

Bank Branch Concurrent Audit

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Importance of Concurrent Audit

- Concurrent audit aims at **shortening the interval** between a transaction and its independent examination.
- Integral to the establishment of sound internal accounting functions and effective controls and is regarded as part of a bank's **early warning system** to ensure timely detection of serious errors and irregularities, which also helps in averting fraudulent transactions and preventive vigilance in banks.

Objective of Concurrent Audit in a Bank

- To ensure compliance of laid down systems and procedures.
- To examine books of accounts, records and registers to ensure that they are maintained in accordance with the prescribed systems.
- To ensure adequate measures are being taken in advance to prevent future frauds, etc., to avoid difficulties, which may arise.
- To detect and arrest leakage of income, if any.
- Evaluating the quality of customer services provided and giving useful suggestions.
- To assess overall performance of the branch while assessing productivity and profitability and to offer useful comments on the basis of audit conducted.

Objective of Concurrent Audit in a Bank

- Restriction of matter discussed on the spot with the help of concerned official.
- To report any inefficiency in any operational level.
- To scrutinize the completeness of documents submitted for availing advances and other facilities and physical checking of stocks and other assets at relevant places.
- To follow up with authorities to ensure timely rectification of irregularities reported which were not rectified on the spot.
- Verify prompt timely and regular submission of the periodical and statutory returns.

Major categories of check

- Advances
- Deposits
- Operations
- Housekeeping

Advances

- Cash Credit
- Overdraft
- Term Loan
- Packing Credit
- Loan against deposit
- Other personal loans
- Non Fund based credits – LC/BG,

Deposits

- Savings Deposit;
- Current Deposit;
- Fixed Deposit;
- Recurring Deposit;
- Saving cum fixed deposit/Swift A/C;
- Non-resident Account; etc

Operations

- Clearing Transactions
- Remittances / Bills for Collection – Inward and Outward
- Demand Drafts
- Issue of cheque books cards etc & its physical verification
- Lockers access control and yearly charges collection
- Nomination registers

Checking of Advances

- Exercise of Loaning Powers.
- Pre sanction Appraisal.
- Documentation
- Creation of Charges
- Creation of Mortgage
- Post Sanction monitoring and follow up.
- Non fund based limits scrutiny and proper treatment of its reversal.
- FOREX functions- whether as per FEMA guidelines and banks internal procedure.

Checking of Advances - 2

- Stock statement checking & it's importance
- DP calculation
- Inspection of security
- Financial statements checking vis a vis accounts operation
- Syphoning of funds
 - Related parties
 - Usefulness of the funds borrowed
- Insurance – Cover size, all perils
- TOD
- LAD, AOD,
- Annual review vs short review

NPA Identification

- NPA calculations
 - Fund based norms (Interest not served, EMI not paid, Overdue payments due to actual overdraw or because of lack of DP) – 90 days
 - Compliance based norms (review pending)
- Provisioning for NPA accounts
- NPA treatment not required for Advances secured against term deposits, NSC, KVP, IVP & LIP

Checking of Deposits

- KYC
- Regular accounts check
- Checking of new accounts opened – especially quick mortality
- Scrolling
- Cash deposit & withdrawal
- Inoperative / Dormant account transactions & its renewals
- Debit balance in savings and current account & interest thereupon

KYC – An Imperative check

- KYC – matching of personal information between the multiple documents & acceptance of one document for all types of info.
- No repeat or clashing identity
- Form 60 – is it enough?
- Importance of verification of originals
- Risk Management
- Monitoring of Transactions – AML guidelines
- Quick mortality
- Periodical review and not one time activity

AML – basic reports

- Banks are required to furnish following to the Director, FIU-IND
 - Cash Transaction Report (CTR)
 - Counterfeit Currency Report (CCR)
 - Suspicious Transactions Report (STR)
 - Not for Profit Organization Transaction Report (NTO)
 - Cross Border WireTransfer (CBWT/EFT)

Income leakage

- Refer to Latest leakage chart / circular
- Interest, Fees and charges
- Differentiation between system based and human intervened charges.
- Government business commission.
- Income on any investments – excess cash deposit with HO or cross banks

Housekeeping Activities

- Non Credit Function:
 - Balancing
 - Cash Management.
 - Currency Chest
 - Remittance in transit
 - ATM
 - Bankers account and clearing.
 - **Suspense and sundries.**
 - Daily monitoring system.
 - Conduct and Maintenance of accounts.
 - **Security forms inventory.**
 - Bills for Collection/Demand draft.
 - Government Business.
 - **Safe deposit vault (lockers).**

Housekeeping Activities - 2

- Exceptional transaction reports are generated and verified by branch staff as prescribed.
- Review of all balance sheet heads and outstanding entries in accounts, e.g., suspense, sundry and inter-bank accounts.
- Review of follow up of entries pending for reversal.
- Scrutiny of daily vouchers with more emphasis on high value transaction including high value expenses and debit entries in Suspense account.
- Debits in accounts where signatures are pending for scanning.
- Whether records related to KYC/vouchers and other critical areas are sent to specific places like archival centre, record room as per stipulated periodicity.

Internal Control Functions

- Internal control procedures of a bank, generally, fall under the following categories:
 - Delegation of powers
 - Authorization of transactions
 - Segregation and rotation of duties
 - Maintenance of adequate records and documents
 - Accountability for and safeguarding of assets
 - System configuration and account mapping
 - Independent checks
 - Identification of Customer

Checks for Cash Transactions

- Physical verification **on surprise basis** of cash at branch and ATM along with safekeeping and custody.
- Ensure that there is no accumulation of large stocks of heavy cash and cut/mutilated/soiled notes, which otherwise need to be reported.
- If cash holdings are beyond the prescribed cash retention limit, the same also need to be reported
- The concurrent auditor would also need to verify whether cash is promptly remitted to the currency chest or to RBI and need be reported if the same is not being so deposited
- **Short or excess cash** , that needs to be reported
- Daily cash transactions, particularly any abnormal receipts and payments. Surprise verification of cash by an officer other than the joint custodian.

Checks for Cash Transactions

- Proper accounting of and availability of insurance cover for inward and outward cash remittances.
- Accounting of currency chest transactions and delays/omission in reporting to RBI. • Reporting of Counterfeit Currency.
- All cash transactions of Rs. 10 lakh and above reported in CTR.
- That all cash transaction of Rs. 50,000 and above invariably indicate Pan No./Form 60.
- RBI has issued Master Circular on the Scheme of Penalties for bank branches including currency chests based on performance in order to ensure that all bank branches provide better customer service to members of public with regard to exchange of notes and coins, in keeping with the objectives of Clean Note Policy.

Documentation

- The concurrent auditor should keep all the working papers on record which are used in finalizing the reports. The following papers can be kept in **permanent audit** file:
 - Letter of engagement, undertaking/comment by the firm to the bank.
 - Audit checklist.
 - Information regarding branch business, data, nodal officer, status of branch, whether computerized/parallel category of branch, etc.
 - Performance of monthly, quarterly, annual report revenue report.
 - Correspondence with the bank for any matter

Documentation

- The **current audit file** may include all other papers relevant to the concurrent audit, for example:
 - Branch Audit Programme.
 - Branch's statement as on the data of the report on which basis it is prepared.
 - Periodic correspondence with the concerned departmental officer.
 - Irregularities intimated to the Controlling Officer.
 - Discussion of the audit report.
 - Particulars of big borrowers, depositors, etc.
 - Circulars received from head office of the audited bank.

THANK YOU

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