

Usage of CBS system for Concurrent Audit

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Coverage

- * Background
- * Evolution of CBS
- * CBS Architecture
- * CBS Environment
- * CBS and Audit
- * Using CBS to increase Audit Efficiency

Background

* Myths about CBS –

- * Requires system literacy for Audit
- * No data can be made available in branch except what is given by Branch
- * There is no need for control review as control are in built
- * Staff / operators have full knowledge of operations
- * NPA are system generated

* What do banks inform us –

- * We have a core banking solution
- * All transactions are captured and processed seamlessly
- * All calculations are automated
- * Statements are generated from CBS

Evolution of CBS



Manual Banking



Branch
Computerisation

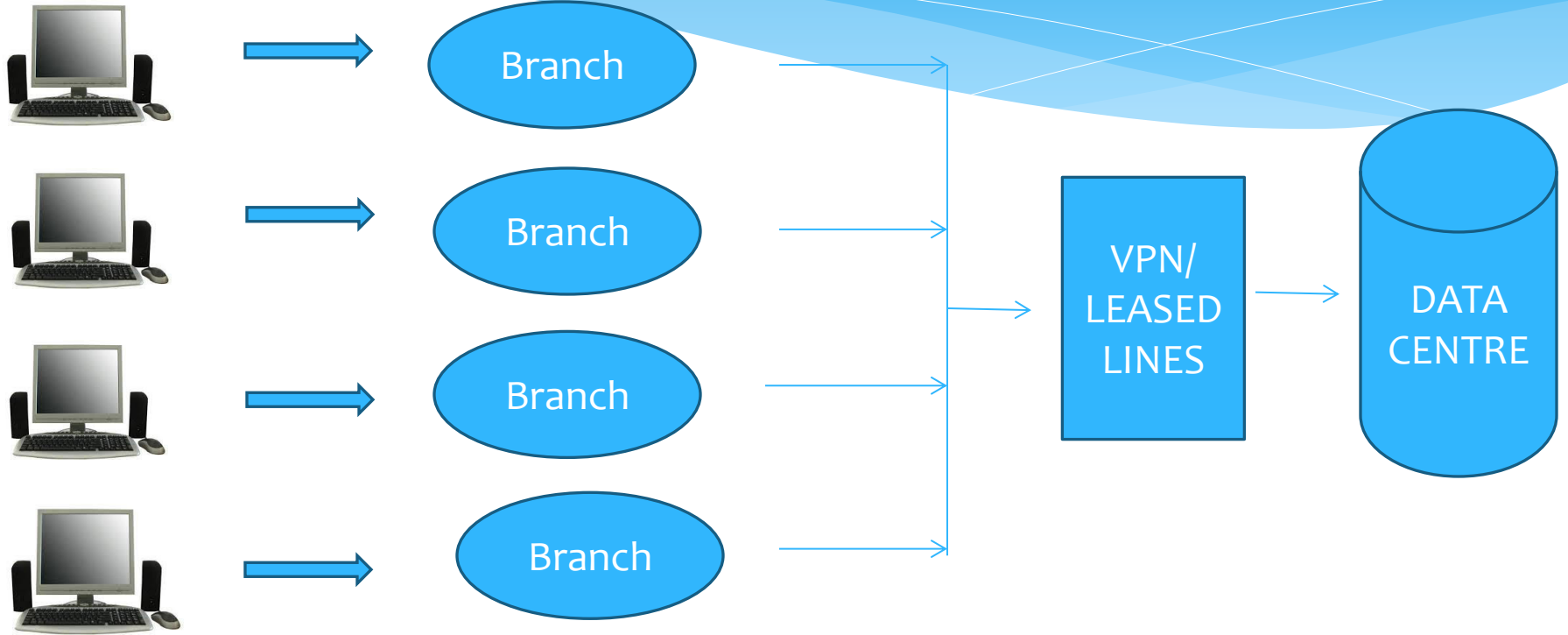


CBS – Branch Banking,
ATM, Internet Banking,
Mobile Banking etc...

CBS Architecture



CBS Architecture



Need for CBS

- ❖ Need for CBS
- ❖ Conquering geographical barriers
- ❖ Improved services to customers – enhanced reach and connectivity
- ❖ Real time funds transfer facility
- ❖ Less Manual Intervention
- ❖ ‘Safe, secure, sound, efficient, accessible and authorized’ payment and settlement systems

Advantages of CBS to Customers

- ❖ Complete end-to-end connectivity banking across all geographical locations.
- ❖ Anywhere, any-time, real time banking possible.
- ❖ Customer of bank instead of branch.
- ❖ Saving of time/Efforts

Advantages of CBS to BANKS

- ❖ Common IT solution
- ❖ Central shared database
- ❖ Data processing, storage, backup, report generation, inter branch reconciliation done centrally
- ❖ Effective MIS to top management
- ❖ Timely reporting to regulators
- ❖ Integration between various business segments of the bank
- ❖ Better Monitoring for the Customer Accounts.

Overview of CBS Modules

❖ Mandatory Modules

- ❖ Customer Maintenance
- ❖ General Ledger
- ❖ Deposit Accounts
- ❖ Loan
- ❖ Trade Finance
- ❖ Clearing, Collection
- ❖ Remittances
- ❖ Reports
- ❖ Queries

Overview of CBS Modules

- * **Additional/ Optional Modules**
- * Safe Deposits, Lockers, Inventories
- * Telebanking, Internet Banking, Mobile Banking
- * ATM Network
- * Treasury Operations
- * Anti-Money Laundering
- * Data Warehousing
- * Customer Relationship Management
- * Straight Through Processing
- * Interfaces to SWIFT, RTGS

Types of CBS Applications

- * **Single Central Data Base Approach**

- Finacle

- * **Branch Server + Central Data Base Approach**

- FlexCube, Bancs 24

- * **Cluster Approach**

- Branches grouped in Cluster
- Clusters connected to Central Server

CBS Parametrization

*** CBS is basically revolves around following parameters –**

- Products
- General Ledger
- Interest Calculation Method
- User Rights Management
- Transaction level Features
- Service Charges

Typical Cycle of Operations in CBS

- * Begin of the day – Data Centre
- * Transactions input and Authorisation – Branches
- * Completion of Branch Operations – Branches
- * End of Day Operations – Data Centre
- * Reports Checking – Branches
- * Back up Operations – Data Centre and Branches

CBS Can't meet all the requirement of Audit

CBS Can Do –

- * Storing of Data
- * Analysis of Data
- * Internal Controls

CBS CANNOT Do –

- * Documentation
- * Party site/ Stock Verification
- * Security of Documents
- * KYC Checks
- * Twisting of the standard norms.

CBS does'tnot obviate need for Branch Audit

Branch Audit not Required

Centralised system
Completely Parameter Controlled
Regional Processing Centres
No discretion at Branches
No Loans at Branches
Centralised Processing for everything

* Branch Audit Required

- * Centralised system
- * Parameters can be overridden
- * Branch as a processing centre
- * Branches have discretion
- * Branches have powers for authorising, waiving off
- * Branches are decentralized

Review of Computer Controls

BASIC CIA PRINCIPLE

C – Confidentiality

Assurance that information/ data is shared only amongst persons or organisations.

I - Integrity

Assurance that the information is authentic and complete. No data/ programme shall be allowed to be modified by anyone without proper authority.

A – Availability

Assurance that the systems responsible for delivering, storing and processing information are accessible only by those who are authorised to access and for business purpose only.

Review of Computer Controls

What is the Risk –

A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action

Risk can be mitigated by placing appropriate controls in place .

Types of Controls –

- * Preventive Controls
- * Corrective Controls
- * Detective Controls

Review of Computer Controls

Types of Control to be practised by Bank-

- * Operational Control – To be discussed in the next slide

- * Physical Control – Access to the Data base, Server Rooms should be restricted, Strict Password Policy should be maintained within the Bank Staff, Unattended Desktops.

- * Environmental Control –
 - Policy of adequate data back up servers should be framed and implemented.
 - Fire, Theft, Floods against such environmental hazards controls should be put in place

Review of Computer Controls

Basic Operational Controls to be in place –

- * **Segregation of Duties** – Obtain the Access Control Matrix verify the same with the Access Logs.
- * **Four Eye Principle** – Every transaction should have different inputter and authoriser
- * **Rotation of Duties** – No person should hold the same place/ desk for a substantial period of time. Rotation of duties should be mandatory.
- * **Ownership/ Responsibility to be assigned** – Every system should have system Owner. Who is authorised to grant accesses, approve modification to the system.

Review of Computer Controls

Nature and extent of review of general controls would depend upon the level of Computerization at the branch

For Eg: If a Branch is in Core – banking and has a Centralised set-up
Then Verify only –

- * Input Controls
- * Documentation aspects other security papers and files
- * End of Day Report that is available at the Branch
- * Exception Reports for unusual transactions
- * Physical Vouchers if required

Review of Computer Controls

- * Day-End Controls
- * Various control reports are generated to ensure integrity of the transactions and also to ensure whether transactions are in conformity with the Bank's guidelines/system of authorizations (maker-checker).
- * These reports reveal the exceptions and anomalies encountered during the day.
- * Review various office accounts - Suspense, Sundry Deposits, Sundry Creditors, Inter branch, ATM Suspense, Cash Management, HO

Review of Computer Controls

* Suggested Audit Procedures –

- * To check whether these accounts have been mapped to correct GL Sub head and entries in the accounts have been done correctly
- * Postings in sundry creditors and sundry deposit accounts have been duly verified by the branch.
- * Deposit from public and Deposit from Banks have been shown correctly in appropriate GL Subheads.
- * Credit balances in Loan accounts have not been shown in sundry deposit account.
- * To check whether these transactions are scrutinised by the branch for correctness and for prompt adjustment.
- * No long outstanding are lying in these accounts.

Review of Computer Controls

- * Control over Proxy/ Parking Accounts –
- * In normal course of business, some transactions might not be verified and may remain in entered (un-posted) status.
- * But, since day end process could not be suspended for next day, hence, these transactions are posted in a pre-designated account called Proxy/Parking Account. These transactions, generally, are of two types:
 - * 1. System Generated – Transactions generated during the system run – eg SI, Closure of SOL
 - * 2. User Generated – Certain transactions initiated but not posted by the user lie in the Proxy Account

Review of Computer Controls

- * Auditor's Action –
- * Verify if the EOD Reports have been reviewed by the Branch Manager.
- * Any such transaction lying in the parking account have been reversed and necessary corrections are done.
- * Comment on any Old outstanding entries lying in the proxy/parking account.

Review of Computer Controls

- * **Master the Master**

- * Masters are the key to the all the processing in the system. No transactions can be initiated without the creation of Masters.
- * Always Verify the Masters Created during the period.
- * Eg - The Herculean task of Interest verification, EMI can be simply checked by verifying of the Master of Interest.

Review of Computer Controls

- * Correct product chosen? – Housing loan/educational loan/
Public/staff/SSI
- * Master data giving customer details is complete and correct?
- * Interest rate entered correctly? – Fixed/Floating?
- * All sanctioned terms correctly entered in master?
- * In Agri loans crop season correctly captured? ☐
- * Maker-Checker control?
- * Appropriate authorization from the controlling authority to open
the account and the interest rate?
- * DP correctly computed and entered?
- * Insurance and other details captured correctly? To verify with
policies

CBS and Audit

- * Using Analytical Review Procedures
- * Gross reconciliation of interest
- * Balance generation report category wise
- * Interest worksheet category wise
- * Advances and Deposits movement
- * Balance generation report category wise
- * Variance analysis of other expenses
- * GL/PL
- * Gross provisioning as per prudential norms for each class of assets
□ Provisioning report asset category wise/year wise

Using CBS to Increase Audit Efficiency

* Exception Based Audit –

- * To verify the following reports generated and we can find out the irregularities in accounting –
 - Exceptional report (parking/ proxy/ unprocessed/ to-do/ error/ withhold)
 - List of users (to be matched with attendance registers)
 - Access Log
 - Rejected/Cancelled entries
 - Over-limits/TOD Report
 - GL affected Balances Report g. Report on large cash transactions / KYC Anti Money Laundering etc.

Using CBS to Increase Audit Efficiency

- * **Examples of Exception Reports –**
- * Loans sanctioned beyond discretionary limits.
- * Loans that are due and pending for review/ renewal beyond 3 months
- * Term loans where there are over 3 instalments outstanding.
- * CC cases where stock statements have not been submitted for over 3 months
- * CC accounts where the balance has been within limit only on a few days
- * Potential NPAs – interest/principal not received for 2 months continuously
- * Loss assets where provision <100%.
- * Upgraded accounts – NPA to PA or up gradation within NPA.

Using CBS to Increase Audit Efficiency

- * Deposits in cash more than Rs. 10 lacs – Cash Transaction Report. Accounts without any Interest charge/ credit\
- * Listing of overdrawn accounts (Can check Penal Interest)
- * Debits in income head accounts.
- * Accounts where interest is negative/nil.
- * List of Outstanding PCs
- * List of Overdue bills.
- * List of Outstanding bills at the year end with accrual details.

Using CBS to Increase Audit Efficiency

- * **Auditor's Access to the System**

Insist on having the Auditor's Login for the CBS.

- * **Top Down Approach –**

We can select the Top items in each category for the purpose of verification. Eg – Top 10 parties for Interest Checking, Top 10 Borrowers of Loan for classification purpose

- * **Use of Substantive Procedures –**

Audit Tests during finalization to be designed to focus more on substantive procedures and analysis based on the results of Exception tests.

Using CBS to Increase Audit Efficiency

* Use of Excel to audit Computer -

Excel is a very powerful tool, Data can be extracted in standard format and then be modified for detailed analysis using Excel.

* Audit Trail -

For Anything and Everything the system generates a Audit Trail .
Hence Auditor can verify any transaction details and ascertain the person responsible.



*Thank
You*