

Practical Guidance on Verification of other areas in Concurrent Audit - 13 August, 2022



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Income Verification

- Interest Income – CC, OD, DL, TL, Bills Purchased & Discounted, overdue and penal interest, interest subsidy/ subvention etc.
- Commission & Fees:
 - Bills for collection
 - Remittances & transfers
 - LCs & BGs
 - Processing fees
 - Lead Bank fees
 - Mobile banking fees – SMS charges on quarterly basis
 - Credit/ Debit card annual fees
 - Locker Rent
 - Govt business
 - CERSAI, CIBIL, Insurance, Penal charges



Interest Verification

- On test check basis interest debited by CBS should be checked manually through product rate sheets.
- Checking the interest run reports
- Booking of interest on credit card portfolio.
- Booking of interest on Pool Accounts – Reversal of interest on compounded basis instead of simple interest basis.
- Checking the movement in the interest rate changes in the master.



Income Leakages

- Checking of Borrower's Master in the CBS with the Sanction terms & conditions.
 - Sanctioned rate of interest varies from the ROI entered in CBS.
 - Borrowers sanctioned interest at 6 months, 3 months and 1 month MCLR/ RLLR. System does not update the interest rate automatically in such cases, whenever the MCLR/RLLR is changed by the Bank. Branch needs to manually monitor and update interest rates in CBS.
 - In case of CC facilities, MCLR/RLLR rate is required to be reset on annual basis, however it got changed within a short period of 2-3 months. Change in Interest rate was occurring whenever there was any alteration done in the master of client (e.g. loan master was changed due to interchangeability of Fund based & Non - fund based limits. CBS was taking up fresh MCLR/RLLR as on date of master alteration.)



Income Leakages

- Restructured cases:
 - High number of cases under COVID/ MSME circulars
 - Renegotiated interest, repayment schedule not properly updated in CBS.
 - Wrong interest being charged.
 - Carving out of FITL
 - Moratorium in the principal and interest but usually the borrower is supposed to pay the interest on FITL – many branches skip this point & account turns NPA
- Charging of penal interest on delayed submission of stock statements, Quarterly information statements, overdrawing of limits, ad hoc limits etc.
- Rate changed in between the months and again amended as per sanction at the end of the month.



Bills Purchased and discounted

- Check the interest booking based on the tenure of the bills
- Check the accounting policy of the bank
- Reversal of interest in case of unexpired period – Rebate on Bills Discounted – interest booked upfront and then apportioned over the tenure of the bills.
- Accrual of interest in case of overdue period – bills not crystallized on the due dates – interest to be booked for the overdue period.



Bills Purchased and discounted

- Bill Purchased on 1.2.22 for 90 days
i.e. maturity date is 1.5.22. Income to be accounted till 31.3.22 and remaining to be reversed to Rebate On Bills Discounted.
- Bill Purchased on 1.12.21 for 90 days
i.e. maturity date is 28.2.22. Income to be accrued on the overdue period for the month of March 22.



LCs/ BGs Commission

- Confirm the accounting policy of the bank
- Ascertain the period of the LCs/ BGs
- Verify the interest rate from the sanction and the rates as per the circular
- For BGs confirm the booking of the commission income upfront/ spread over the tenure of the BG as per the policy
- Check the reversal of the expired BGs
- Income booked on LCs based on their tenure
- Confirm that the devolved LCs are debited to the CC account of the borrower



LCs/ BGs Commission

- Check the controls over the issue of the LCs and BGs from the relevant module of the CBS
- Instances of issuing BGs by staff from excel – fraudulent transactions
- Confirm the sequencing and the authentication of the documents
- Verify the supporting for the LCs and the BGs issued to confirm the genuineness.
- Ascertain the margins on the BGs as per the Bank circular and the sanction letters.



Suspense & Sundry accounts

- Temporary parking accounts
- Usually deposits to landlords, advances to staff such as festival, traveling etc. shown under Suspense. Frauds, cash shortage etc.
- To check there are no old and non-moving entries under these heads. Appropriate provision has been done for such items.
- Fraud/ manipulation prone area so auditor needs to be cautious and constant monitoring of these accounts is required.



Suspense & Sundry accounts

- Ensure that multiplicity of accounts and unnecessary accounts are not opened as suspense accounts
- Verify the process of expeditious clearance of items debited to suspense account and whether the same are actually cleared
- Verify whether any office account is used for allowing debits to accommodate temporary overdrafts without appropriate disclosures
- Since fraud prone hence constant checking is essential.



Staff accounts

- Auditor to keep check over the high value transactions in the staff accounts
- Debit and credit turnover can be checked in the accounts to confirm that the same is in alignment with the income of the staff member
- Fraud/ manipulation prone area
- RBI has observed several frauds through these accounts.
- Constant monitoring is required



Inoperative accounts

- Review of inoperative/ dormant accounts
- Sudden operations to be checked properly with due authorizations
- Maker Checker to be verified
- Again, a fraud prone area since without proper controls the amounts in these accounts can be siphoned away – also can be used for manipulations – NPA window dressing.
- Charges to be verified for non-operation of the accounts.
- As per RBI Guidelines, no penal charges are to be levied for non-maintenance of minimum balances in any inoperative account



Transfer to DEAF

- The RBI *vide* its circular no. DBOD.No.DEAF Cell. BC.101/30.01.002/2013-14 dated March 21, 2014 issued “The Depositor Education and Awareness Fund Scheme, 2014 under Section 26A of Banking Regulation Act, 1949”
- Credit balances lying older than 10 years to be transferred to DEAF by the Bank
- Check the ageing of the credit balances lying in different accounts and confirm the transfer
- CBS sometimes fails to identify savings accounts/ FDRs which were linked to LAD



Transfer to DEAF

- (a) savings bank deposit accounts;
- (b) fixed or term deposit accounts;
- (c) cumulative/recurring deposit accounts;
- (d) current deposit accounts;
- (e) other deposit accounts in any form or with any name;
- (f) cash credit accounts;
- (g) loan accounts after due appropriation by the banks;
- (h) margin money against issue of Letter of Credit/Guarantee etc., or any security deposit;
- (i) outstanding telegraphic transfers, mail transfers, demand drafts, pay orders, bankers cheques, sundry deposit accounts, vostro accounts, inter-bank clearing adjustments, unadjusted National Electronic Funds Transfer (NEFT) credit balances and other such transitory accounts, unreconciled credit balances on account of Automated Teller Machine (ATM) transactions, etc.;
- (j) undrawn balance amounts remaining in any prepaid card issued by banks but not amounts outstanding against travellers cheques or other similar instruments, which have no maturity period;
- (k) rupee proceeds of foreign currency deposits held by banks after conversion of foreign currency to rupees in accordance with extant foreign exchange regulations; and
- (l) such other amounts as may be specified by the Reserve Bank from time to time.



Interest booking on Overdue TD

- RBI circular no. DBOD No. Leg.BC.34/09.07.005/2008-09 dated August 22, 2008
- Savings interest rate to be booked for overdue Term Deposits
- Check the ageing of such deposits from the CBS
- Check the working of the interest being booked on these deposits
- Interest on overdue deposits – example of old scheme deposits – out of CBS and done manually in excel – check the accuracy of calculations



KYC and AML

- Compliance of KYC norms at the time of opening of CASA or Term deposit accounts
- Application of rate of interest as per the interest table to every product of deposits by taking sample accounts of each type of deposit product including instances of premature withdrawal of deposits and retrospective renewal of deposits
- TDS flag is correctly configured wherever Form 15G/15H has been received by the Bank and that TDS as per the rates in force has been deducted on interest payments

194A	Interest from a Banking Company/ Post Office (Other than on Securities)	Rs. 40,000 per annum for Others /Rs. 50,000 per annum for Senior citizen	10%
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KYC and AML

- Application of various charges on CASA, e.g. Minimum Balance charges etc., on test check basis and compliance thereof
- The accounting effects of interest payable in the form of interest accrued but not due and interest accrued and due are correctly given as also TDS compliances thereon
- Compliance with internal circulars of the bank in terms of categorisation of customers, and application of the said terms in the master data of such deposit holders



KYC and AML

- The complaints lodged w.r.t. the customer services and contingent liability / liability arising thereon
- Major movements in interest expenses vs. movements in interest bearing deposit

Data Integrity & Modifications

- Authorisation & control processes to ensure that the customer accounts opened in the system are properly updated in the relevant module in CBS.
- Verify the correctness KYC data updated in CBS



Exception reports checking

- Obtain the list of exception reports prescribed by bank along with its periodicity for review
- Whether the branch has followed the instructions issued by bank w.r.t. generation and verification of exception reports
- Review of such transactions on sample basis will help in ascertaining the nature of the transactions and risk involved
- Any issues which have not been complied / marked as pending compliance, status of the same should be obtained and reported.



Exception reports checking

- Obtain instructions issued by the bank for process to be followed when system generated data is manually altered.
- Enquire about availability of audit trail / logs related to such manual interventions and review the same.
- Data integrity: verify that the data being entered is done properly and there is proper maker checker principle for verification of the same
- Instances of transactions reflected in Exception Reports:



Exception reports checking

- Ad hoc loans granted to borrowers
- Overdrawing allowed over the limits
- Changes in the interest rates not in line with the products defined in CBS
- Major operations/ transactions in the newly opened accounts
- Standalone Non Fund Based Limits granted to customers
- Backdated updation of stock and book debt statements



Exception reports checking

- List of accounts wherein the facility is not renewed / reviewed
- List of accounts slipped to NPA during the current period
- List of accounts wherein there is an amendment in date of NPA
- Loans below the benchmark rate
- Loans above the maximum lending rate
- List of accounts wherein re-phasing i.e. Change in EMI, Tenor, Moratorium period.



Exception reports checking

- CC Accounts with primary security as “Nil”
- Manual debit/credits to Interest Income and Other Income Account
- Manual debit to Interest Expense Account
- FDs / RDs with aggregate balance at customer master level in excess of Rs. 20,000 and closed one / all FDs / RDs in cash
- Cash Payments from Office Accounts in excess of Rs. 10,000
- List of Outstanding Office Accounts entries



Exception reports checking

- Bank Guarantees and LC Expired and not reversed
- Resident Customers having Non Resident Account (under same or multiple customer master)
- Status of the inoperative accounts
- Unit Inspections pending for long
- Manual debits to Inter office accounts
- Login in CBS by personal on leave



Inter office accounts – Fraud prone

- Mostly used for internal business transactions of banks or transactions to facilitate movement of funds in a flow of transaction.
- Reconciliation of transactions on a daily basis
- Keep a track on un-reconciled transactions
- Major transactions which occur through inter-office accounts:
- Payment to / receipts from other branches of the proceeds of instruments received/sent for collection /realization/clearing



Inter office accounts – Fraud prone

- Cash sent to/received from other branches
- Payment of instruments like gift cheques/ banker's cheques/ interest warrants/ dividend warrants/repurchase warrants/refund warrants
- Government receipts and payments handled by the banks
- Operations by the authorized branches on the bank's NOSTRO accounts through the Treasury/ International Banking Division
- Transactions through NEFT, RTGS, NACH, UPI



Inter office accounts – Fraud prone

- Internet based transactions
- Credit card related transactions of the customers
- ATM transactions of the customer
- GST transactions of bank branches within a zone and Zonal or Head office
- TDS of the branches deposited by the central office
- Parking of subsidies received from Government under various schemes



Inter office accounts – Fraud prone

- Verify the balance in this head and should seek explanation why the balance is not reconciled, if any
- Unauthorized/ Objectionable practices in the Inter Office Accounts leads to Fraud. Illustrative instances of such practices are as follows:
 - Deficiencies in linking the office accounts to the Trial Balance and General Ledger
 - Disguising cash transaction of customer to avoid AML reporting
 - Disbursal of loan or repayment of loan resulting



Inter office accounts – Fraud prone

- in misuse of funds and window dressing
- Lack of automation for identifying and reporting of the outstanding entries
- Opening of saving and current account and funds movement thereon misused through office accounts
- Crediting a dummy entry by debiting the office account to the credit of borrowers account and then debiting so as to prevent from becoming NPA
- Many income accounts do not have debit freeze



Inter office accounts – Fraud prone

- Review the system of operation for sensitive office accounts
- Check all material transactions outstanding in office accounts even if it is outstanding for more than 6 months
- Verify whether the transactions in accounts are matching with the purpose of account for which it is created
- Reversal entries are made under proper authority & after due explanation and evidence



Early Warning Signals (EWS)- as per RBI

- EWS are those which should alert the bank officials about some wrongdoings in the loan accounts which may turn out to be fraudulent
- An illustrative list of some EWS as per RBI Directives:
- Default in undisputed payment to the statutory bodies as declared in the Annual Report
- Bouncing of high value cheques
- Frequent change in the scope of the project to be undertaken by the borrower



Early Warning Signals (EWS)- as per RBI

- Delay observed in payment of outstanding dues
- Frequent invocation of BGs and devolvment of LCs
- Invoices devoid of GSTN and other details
- Dispute on title of collateral securities
- Funds coming from other banks to liquidate the outstanding loan amount unless in normal course
- Funding of the interest by sanctioning additional facilities



Early Warning Signals (EWS)- as per RBI

- Critical issues highlighted in the stock audit report
- Exclusive collateral charged to a number of lenders without NOC of existing charge holders
- Liabilities appearing in ROC search report, not reported by the borrower in its annual report
- Frequent request for general purpose loans
- Frequent *ad hoc* sanctions
- High value RTGS payment to unrelated parties
- Heavy cash withdrawal in loan accounts



Early Warning Signals (EWS)- as per RBI

- Not routing of sales proceeds through consortium/ member bank/ lenders to the company
- Significant movements in inventory & receivables, disproportionately differing vis-à-vis change in the turnover
- Non production of original bills for verification upon request
- Significant increase in working capital borrowing as percentage of turnover



Early Warning Signals (EWS)- as per RBI

- Increase in fixed assets, without corresponding increase in long term sources (when project is implemented)
- Frequent change in accounting period and/or accounting policies
- Claims not acknowledged as debt
- Material discrepancies in the annual report
- Substantial related party transactions
- Substantial increase in unbilled revenue year after year



Early Warning Signals (EWS)- as per RBI

- Large number of transactions with inter-connected companies and large outstanding from such companies
- Resignation of the key personnel and frequent changes in the management
- Significant reduction in the stake of promoter /director or increase in the encumbered shares of promoter/director
- Raid by Income tax /sales tax/ central excise duty officials



Cash Verification

- 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.



Cash Verification

- 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.



Cash Verification

- 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 (cash transaction report).
- That all cash transaction of Rs. 50,000 and above invariably indicate Pan No./Form 60.



Cash Verification

- 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.



Manual reversal of income

- Obtain Trial Balance and Profit & Loss of the branch for month end
- Check any negative balances appeared in above – now a days separate ledgers for control purpose.
- Verify the income heads & understand nature and processing of transactions
- If manual intervention observed - verify computation, sanction/approval from the Controlling Authority for such reversal
- Instances of manual reversal of income:



Manual reversal of income

- SCA or SBA suggested- classification of advances leads to manual reversal non-served interest & charges
- Excess charging of processing fee, documentation fee, inspection charges, commission fees, etc. to the borrower account
- Renewal charges and other incidental charges debited even though advances not renewed.
- Several times the necessary approval is awaited from the Zone/ Head Office.



Locker Rent

- Check the accounting policy of the bank
- Check whether rent automatically credited in CBS or manually done
- If manually computed, should check thoroughly so as to avoid income leakages
- Verify whether locker rent properly accounted in books as per bank's service charges policy
- Check amount of rent arrears, periodicity and same should be reported
- Obtain the report from CBS of the lockers sanctioned and the income booked – usually in the first quarter of the F.Y. amount is recovered from savings/current account.
- Check whether done centrally or at branch level.



Housekeeping

- Sharing of passwords – controls
- Storage of servers, switches, routers – access to them restricted?
- Preservation of branch records/daily vouchers
- Scrutiny of day to day vouchers
- Reporting of fraud prone areas
- Report on customer service
- Irregularities of earlier audit not rectified
- Banks accounts – Bank account reconciliation
- Government Business- Pension payments, PPF, Collection of tax, other Govt. business, etc



Housekeeping

- Follow up laid down procedure w.r.t. security forms such as Drafts, Pay Order, FDR, etc.
- Recovery of TDS on applicable TD, payment to contractors/landlords
- Holding customer service meeting at periodical interval for requesting customers of all categories (Deposit, Advances, Forex)
- Security at the Branch – Gun license
- Ghosh Jilani Report – detailed questionnaire



Main expenses to be verified

- Plan the audit procedures based on control testing for accounting and recording of items of expenses correctly
- Check accounting policy as well
- Verify maker checker existence
- Verify whether sanction/authorization for expenses done as per delegated powers
- Confirm that the expenses incurred pertain to the official business of the branch
- Rent, Telephone, Electricity, Travelling, Printing & Stationary etc.



Forex & Remittances

- Verify genuineness of foreign inward remittances, end use and purpose thereof
- From the view point of Money Laundering
- Foreign outward remittances particularly for import transactions to ascertain the genuineness by verifying the import bill of entry evidencing import of goods
- Check the related booking of income – charges and the commission for the conversion.
- Confirm that rate is proper as given by Treasury



Forex & Remittances

- Verification of SWIFT messages covering inward remittances whether such messages are authenticated properly and received from the Bank's authorized overseas correspondence banks
- Outward SWIFT messages: Verify whether outward messages are sent to the correspondent bank with authentication
- SWIFT messages so received/sent are properly authenticated and their stamp authenticated & Signed by authorized officials.
- Daily reconciliation between the Swift system and the data entered in CBS (PNB Fraud).



Timely receipt of stock statements

- As per sanction terms of advances check stock statements properly updated in CBS
- Ensure that stock statements are received on or before the given due date.
- Verify the date stamp on the stock statements and cross verify the date entered in CBS.
- In the event of non receipt of stock statements, penal interest should be recovered from the due date till the date of actual receipt and report the same.



General Points

- Reconciliation of the Government Business accounts
- Multiple CIFs – credit card accounts.
- Closure of Deposits to be credited to loan accounts ONLY
- Compliances on the observations – persistent irregularities
- Debit balances in savings accounts – ATM withdrawals and UPI payments permitted
- ECS charges debited in accounts even when there is no balance



Fixed Assets, Current Assets & Current Liabilities

- Fixed Assets – coding and updation of the FAR
- Ensure that figures as per the trial balance from CBS matches with the schedule of Fixed Assets figures If different software maintained.
- Check depreciation on fixed assets calculated as per bank's defined policy & ensure proper accounting in CBS.
- Verify date of recording the fixed asset in the books of accounts and commencement of depreciation which should be from the date, the asset available for use in line with AS-10



Fixed Assets, Current Assets & Current Liabilities

- Ensure that assets are properly insured with bank clause inserted in the policy proper valuation thereof supported by original invoices
- Ensure delegation of power in purchase and sales of fixed assets
- Examine the evidence of physical existence of fixed assets
- Current Assets & Liabilities:
- It includes advances made to Staff, Tax paid in advance/tax deducted at source, Sundry



Fixed Assets, Current Assets & Current Liabilities

- Debtors with bifurcation thereof, Inter-office adjustments (net), Stationery and stamps
- Check periodicity of outstanding sundry debtors/creditors
- Physical verification of stationery & stamps, age wise breakup of pending entries inter-office adjustment account with reason thereof.
- Check provision entries parked in other liabilities.



Security Valuation and updation in the System – apportionment among various limits

- Check value of securities pledged/hypothecated/mortgaged to the bank properly updated in CBS
- Verify value properly apportioned among all facilities availed by single borrower
- Verify whether there is no double entry of same securities value which results into overstatement of valuation against advances
- Confirm the security valuation properly in case of NPA accounts
- Check that latest value is updated
- Verify if primary security value exists in D1/D2/ Loss accounts



Security Valuation and updation in the System – apportionment among various limits

- In case of vehicle whether the depreciated value is being considered.
- Collaterals are stated as per valuation report which is not older than 3 years.
- In case of consortium accounts only the portion of securities pertaining to the Branch have been updated in the security value fields.
- Verify the statutory audit and stock audit reports to check for any qualifications pertaining to stock and assets and mention the appropriate revisions in your audit report to the Branch.



Funding of FITL accounts

- Manual transfer by the branches
- During cut off period – treatment
- Provisioning not done
- FITL opened in different code
- Check the sanction and confirm that the master has been properly updated with the terms and conditions of ROI and the repayment schedule.
- Ensure that interest is serviced as and when due by the borrower.



Wealth Management & Third Party Products

Wealth Management

- Check client service agreement with wealth management clients
- Check that the terms of such service agreements are in compliance with the requirements/provisions of other market regulators like SEBI, IRDA, etc
- Check fee income recognized by the bank with charges mentioned / agreed with the clients
- Carry out cut-off procedures and ensure



Wealth Management & Third Party Products

completeness of fee income recognized for the year and accrue the earned income/commission and defer income received in advance based on services rendered

Third Party Products:

- Financial products that are sold by a bank for some other Institutions. Banks only distribute or sell these products on fee/commission/brokerage basis.
- Examples of Third Party Products:



Wealth Management & Third Party Products

- Insurance Products
- Mutual Funds
- Collection of utility bills and taxes
- Investment Advisory Services
- Demat Accounts
- Agency Business, etc.
- Check approved policy in place detailing the products and the manner in which they can be and are sold



Wealth Management & Third Party Products

- Verify revenue earned on sale of these products is properly accounted & received
- Verify compliances with GST & withholding tax provisions while recognizing revenue
- For any outstanding receivables- check balance confirmations from these third parties
- Any old outstanding should be verified for disputes, appropriate provisioning or write-off
- Verify the income recognized by cross checking data received from principals



Thank you