

Statutory Bank Branch Audit

- ❖ Audit Planning
- ❖ Audit Certification
- ❖ Ghosh-Jilani Report

Objectives of Audit Planning

- Compliance with RBI / ICAI Guidelines.
- Compliance with Accounting Standards and Audit & Assurance Standards.
- Cover all types of allied responsibilities during the audit, such as LFAR, Tax audit report, Ghosh & Jillani reports and other certification.
- Completion of Audit in time.
- To achieve effectiveness in reporting.

Three Segments of Audit Planning

- I. Pre-commencement Work
- II. Post commencement Work
- III. Audit Execution

Characteristics of Banks

- Custody of large volume of monetary items.
- Large volume & variety of transactions.
- Operates through wide network of banks.
- Wide range services offered such as ATM.
- Significant commitment without involvement of funds. (off balance sheet items)

Segment - I Pre-commencement Preparation

- Appointment Letter received from the Bank.
- Acceptance Letter sent to Bank.
- Other letters, declarations, like letter of fidelity and secrecy, etc.
- Intimation to Previous Auditor for No Objection from them.
- Co-ordination with branch.
- Knowledge of Business.
- Study latest RBI circulars, Applicable Accounting Standards and Auditing & Assurance Standards
- Knowledge about CAAT (Computer Assisted Audit Techniques) tools.
- Knowledge of applicable Rules & Regulations.

Segment - II Post Commencement

- Obtain the list of books maintained by the branch.
- Understand the computer software.
- Obtain previous audit reports.
- Obtain composition of advances and deposits.
- Review Accounting policies.
- Obtain H.O. circulars.
- Understand Internal Controls at branch.
- Meeting with Branch Officials.
- Comparative Ratio Analysis.
- Profile of business, whether specialized branch.

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Audit Planning and Certification

- Preparation of Audit Programme
 - a. Define the Audit Team with clearly defined scope of work.
 - b. Set materiality level standards for each area of checking.
 - c. Set overall time schedule.
 - d. Ensure that Audit staff is satisfactorily trained.
 - e. Audit Programme should cover all areas under liabilities, assets, income, expenditure, provisions for taxation and off Balance sheet items.
 - f. Special emphasis on verification of advances, income recognition and provision to be made.

- Review compliances required by banks, internal polices, RBI circulars and Accounting Standards.

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Audit Planning and Certification

- Verify Accounting and Procedures Manual of the bank wherever required.
- Certain areas to be covered during the audit
 - a. NPA Provisions.
 - b. Expenses.
 - c. Access to Computer System.
 - d. Aspect of Value of Security in NPA advances.
 - e. Inter Branch Reconciliation.
 - f. Sensitive Accounts old outstanding entries – Suspense a/c's
 - g. Statutory Compliances

Segment - III Audit Execution

- Carry out actual audit
- Evaluate Strengths, Effectiveness and Weakness of Control Systems
 - a. Review whether transactions are in accordance with authorizations.
 - b. Safeguarding of assets from unauthorized access.
 - c. Verify the controls in software used at the branch.
 - d. Apply Audit Procedures.
 - e. Proper Documentation - AAS1
 - f. Materiality-AAS13
 - g. Memorandum of changes (MOC) to be given. In case of NIL MOC, issue a NIL MOC.
 - i. Main Report and LFAR (Long Form Audit Report)

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Audit Planning and Certification

- Preparation and Submission of Audit report
 - a. Quantify the qualification put separately in main report.
 - b. Concept of materiality should be observed while reporting.
 - c. Reports drafted must be clear & unambiguous. Quantification should be made wherever required.
 - d. Discuss with Central Statutory Auditor or Higher authorities at Bank, wherever required.
 - e. Obtain the Management Representation Letter.
 - f. Discuss the draft report with Branch Manager prior to finalization.

Audit Certification

- Main report.
- MOC's pertaining to Accounts Deptt., Classification of Advances, Provisioning, Reversal of Interest, Contrasts.
- Tax Audit Report.
- Long Form Audit Report.
- Certificate for DICGC claims.
- Certificate for PMRY scheme.
- Certificate regarding Sec.269 T of the Income Tax Act.
- Statement of Capital Adequacy data, Maturity pattern of Assets/Liabilities (ALM), Segment reporting.
- S.F.F. Certificate (Safe Furniture Fixture).

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Audit Planning and Certification

- Bank balance confirmation for all bank accounts held by branch.
- Cash balance certificate.
- Movement of NPA.
- Certificate regarding implementation of Jilani Committee and Ghosh Committee recommendations.
- Advance to Sensitive Sectors.
- Any other statement required by bank.

Ghosh Committee

A high level committee was set up to enquire into the various aspects of frauds and malpractices in the bank and to make recommendations to reduce such instances.

Ghosh Committee Recommendations

- **Main Objectives:-**
 - Safety of assets.
 - Compliance with laid down policies & procedures.
 - Proper segregation of duties & responsibilities of Staff.
 - Accuracy & completeness of accounting & other records.
 - Timely prevention & detection of frauds and malpractices.

Ghosh Committee Recommendations

- The recommendation table as below

Recommendation No. (Group Wise)	Nature of recommendation	Implementation Status at Branch	Implementation Status at RO/ZO/HO

- All answers are strictly to be in YES/NO/NA mode only and replies such as “Being done” are not permitted.

Categorization on Implementation of Ghosh

- Group A - Recommendations which have to be implemented by the banks immediately.
- Group B - Recommendations requiring RBI's approval.
- Group C - Recommendations Requiring approval of Government of India.
- Group D - Recommendations requiring further examination in consultation with IBA.

Out of 97 Recommendations 27 are required to be reported at Branch level, 43 at RO/ZO/HO level and 27 at both levels.

Major Recommendation of Ghosh Committee

- **Branch Level - Group A.**
 - a. Joint custody & dual responsibility of cash and other Valuables.
 - b. Rotation of Staff/duties.
 - c. Designation of one of the officers as compliance officer.
 - d. Financial and administration powers of officials to be laid down.
 - e. Precautions against theft of cash.
 - f. Execution of caution at the time of opening of new deposits of all types.

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Ghosh and Jilani Report

- g. Precautions in preparations drafts / mail transfer.
- h. Precautions for averting frauds in letter of credits, guarantees.
- i. Screening / selection of employees in EDP cell, computer area.
- j. Standards for fully computerized branches.

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- **Branch Level - Group B**
 - a. Banks to introduce portfolio inspection in critical areas such as credit, investment, off balance-sheet items.
 - b. Periodical movements between bank officials & investigating officials of CBI/Police.
 - c. Six months prior to retirement officials should exercise their sanctioning powers jointly with next higher authority.
 - d. Paper used for cheque/drafts should be such that any use of chemical for making material alternation in instrument should be visible to naked eye.

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- **Branch Level - Group C**

- a. Chief Vigilance officer should directly refer to CVC, cases having vigilance angle involving CMD.
- b. Fraud cases upto Rs.25,000/- having involvement of an insider should not be reported to police ,where recovery is not doubtful.
- c. Introduce a return of staff members to ensure strict submission of information of assets & liabilities and proper scrutiny thereof.

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- **Branch Level - Group D**
 - a. BRs should not be outstanding for more than 7 days.
 - b. Obtain photographs of depositors at the time of opening of accounts.

Jilani Committee Recommendations

The Reserve Bank of India set up a Working group under chairmanship of Mr.Jilani.

- To review internal controls, inspection and audit systems in banks with a objective to strengthen the supervisory system and ensure reliability of data .

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Jilani Committee Recommendations

- The recommendation table as below

Sr. No.	Recommendation No. in the WG Report	Nature of recommendation	Implementation Status at Branch	Implementation Status at RO/ZO	Implementation status at HO

- The above should indicate the answers as either “implemented” or “Not implemented”.

- There are 3 categories of recommendations
 - a. EDP environment in banks
 - b. Inspection / internal audit in the banks
 - c. Miscellaneous aspect of functioning of a bank

Recommendations of Jilani committee

1. Co-ordination between Inspection & Operational wings to be ensured.
2. Broad Guidelines to establish accountability for inspectors/ auditors to be laid down.
3. A database on training inventory of each inspector / auditor to be developed for updating of knowledge.
4. A copy of the booklet incorporating RBI circulars to be supplied to each inspecting/ audit official periodically.

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5. Profiles of Banks branches in thrust areas such as audit ratings ,asset quality, level of NPA's, revenue Leakages etc. to be maintained on computer so as to enable the banks to pinpoint inadequacies for remedial action.
6. A manual of instructions for inspectors/auditors to be maintained.
7. Inspection Audit to be completed within 2 months and for very large branches 3 months.
8. All poorly rated branches to be inspected within 12 months & others between 12 & 18 months of previous inspection.
9. Revenue/income audit to be conducted at selected branches where leakages are noticed and there is no concurrent audit.

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10. Inspection audit report to be updated/revised periodically. An executive summary to be prepared after every inspection to be submitted to the higher authorities.
11. Banks should have system for ratings of its branches on the basis of inspection reports.
12. A computerized track record of efficiency rating over the previous 4-5 inspections to be maintained.
13. Major irregularities detected during concurrent audit to be immediately taken up with Head Office.
14. Irregularities pointed out in case of smaller/medium branches to be rectified within 4 months.
15. Majority of irregularities are to be rectified during the course of audit itself.

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16. Immediate action to be taken to plug gaps in serious irregularities.
17. Items for discussion at audit committee meetings & periodicity of meetings to be decided upon.
18. A separate report to be submitted on inspection findings related to frauds.
19. Appropriate control measures to be devised & documented to prevent the computer system from attacks of unscrupulous events.
20. Various tests to be carried out to ensure that EDP applications have resulted in consistent & reliable system for inputting, processing and generation of output of data.
21. Entire domain of EDP activities to be brought under scrutiny of inspection & audit including financial aspect.

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22. If outside computer agencies are engaged, banks should ensure that they have the right to inspect the process of application & ensure the security off data/inputs given to those agencies.
23. Changes to standard software to be approved , inspected & monitored by senior management.
24. Internal vigilance machinery to be strengthened & its working to be reviewed by the board every six months.
25. Regular checking by inspectors to verify correctness of information compiled by branches.

Audit Procedures for reporting upon implementation of Ghosh & Jilani committee recommendations

1. Report on implementation status of Ghosh and Jilani committee shall be forwarded to Head office.
2. Review a copy of implementation status report so prepared and submitted.
3. Test check to ensure that recommendations which have been said to have implemented have indeed been implemented by management
4. Non Implementation bring to notice of Management.
5. Reconsider the nature timing and extent of audit procedure for carrying out the audit and timings.
6. Status of compliance of previous Statutory Audit Report.

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Ghosh and Jilani Report

- **Responsibility for implementation and Auditors Role**
 - a. Management is responsible for the implementation of Jilani committee recommendations.
 - b. The responsibility of the statutory auditor is to verify and report on the status of implementation of these recommendations.
 - c. The results of the verification carried out and comments to be given in Main Report separately.

THANK YOU