

*Seminar on Bank Branch Audit  
Borivali(Central) CPE Study Circle*

*Audit Planning & Documentation*

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# Audit Planning and Documentation



# SCHEDULE FOR TODAY

- Audit Planning
- Documentation
- Issues in Bank Branch Audit & Documentation



# Preliminary and Pre Audit Planning



# Well Planned is half the work done



# Well Planned is half the work done

- ➡ Appointment Formalities
- ➡ Preliminary Planning
- ➡ Actual Conduct of Audit
- ➡ Management Discussion
- ➡ Final Reporting & Certification



# Preliminary Work

- ➔ Appointment Formalities
- ➔ Understanding the Scope of work
- ➔ Audit Team & meeting the management
- ➔ Audit Approach
- ➔ Audit Planning
- ➔ List of Requirements before commencement of audit





# Appointment Formalities

- ➔ Open a separate File
- ➔ Letter from the Bank
- ➔ Letter to previous Auditor for NOC
- ➔ Letter of Engagement
- ➔ Declaration of Indebtness and status of other assignments



# Well Planned is half the work done



# SA-200 Basic Principles Governing an Audit



The Auditor has to gain an understanding:

- ➡ of the accounting system
- ➡ Related internal controls
- ➡ Study and evaluate the running of IC system
- ➡ Document matters that provide evidence that the audit was carried out in accordance with the basic principles



# 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
- ➔ Recent Events
- ➔ The Banking Regulation Act, 1949
- ➔ RBI Circulars – Master Circulars
- ➔ Bank's Internal Guidelines
- ➔ Industry Journal/Publications/Annual Accounts
- ➔ ICAI Guidance Note



# Scope of Work

- ➔ Balance Sheet Audit & classification of Assets – True and Fair View
- ➔ Profit & Loss account shows a true picture
- ➔ Assets – physical existence and their condition
- ➔ Documentation for Advances
- ➔ State of Internal Control System within the Branch
- ➔ Compliance of statutory regulations and RBI Guidelines
- ➔ Advances correctly classified as per the prudential norms and adequacy of provisions
- ➔ Ensure adequate disclosure requirements are met



# Important Standards on Auditing SA

- ➔ SQC 1 – Quality Control
- ➔ SA 200 – Basic Principles Governing an Audit
- ➔ **SA 230 – Documentation**
- ➔ SA 300 – Audit Planning
- ➔ SA 320 – Materiality
- ➔ SA 310 – Knowledge of Business
- **SA 500 – Evidence**
- **SA 520 – Analytical Procedures**
- ➔ SA 580 – Representation by Management



# Audit Team & meeting the management

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





# Evaluation of the Internal Control System

The auditor should examine the efficacy of various internal controls over the functioning of the branch (including sanctioning, disbursement & monitoring of advances, deposits, fixed assets, NPA management and other regulatory requirements) to determine the nature, timing and extent of his **substantive procedures**.



# Evaluation of the Internal Control System

- Discussion with management & any operating manuals
- Level of implementation of the IC system
- Sanctioning process in the Bank, NPA & provisioning
- Quality and trained Staff
- Extent of computerization & Documentation
- Internal Communication with RO/HO
- External Inspection
- Existence of IT systems and its effectiveness
- Actual Verification
- Work Culture and environment



# Extent of Checking and Materiality Levels

- New Sanctions
- Large Advances (5% of Advances or 2 crs)
- Adverse Remarks in
  - ✓ Concurrent Audit/IA Report
  - ✓ PY LFAR & Audit report
  - ✓ RBI Inspection
  - ✓ Internal Inspection
  - ✓ Special Audit
- Major movements (upgrades & down grades) in NPA / Restructured advances
- Income recognition
- Expense verification
- Existence and ownership of assets
- Type of Branch



# Profile of the Branch

- ➔ Bank Structure
- ➔ Nature of the Branch
  - ➔ Deposit/advance
  - ➔ Size (small/large/very large/mega)
  - ➔ Specialized branch
  - ➔ FOREX
  - ➔ Retail, corporate
  - ➔ Rural/urban/metro
- ➔ Currency chest
- ➔ Training Center



# 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 in certain cases
- ➔ 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



# List of Requirements before commencement of audit

- ➔ 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)
- ➔ Last year LFAR
- ➔ Significant accounting policies of the bank



# Checklist

- ➔ Statement of advances (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
- ➔ Other returns/statements to be verified



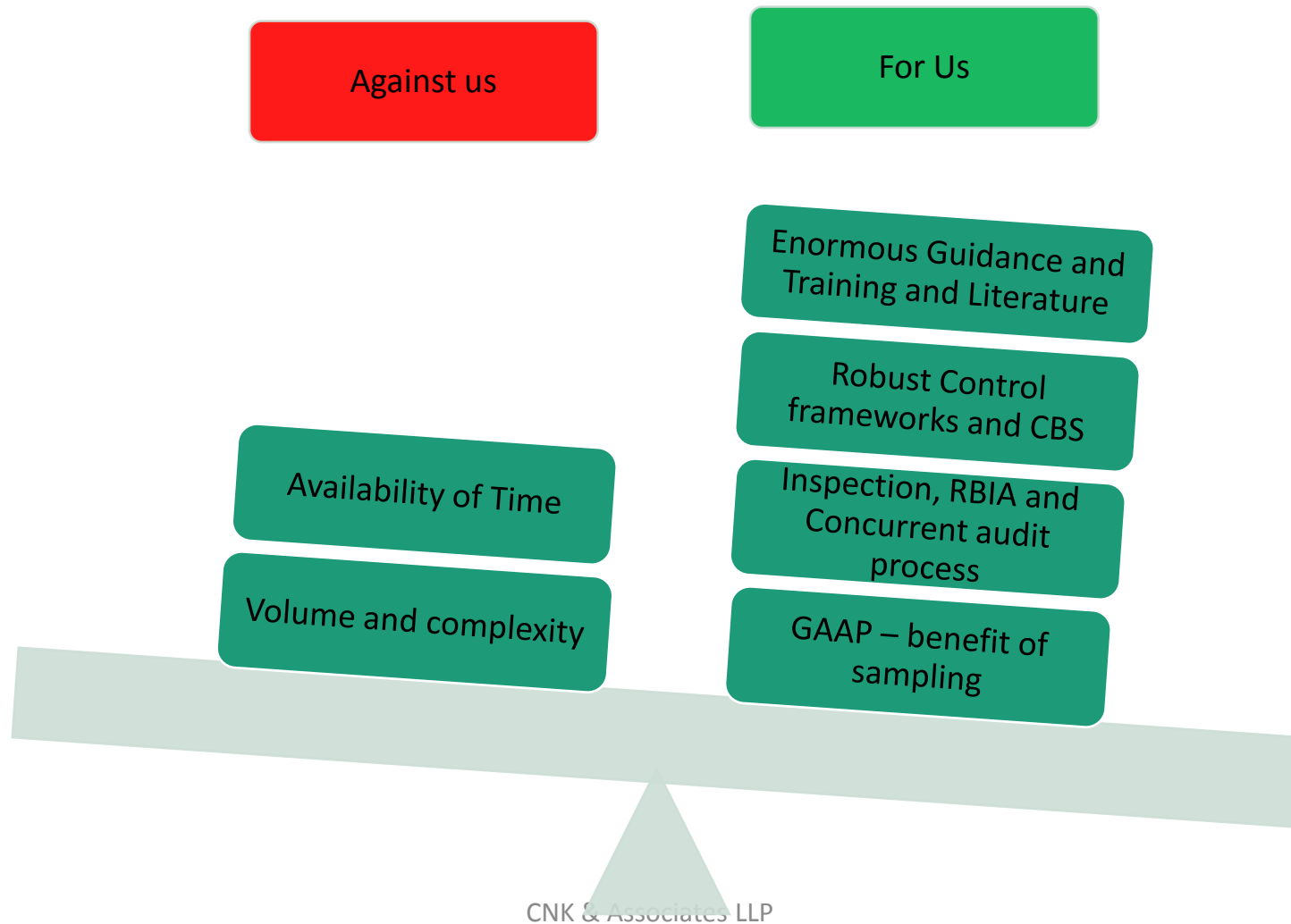


# Actual Conduct of Audit

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



# The delicate balance





# Audit Documentation in case of Bank Branch Audits

Revised SA 230 – Audit Documentation Effective for audits of FS for the period beginning on or after April 1, 2009

# Nature and Purposes of Audit Documentation

- Evidence of the **auditor's basis for a conclusion** about the achievement of the overall objectives of the auditor; and
- Evidence that the audit was **planned and performed** in accordance with SAs and applicable legal and regulatory requirements
  - Assisting the engagement team to plan and perform the audit
  - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220
  - Enabling the engagement team to be accountable for its work
  - Retaining a record of matters of continuing significance to future audits
  - Enabling the conduct of quality control reviews and inspections in accordance with SQC
  - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements

# Importance

- Preface to the Statements on Standard Auditing Practices issued by the ICAI states that:
  - *“While discharging their attest function, it will be the duty of the members of the Institute to ensure that the Standards are followed in the audit of financial information covered by the audit report.*
  - *“If for any reason a member has not been able to perform an audit in accordance with the same, his report should draw attention to the material departures therefrom”*
- Enshrined in the Chartered Accounts Act, 1949
- The Code of Ethics
- Peer Review
- Reserve Bank Inspection
- Disciplinary Mechanism



# Requirements:

- **What to document**

- Audit procedures performed
- Relevant audit evidence obtained
- Significant matters & how they were resolved
- Discussion with management/ engagement team
- Engagement quality control review
- Audit conclusions reached

- **Mode of documentation**

- one or more folders or other storage media
- in physical or electronic form
- containing records that comprise audit documentation for a specific engagement

# Requirements:

- **How much to document??**

Enough to:

- Assist in planning and performing
- Record matters of continuing significance
- Create accountability
- Assist external inspection
- Assist supervision and direction
- Assist quality control review

- **When to document?**

- Timely manner (docs prepared after audit are less accurate)
- Within 60 days of completion of audit (SQC 1) - ????
- Retain for 7 years from the date of audit report



How many more  
documents do you think  
we need to create?



# Examples of audit docs:

- Appointment formalities and communication with previous auditor (code of conduct)
- Engagement letter (SA 210) (format issued by ICAI)
- Minutes Pre-audit meeting
- Audit Program/Plan (SA 300)
- Calculation of materiality levels
- Sample selection
- *Process notes & Test of IC systems ???*
- Audit working papers (docs/evidence obtained)
- Analysis & conclusion thereon (SA 520 Analytical Procedures)
- Issues memoranda
- Summary of significant queries
- Management's responses & basis of conclusion
- Confirmation & representation letters
- Signed Financial Statements & other returns to be certified
- Letter to the management (ML)

# Bank Branch audit docs:

- Appointment formalities and communication with previous auditor (code of conduct)
- Engagement letter (SA 210) (format issued by ICAI) - GN
- Minutes Pre-audit meeting & Audit Program/Plan (SA 300)
- Audit working papers (docs/evidence obtained)
  - List of all advances, sample selected
  - Queries raised & explanations received, How resolved?
  - Analytical Procedures applied & finding
  - Deficiencies observed while verifying advances
  - NPA movement & Provisioning
  - Other data verification (BASEL, asset classification etc.)
- Issues memoranda
- LFAR (annexures)
- Management representation letters

*“The skills of an accountant can always be ascertained by an inspection of his working papers”*

**Robert H Montgomery, Montgomery's Auditing, 1912**

# Issues in Documentation

- Are all documents available for verification
- Additional requirements for consortium / multiple banking arrangements
- Original documents are not available at times
- Acceptance of borrower confirming terms of sanction
- Missing documents



# Practical Experiences

- ➔ Query writing (smartly and efficiently)-**Issue Tracker**
- ➔ 100 % verification of large advances
- ➔ 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 HO & no documents available

# Practical Experiences ..... cont

- ➔ Inter Branch Reconciliation is Pending
- ➔ Non Understanding of CBS
- ➔ Inadequate Information about Large / Critical Accounts
- ➔ Staff loan documents not available
- ➔ Certified monthly stock statements / list of debtors (<180 days)
- ➔ Unpaid stocks-impact on DP
- ➔ Valuation report is old

# Practical Experiences ..... cont

- ➔ Bank's Lien not affixed and marked in the CBS FDR/NSC etc. assignment of LIC policy
- ➔ Loan against shares
- ➔ Loan against Immovable Property
- ➔ AdHoc sanction of temporary facilities
- ➔ Temporary deficiencies in borrowers' accounts
- ➔ Debit balances in SB A/c
- ➔ Credit card dues.
- ➔ Sensitive accounts – reconciliation is pending



# Work Effectively & Smartly



**“No documentation means no  
audit done”**

*Thank you !!*