SEMINAR ON BANK AUDIT BY BORIVALI CHAPTER OF WIRC ON 26.03.2017

POST DEMONETISATION EFFECTS ON BANK BRANCH AUDIT

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Agenda

- Demonetisation Basics
- Objectives of Demonetisation
- Effected Areas
- Guiding Principles
- Reporting Requirements
- Review Methodology
- Checklists
- Fraud angle
- Questions & Answers

March 27, 2017

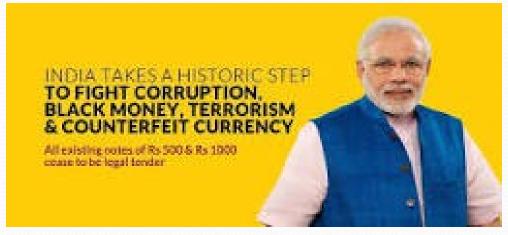
DEMONETISATION



SANITISATION



Demonetisation







Basics of Demonetisation

- Demonetisation is an act of sripping a currency from being legal tender.
- Basic purpose is to curtail shadow economy & crack down use of illicit and counterfeit cash for illegal activities and terrorism
- Earlier two instances of demonetisation in 1946 and 1978 was for curtailing tax evasion by blackmoney outside the economy.
- In fact only 6% of cash is in the form of black money rest are in the form of benami property, bullion and jewellery.

Post Demonetisation Issues

- Specified Bank Notes (SBN) of Rs. 500 and 1000 ceased to be the legal tender wef 09.11.2016.
- Certain prescribed procedures were not followed by Bank branches.
- Instances of hoarding of large chunk of cash by certain individuals.
- Misuse of bank accounts by unscrupulous elements
- Connivance of few banks officials
- Dealing with the Fake Currency.

Objectives of Demonetisation

- Reduction of parallel economy & reduce corruption
- Identification and removal of internal black money
- Detection and removal of fake currency
- Digitisation of the economy
- More Financial Inclusion

Effected areas in Bank branches

- Facilities for exchange of currency notes
- Cash Deposit transactions
- Cash withdrawal transactions
- Reporting requirements
- Record Keeping
- Special attention to Currency Chest branches

Exchange of Notes

- Whether limits of exchange of notes on various dates are adhered to? (4000, 2500, 2000, 5000, NIL)
- Whether adequate supporting documents collected & preserved? (ID proof, in person, authority letter, multiple times etc.)
- Facilities to Foreign citizen.
- Facilities at ATM counter.
- Facility was available only once.

Cash Deposit transactions

- No limits for KYC compliant accounts
- Maximum amount for non-KYC Rs. 50,000/=
- No cash deposit in small savings scheme accounts (PPF, Senior Citizen deposit, Sukanya samriddhi, Atal pension etc.)
- From 19/12/16, explanation in presence of Bank official.

Cash Deposit- Checkpoints

- Denomination details in paying-in slips
- Separate slip for SBN and non-SBN
- Authority letter for deposit by third party
- Adherence to FEMA guidelines for NRI accounts
- Circulars issued by RBI on KYC-Compliance
- Amendments of income-tax rule for seeking PAN.

Cash Withdrawal

- Various limits of withdrawal through branch on daily, weekly basis.
- Controls for personal OD Account (Check for misuse)
- Relaxed Limits for farmers & Traders
- No limits for white level ATM operators
- Relaxation for wedding up to 2,50,000/=
- Controls for PMJDY- up to 10000/=
- No debit for non-KYC compliant A/cs where total deposit exceeds Rs. 2 lakhs during the period.

Withdrawal through ATM & POS

- Various limits on different dates 2000, 2500 & 4500 per day per card
- POS limit 2000 per day per card
- Required documents

Guiding Principles

- Various circular issued by RBI after o8/11/16 (Referwww.rbi.org.in) 52 in numbers.
- Guidelines by Income Tax Department
- Guidelines by MOF, Govt. of India.
- Benami Txn prohibition Act, 1988 as amended on 11/08/16
- Latest KYC guidelines
- Latest AML guidelines

Reporting Requirements

- Reporting of daily balance of SBN including deposits
- Reports on fake currency detected.
- Daily movement of SBN
- Maintenance of records of Mahatma Gandhi series (new)
 Bank notes.
- Record of deposits of deposit of SBN to RBI and currency chest.
- SBN can't form part of cash balance as on 31.12.2016.

Review Methodology

- Review exchange, deposit, withdrawal based on the available documents daily.
- Reconciliation of SBN number and amount
- Ensure compliance with payment threshold guidelines along with legal tender notes.
- Review CCTV recording covering cash area.
- Review cash vault/ balance register, any overwriting?
- Review usual volume and number of business. Any steep variation – analyse.

NPA Classification

- RBI relaxes recognition of NPA on certain conditions
- Applicable to TL/WC advances up to 1 crore
- Relaxation given for 60 days, may defer recognition
- Additional 30 days for certain specific categories
- Defer downgrade for running WC/TL up to limit of 1 crore
- Applicable only for STD to Sub-STD.

Checklists – 1/2

- Whether limit for exchange over the counter are adhered to?
- Whether prescribed documents have been obtained?
- Additional document for Foreign citizen.
- Instances of exchange facility to same person more than once?
- Exchanges based on authority letter?
- Records for exchange maintained?
- Whether CCTV backup of cash area is available? Adequate backup?

Checklist-2/2

- Review CCTV records on random basis, any misuse?
- Whether in-edible ink was put on after Nov, 16.
- Report any abnormal increase of exchange over the counter.
- Compare average footfall, capacity of the branch to handle customer.
- Whether facility of exchange provide by BC attached to the branch?
- (similar checklists are available for deposit, withdrawal, reporting and review)

Checklist - additional

- Review excess of cash over retention limit and the insurance coverage.
- Frequent use of sensitive office accounts like suspense, sundry, inoperative etc a/c for cash transaction purpose.
- Frequency of ATM downtime and justification thereof.
- Adequacy of cash in ATM.

Fraud Angles

- Mis-appropriation of cash by replenishment agencies.
- Unusual volume and number of cash transactions on certain days.
- Reconciliation of SBN
- Dealing with Currency chest
- Diverting money and laundering fake currency for personal gain.
- Misuse of documents submitted by customer identity theft
- Misuse of PMJDY A/c for black money conversion.

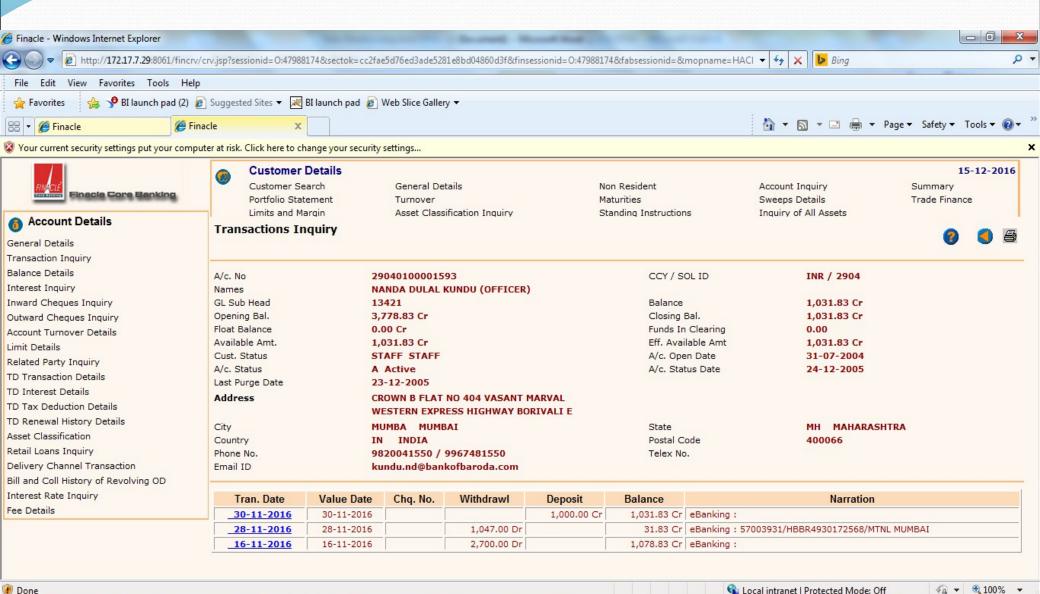
Fraud issues

- Possibility of depositing fake currencies in RBI during the process.
- ATM spitting fake/ duplicate currencies in few cases
- Internal audit report on demonetisation
- Concurrent auditor's report
- Handling DCCB
- Operations in dormant accounts
- Preventive steps for illegal accumulation of new currency notes.

Possible fraud cases

- Cancellation of Demand draft & pay in new currencies
- Currency on commission basis by cashier
- Opening fake accounts and laundered money
- Micro Finance agents (BC)
- Back dated transactions.
- More internet banking, more chances of phishing for less literate.
- Check the STR generated on all new accounts
- MORE ON CREATING AWARENESS

Transaction Inquiry











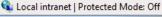










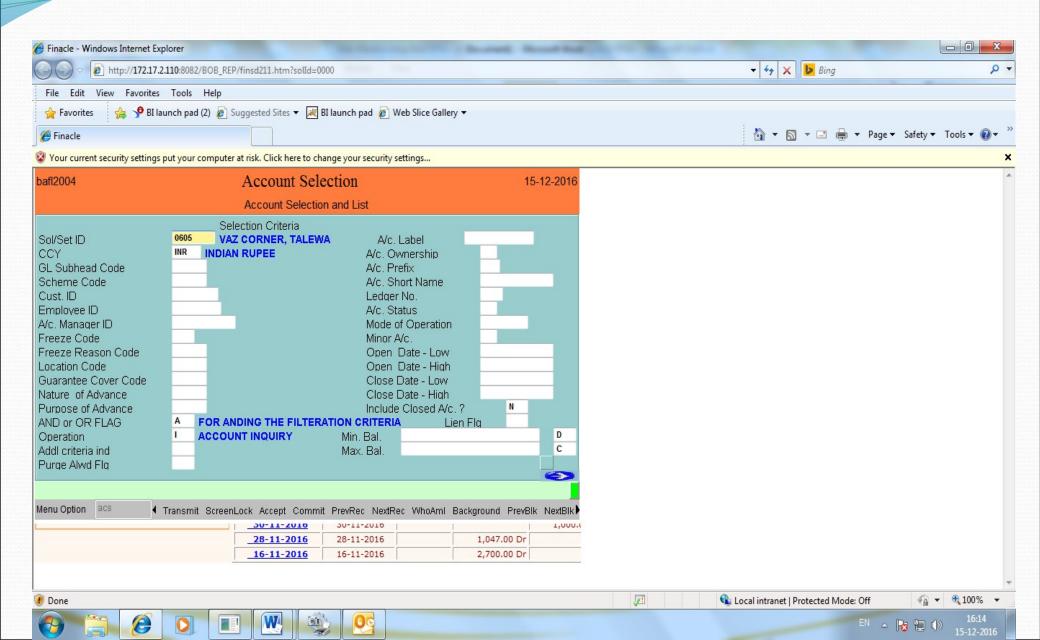








Account Selection



Important Reports – Trade Finance

- *FBBR Bill Reg.
- *RINTRPT Int PC Disb
- *GILR & GR Guarantee Reg.
- *DCLIABRG LC Reg.
- *FBBR I/W Rem. Reg.
- *FCTCR Cur. Sale Repo
- *DTMR Fgn TT/MT
- *RPCRPT PC/PCFC Repo.
- *CHRGADVP Cust Adv Repo
- *RPT12 PC/PCFC Sanction Memo
- *FWCRG Forward Booking Reg.
- *RRETURN R Return
- *XOSSTMT XOS Statement

Final Tips

- Mastery on ACS, AFI and FTI menu
- Use analytics from Bank
- Compare the trend, any unusual behaviour or changes
- Read all internal and RBI circulars
- Whether all accounts are really balanced & reconciled?

FRMS ALERTS

- Cash transactions > 50,000 in a day
- Transaction in an inactive a/c
- Txn > 1 lac in newly opened a/c
- Intersol Txn staff A/c
- Dr Txn in other office A/c
- Txn in Dormant A/c
- Cash Txn in sensitive office A/c
- Cr > 50000 in staff A/c

Question & Answer

THANK YOU