

Concurrent Audit

Internal Control for preventive vigilance

Objectives

1. To supplement efforts of the Bank in carrying out simultaneous internal checks of transactions and compliance with the systems and procedures of the Bank.
2. To perform substantive checking in key areas and rectification of deficiencies in the earliest possible period to preclude the incidence of serious errors and fraudulent manipulation.
3. To reduce the interval between a transaction and its examination.
4. To improve the functioning of the branch, leading to up gradation of working of the branch and prevention of fraud.
5. Compliance with internal control as well as RBI/Government of India guidelines.
6. Identification of areas/activities requiring corrective action and urgency.

Let me tell you as to Who are reading your Concurrent audit reports ?

- Branch statutory auditors
- RBI auditors/INSPECTORS
- Bank Internal Auditors/INSPECTORS
- Different department of banks (Like RO,ZO etc)

I am not going to deal with the following

- Appointment
- Scope of Audit
- Planning of audit
- Coverage of business or Audit
- Etc...
- But only with ICPV
- What is ICPV????

Internal Control for Preventive Vigilance (ICPV)

- What is to be noted carefully is.....
- ICPV moves inversely with chances of irregularities / fraud..... Means...
- Concurrent Auditor has to see the depth and dimension of such internal control as an indicator to the system of preventive vigilance

Internal Control for Preventive Vigilance

- Which are the such areas ?
- List is given below to indicate the area of such vulnerable transaction where internal control should be effective and adequate. We all - Concurrent Auditors should have some insight about it, to make the concurrent Audit effective.

Internal Control for Preventive Vigilance

- Deposit = (Savings Bank, Current Deposit Accounts)
- Remittance
- Cash Department
- Advance Department
- Bills Advance

Internal Control for Preventive Vigilance

- Inter-branch reconciliation
- Credit Card Transactions
- An indicative list of suspicious activities
- Attempts to avoid reporting/record-keeping requirements
- Unusual activities
- Customer who provides insufficient or suspicious information
- Certain suspicious funds transfer activities

Internal Control for Preventive Vigilance

- Now:- Deposit = (Savings Bank, Current Deposit Accounts)
- (i) Whether deposit accounts are opened, after thorough scrutiny of postal address through Ration Card/Passport/Voters Identity Card/I.T. Pan Card etc. (**disclaimer**)
- (ii) In newly opened accounts, if there is deposit of large amount of cheque and there is immediate withdrawal of the bulk amount is it being monitored by the management staff. (STR) + (AML)
- (iii) Whether introducer's account and signature are duly verified. If letter of thanks is being issued to the introducer and if so acknowledged copy of letter of thank is being held on record. If letter of thank is not being issued, does the introducer come personally to the Bank and it is duly noted in the specimen signature card.
- (iv) In case of introduction of customer of different Bank branch is obtained, it is obtained confidentially without knowledge/assistance of the depositor customer/ introducer

Internal Control for Preventive Vigilance

- (v) In dormant/stagnant accounts, if any payment is made,-- is it made on monitoring by the managerial staff.
- (vi) Whether specimen signature cards and other documents signed by the customers are kept under dual control -- always.
- (vii) Savings/Current Deposit passbooks are handled by responsible staff, and there is no easy access to it by the customers.
- (viii) Passbooks deposited for updating are being duly acknowledged and no box is maintained for receipt of passbooks.
- (ix) Delivery of pass-book is made after scrutiny

Internal Control for Preventive Vigilance

- (x) Specimen signature cards of the **dormant accounts** are segregated and kept under dual control.
- (xi) Whether staff account turnovers are scrutinized time to time by the managerial staff?
- (xii) Are the bill form files and files containing a/c opening forms, in regard to current deposit accounts are kept under effective control.

Internal Control for Preventive Vigilance

- **Cash Department**
- (i) Dual Control System for cash safe/counting of bundles of notes is always maintained.
- (ii) Generally fraudulent transactions are made more through payment of cash over counter. Unusual high turnover of cash is fraught with the possibility of perpetration of frauds.
- (iii) Statement of SBI/RBI/Focal point branch in relation to maintenance of account, lodgment of cash etc. is reconciled with that of branch records as routine duty on regular basis. Difference if any in between branch record and statement of SBI/RBI/Focal point if persisting for longer period, it requires thorough scrutiny & possibility of fraudulent transaction can not be ruled out.

Internal Control for Preventive Vigilance

- (iv) Clearing difference adjustment a/c is being balanced from time to time and no amount is outstanding for long period. Huge amounts are outstanding in such account in some cases. The possibility of long outstanding amount may be proved to be fraudulent.
- (v) Is cash maintained as per retention limit and if exceeded, is permission being sought later on.
- (vi) Over cheque collection counter-, is notice being displayed that all instruments should be crossed before depositing? Otherwise bearer instruments may be encashed over the counter of paying Bank and the customer concerned may be defrauded. There are such instances.
- (vii) There should be no free access to the Cash Dept for other than Cash Dept. staff. Cash should not be allowed to be handled by other than Cash Dept. staff. There are numerous instances of frauds for handling cash by other than Cash Dept. staff.
- (viii) There should be effective control for bringing and lodging clearing instruments with clearing house.

Internal Control for Preventive Vigilance

- **Advance Department** (Term Loan, Demand Loan, Cash Credit, Over Draft A/c etc.)
- (i) Project report, technical viable reports etc. in respect of advance of large amounts are duly scrutinized and followed up with the borrowers.
- (ii) For advance accounts whether pre-sanction and post sanction inspections are carried out and reports are made available for scrutiny.
- (iii) In respect of advance made to the companies, search before sanction of advance and charge with the Registrar of Companies are made within one month of disbursement. For vehicle financing charge is registered with the Road Transport Authority relative charge certificates are held on branch records.

Internal Control for Preventive Vigilance

- (iv) As per stipulated terms of sanction, whether all the terms viz creation of equitable mortgage is created or not. In case of creation of equitable mortgage, whether lawyers non encumbrance, valuer's valuation reports etc. were taken and held on records. If stipulated in the proposal, whether statement of hypothecated/pledged stocks are submitted at the stipulated interval of time i.e Monthly/bi Monthly/Quarterly etc. collateral deposits, if stipulated, are lodged in the form of Term Deposit receipt, NSC, Kisan Vikas Patra etc. In case of equitable mortgage, oral assent, attendance register is duly signed by the mortgager/s.

Internal Control for Preventive Vigilance

- For all types of advance accounts, all documents stipulated in the proposal are executed and these are fully filled in. Blank documents are not acceptable in the court of law. For all the documents executed by the borrowers, "Document Checked" stamp is to be affixed on it and it is to be signed by the official -- in whose presence the documents are executed/signed by the borrower/s. (Disclaimer by Advocate in search/verification report)(Architect/engineeres report for completion)
- Stocks/assets financed by banks are duly insured against the risk of fire, riot, strike and malicious damage etc. (Disclaimer in agreement)
- Post sanction inspections are carried out as per stipulated terms of sanction time to time and the flaws / irregularities pointed out in the reports are duly followed up with the borrowers for redressal measure/s.

Internal Control for Preventive Vigilance

- (v) In case of some advance accounts which are stagnant immediately after disbursement or after 2/3 transactions, the possibility of some of these accounts are that of fictitious nature can not be ruled out.
- **Bills Advance**
- (i) For regular advance facility, status report of both the Drawers & Drawees from the bankers should be held on branch records.
- (ii) Specific limit are generally granted against documents against Payment (D/P) and Documents against Acceptance (D/A).. Some times limits are also sanctioned against Hundis only and these bills are not accompanied by Documents to title to goods viz. Railway Receipts , Bill of Loading (B/L), Motor Transport Receipts etc.

Internal Control for Preventive Vigilance

- Clean limits (Bills not accompanied by title to goods) may be D/A or D/P bills and generally Clean limits are sanctioned to the borrowers of high integrity and of very large means. Casual limits for bill advance are also granted to the parties of sound financial means.
- (iii) In case of documentary bills, documents to title to goods i.e. R/R, B/I, MTR or Lorry Receipts (L/R) should invariably **be drawn in favour of Bank or "Drawer of bills" i.e. self**. Under no circumstances bills should be drawn in favour of Drawees of bills as Drawees can retire bills without making payment to banks. For "Self" drawn bills Drawer will endorse the bill in favour of Bank.
- (iv) Banks have encountered huge amounts of fraud on a/c of bill business. It is to be verified that bills are drawn out of genuine trade transactions. This is not an accommodation bill. Accommodation bill is that bill where there is no trade transaction and bills are generally retired by drawees on having money from the drawers of the bills.

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- (v) In case of huge amounts of outstanding bills, the possibility of fraudulent transactions can not be ruled out. Overdue bills are retired by purchase/discount of fresh bills in such cases.(this should be looked into..)
- (vi) In case of MTR/LR, it is necessary to be examined as to whether the transportation operator concerned is on the approved list of Indian Bank's Association and relative number is mentioned in the consignment note of the Lorry Receipts.

Internal Control for Preventive Vigilance

- **Other Departments**
- (i) Inter-branch reconciliation - Whether inter-branch reconciliation statement is being attended to time to time and the relative file is made available for scrutiny. It is to be ensured that there is no long outstanding entry pending for unusually long period. Long outstanding entry may be of any fraudulent nature of transaction as instances of frauds have very often come to the surface through outstanding inter contracted in case of non-availability of full information in regard to above.
- (ii) Suspense, Sundry Deposit, Sundry Credit - These are highly sensitive fraud-prone registers/ledgers. These registers are generally monitored by the managerial staff. Any unusual entry requires full investigation and if long outstanding entry is there, the chances of the same as fictitious can not be ruled out. There are such instances.

Internal Control for Preventive Vigilance

- (iii) Opening and negotiation of bills under Letter of Credit are well within the delegated authority of the branch and if not whether permission/sanction of higher authority was available on records. In case of long outstanding bills under L/C investigation is necessary. There are instances of issuing L/C without accounting it for in branch books.
- (iv) For guarantee issued, whether guarantee was issued within the delegated authority and if not permission/sanction from higher authority was available on records. In case of invocation of any guarantee, any amount paid is duly reported to the higher authority. There are instances of issuing guarantee (Fake) by branch management without accounting it for the branch books.

Internal Control for Preventive Vigilance

- (v) On analysis of Profit and Loss Register, it is required to be determined as to whether there are due controls on purchase of stationery/furniture and fixture and these are well within delegated authority of the branch officials. There are due verification/ checking of items of income and expenditure and vouchers are generally signed by authorized signatory/signatories.
- (vi) Vouchers of the branches are counted and total number of vouchers is kept written at the top of voucher lot. Total number of vouchers tallies with that of total number of vouchers recorded in the cash centre book. In respect of fraudulent transaction, sometimes the relative voucher is found missing.
- Eg of balaji bank

Branch	Branch-1				Branch -2		
	Entered				Entered		
	System	Manual	Total		System	Manual	Total
	5557	5965	11522		65294	123843	189137
	Authorised				Authorised		
	System	Manual	Total		System	Manual	Total
	7137	10135	17272		61824	85881	147705
	Rejected				Rejected		
	System	Manual	Total		System	Manual	Total
	275	197	472		341	1034	1375
Diff Act			-5750				41432
Total			29266				338217
Ratio Enter/A	78%	59%	67%		106%	144%	128%
Ratio Auth/En	128%	170%	150%		95%	69%	78%

Internal Control for Preventive Vigilance

- **Credit Card Transactions**
- i. Whether recommendation for issue of cards were made after thorough verification of antecedence, income. Wealth of the card holders.
- ii. Whether payments received by card holders were repaid. If there is outstanding amount due from card holders is it being followed up and for long outstanding amounts, recovery measures are being initiated whether higher authorities are informed of outstanding amounts of defaulting card holders.
- iii. Whether hot list of credit card members prohibiting use of cards are being duly filed and available for scrutiny.
- iv. Considering incidence of frauds through internet, is there any dispute over the amount of reimbursement claimed for from card holders and is it reputed to the higher authority.

Internal Control for Preventive Vigilance (Indicative List)

- **An indicative list of suspicious activities**
- A) Activities not consistent with the customer's business
- i) Corporate accounts where deposits or withdrawals are, primarily in cash rather than Cheques.
- ii) Corporate accounts where deposits & withdrawals by Cheque telegraphic Transfers/foreign inward remittances/any other means are received from/ made to sources apparently unconnected with the Corporate business activity /dealings.
- (vi) Unusual applications for DD / TT/ PO against cash.
- (vii) Accounts with large volume of credits through DDT/PO whereas the nature of business does not justify such credits.

Internal Control for Preventive Vigilance (Indicative list)

- (viii) A single substantial cash deposit composed of many high denomination notes.
- (ix) Frequent exchanges of small denomination notes for large denomination notes or vice versa.
- (x) Retail deposit of many Cheques but rare withdrawals for daily operations.
- B) Attempts to avoid reporting/record-keeping requirements
- i) A customer who is reluctant to provide information needed for a mandatory report, to have the report filed or to proceed with a transaction after being informed that the report must be filed
- ii) Any individual or group that coerces/induces or attempts to coerce/induce Bank employee, not file any reports or any other forms.

Internal Control for Preventive Vigilance (indicative list)

- C) Unusual activities
- i) An account of a customer who does not reside/have office near the branch even though there are Bank branches near his residence/office.
- ii) A customer who often visits the safe deposit area immediately before making cash deposits – especially deposits just under the threshold level
- iii) An account that has frequent deposits of large amounts of currency bearing the labels of other banks
- iv) Funds coming from the list of countries/centers which are known for money laundering

Internal Control for Preventive Vigilance (indicative list)

- D) Customer who provides insufficient or suspicious information
- i) A customer/company who is reluctant to provide complete information regarding the purpose of the business, prior banking relationships, officers or directors, or its locations. In this case account need not be opened.
- ii) A customer/company who is reluctant to reveal details about its activities or to provide financial statements
- iii) A customer who has no record of past or present employment but makes frequent large transactions.

- **And the last - E) Certain suspicious funds transfer activities**
- i) Sending or receiving frequent or large volumes of cross border remittances.
- ii) Receiving large TT/DD remittances from various centers and remitting "the consolidated amount to a different account center on the same day leaving
- minimum balance in the account.

Other Notes

- **OTHER NOTES (FORMING PART OF ALL REPORT) :-**
- The end use of the funds whether short term or long term cannot be certified as there exist nothing on records that the fund are properly being utilised/applied for which they were borrowed.
- The high value transactions entered into the saving and current account during the year cannot be certified as to whether those have been reported appropriately to appropriate authority or not as required to be reported under the Anti Money Laundering Act.
- We have not verified each and every issuance of the Cust-id to single customer in absence of the required details.
- We could not ensure whether the management has taken necessary care to verify original documents while taking KYC of the customers. The genuineness of the said documents cannot be certified.

Other Notes

- In absence of the BDR, (Branch document record/register) we are unable to comment upon the movement of documents into the branch.
- In absence of the generation of STR report (Suspicious Transaction Report), we are unable to comment as to whether appropriate procedure has been followed, as framed, in this regard by the RBI.
- In absence of written policy for the approval of the authentication of the system generated vouchers to data center, we have relied on the data provided to us at the time of certification. Further we believe (but unable to certify) that all the manual vouchers entries made in the system are duly authenticated, as it was not practicable for us to verify each and every transaction for approval.
- The securities lodged with the branch by various borrowers cannot be certified to be marketable.

Other Notes

- Whatever valuation certificates are obtained by the bank in respect of the properties lodged with the banks, we are unable to certify the qualifications of those persons (certifying the valuation report) as to whether they are qualified to that extent or not. Further we are unable to certify the disclaimers (if any) given by the advocates in their search reports for various properties lodged by the borrowers with bank.
- We are unable to certify, in absence of documents, that in cases of all cash credit and term loan accounts whether there is a practice to compare the actual results with that of the estimated/projections given by the borrowers and are dealt with by the responsible officers appropriately.
- This is to state and certify that during the financial year 2013-14, we have not advance any loan to any of the directors nor the relative of any of the directors either directly or indirectly. This certificate is being issued to statutory auditors so as to confirm the liability of the management of the bank in this regard.