



Audit Planning, Execution & Certificates



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Structure of Presentation

- Setting the Context
- Audit Planning
- Audit Execution
- Certificates





Setting the Context

Key characteristics of a Bank

Governed by Banking Regulation Act, 1949 (e.g. Presentation and disclosures (Schedule III))

Regulated by the **Reserve Bank of India** (e.g. Prudential norms etc.)

Key characteristics of a Bank are:

- Acceptance of deposits → commercial lending activity + treasury/ investment activity
- Conduct of business and operations is either centralised at head office and/or decentralised in branches;
- Significant dependence on technology due to very high volumes and high degree of automation of operations

Banking Facts

Reserve Bank of India

Scheduled Banks

Commercial Bank

State Co-op
Bank (34)

Public
Sector Bank
(12)

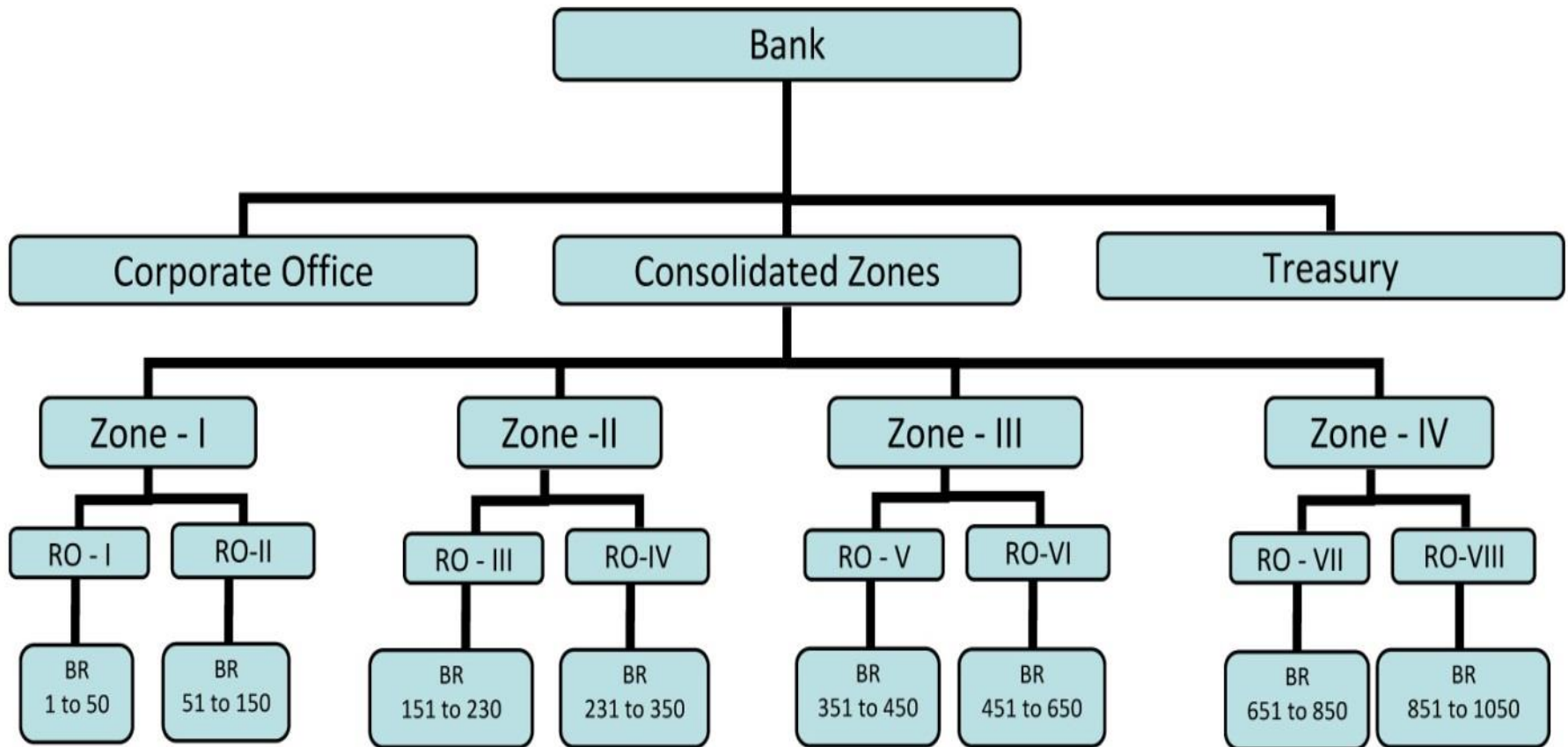
RRB
(43)

Foreign
Bank
(46)

Private
Sector
Bank *
(37)

*Includes Small Finance Banks and
Payment Banks

Banking Structure



RO – Regional Office

BR – Branches

Bank Audit Process

Branch's financial statement gets consolidated to RO

↓
RO to Zone

↓
Zone to Bank's Financial Statements

While auditing the bank's financial statements, Statutory Central Auditor rely on the Bank's Branch Auditor's report and same fact is also mentioned in the audit report for the Bank as whole

SA 600 - Permits Auditor to rely on work of Component Auditors

Hence Branch Auditor is Responsible for Financial Statements, RBI Compliances, NPAs, Restructuring of the Branch

Banks Financials

		Schedule	
		1e	31-03-20XX
CAPITAL AND LIABILITIES			
Capital	1	11 00 00	65%
Reserves and surplus	2	33 00 00	
Deposits	3	357 50 00	17%
Borrowings	4	93 50 00	
Other liabilities and provisions	5	55 00 00	
	TOTAL	550 00 00	
ASSETS			
Cash and balances with Reserve Bank of India	6	33 00 00	
Balances with banks and money at call and short notice	7	22 00 00	25%
Investments	8	137 50 00	
Advances	9	302 50 00	55%
Fixed assets	10	27 50 00	
Other assets	11	27 50 00	
	TOTAL	550 00 00	

Key Deliverables

Deliverables of Bank Branch Auditors

1. Branch's Balance Sheet
2. Branch's Profit and Loss Account
3. Branch's Audit Report
4. Branch's LFAR
5. Branch's Tax Audit
6. Returns as per closing instructions of Bank
7. Certificates as per closing instructions of the Bank

Key Concepts

A. Basic Principles- (SA- 200) :

1. Integrity - Honesty & Candid;
2. Objectivity - Unbiased Attitude and Independence;
3. Professional Competence and Due care - Adequate Knowledge & Skills;
4. Confidentiality;
5. Professional Behaviour- Competent & Impartiality;

B. Important Aspects

1. Audit Documentation (SA- 230)
2. Planning (SA- 300)
3. Materiality & Risk Assessment (SA - 320 & SA 315)
4. Audit Evidence (SA - 500)
5. Audit Reporting (SA- 700)

Knowledge Bank

- A. Knowledge of the Banking Industry;
- B. Master Directions, Circulars and Notifications issued by RBI;
- C. Guidance Note on Bank Audit;
- D. Technical Guide on LFAR;
- E. Closing Circulars issued by the HO;
- F. Understanding the Bank and Branch Business;
- G. Evaluating Accounting System & Internal Control

Key Steps in Branch Audit

- Appointment Formalities - Eligibility, Engagement Letter, NOC
- Read Closing Circular issued by HO. It covers many important aspects
- Attend Meeting organised by HO. SCAs highlights imp aspects in Meeting
- Planning Meeting with Branch Manager
 - Understand Operations of Branch
 - Meet all operations head and audit co-ordinator
 - Ask for previous year financials, LFAR, CY Internal Audit Report, RBI audit report and any other audit conducted during the year
 - Any major event or changes during the year
 - Any NPA, Restructuring during the year - get brief about same
 - Discussion on sanctioning and monitoring process
 - Brief discussion on IT system and process

Audit Planning

- Internal (Audit Team) and external (with branch management) planning meetings
- Proper audit team needs to be identified
- Day wise allocation and execution of the work is required to be done
- To ensure that proper arrangement is made and access to the IT systems
- Prepare requirement list for the current year audit
- Auditors have to discuss requirement list with Branch manager - obtain agreed timelines for submission of required data.
- Branch audit assignment is always time bound, hence proper planning of assignment helps in concluding assignment in defined time.
- Based on previous year financials (if current year financials is not available) auditors are require to assess the materiality level

Audit Planning

To understand the functioning of Information system in the Bank and need to find answers for following questions:

- What is **CBS environment**?
- Which **software** is implemented across the bank?
- Whether any steps are necessary to be taken at the branch when software is **modified/updated centrally**?
- Details of **other softwares** in the branch ?
- Does the CBS have any **interface** with these software?
- Whether any **system audit** is conducted in the Branch during the year? If **Yes**, What are the **findings**?

Evaluation of Control

Extent would depend on assessment of ***EFFICACY*** of control

- Existence of clearly laid down **delegation of authority**
- Existence of clearly laid down **eligibility criteria** for loans
- Existence of **system of communication with Customers**
- Existence of **system of execution** of documents before disbursement
- Existence of **system of post disbursement monitoring** and reporting irregularity
- Existence of **system for implementation** of IRAC Norms
- Adequate control on **changing of interest rates, terms and conditions, etc.** in CBS environment

Audit Execution

Auditors need to complete audit before year end.

Key areas to be checked during audit execution are as follows. These have been explained in detail in coming section.

- Deposits and Interest on Deposits
- Advances, NPA, Restructuring and Interest on Advances
- Profit and Loss Account
- Balance Sheet (other items like Fixed Assets, Other Assets, Other Liabilities etc.)
- Surprise Cash and Stationery verification (including ATM if any)
- LFAR
- Tax Audit of the Branch
- Other Aspects relating to other returns and certificates

Audit Execution

Audit of Advances

- Obtain top exposure accounts, New Sanction and Disbursement
- Obtain list of stressed accounts, potential NPAs
- Obtain list of restructured accounts and provisioning norms
- Quick Mortality cases
- Documentation and Provisioning

Audit of Deposits

- Obtain list of accounts opened and closed during the period
- Obtain list of inoperative accounts
- Verify compliance with KYC norms on test basis
- Review transactions in deposits accounts and compliance with regulatory norms i.e. EEFC accounts

Audit Execution

Audit of other items in TB

- Suspense, Inter Branch reconciliation and other reconciliation items
- Provisions other than provisions on Advances

Ensuring various compliances

- Previous year Audit report, Internal Audit, System Audit
- Compliance with HO regulations

Audit Execution

Profit and Loss

- Interest Income and Expense recalculation - sample basis
- Checking of interest logic in system and control on data entry
- Yield and Cost analysis
- Checking of other income like locker rent, fee income etc.
- Variance Analysis, Expense Vouching, Provision for Expenses
- Payroll Cost, Depreciation checking

Branch Auditor is responsible for all line items of Branch's Financial Statements; hence it is very important to check and get comfort

on all line items of Financial Statements.

Certificates

- ✓ Implementation of Ghosh & Jilani Certificates;
- ✓ Interest Subvention;
- ✓ Transfer of funds to DEAF;
- ✓ Compliance with IRAC Norms;
- ✓ Certificate in Red Flag Accounts;
- ✓ Certificate on Internal office Accounts; etc



Questions???

