBS
- Inadequate Information about Large / Critical Advs
- Staff loan documents not available
- Certified monthly stock statements / list of debtors (<180 days)
- Unpaid stocks
- Valuation report is old
- Evergreening & window dressing

Practical Experiences



- Bank's Lien not affixed and marked in the CBS FDR/NSC etc. assignment of LIC policy
- Loan against shares (adequate margins)
- Loan against Immovable Property
- AdHoc sanction of temporary facilities
- Exceptional Reports



Other Certificates

- Relating to DICGC
- Cash on hand on random dates
- Relating to government schemes
- Priority Sector Lending
- Advances to sensitive sectors
- Movement in NPA
- Claim of subsidy
- Rural advances
- Off Balance sheet items



Thank you

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