Audit under Computerized Environment

Borivali (Central) CPE Study Circle Of WIRC

Session Objective

- Discussion on how to utilize the information systems installed in the branch to their fullest to conduct statutory audit of banks' branches; effectively

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Contents

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- Basic Introduction of CBS including Modules Features, Assumptions
- General Audit Procedures in Computerized Environments
- Detailed Audit Procedure
- Case Study
- Screen Review

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EVOLUTION

MANUAL
BANKING

BRANCH
COMPUTERISATION

CBS – BRANCH BANKING
INTERNET BANKING ETC

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CBS – Features

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- ❑ Unique customer id
- ❑ All retail function combined
- ❑ Customization as per requirement
- ❑ Multi location access
- ❑ Centralized database

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Advantages – CBS

❏ Anywhere / anytime banking
❏ Enhance security features
❏ Back office functions centralized
❏ Effective MIS
❏ Data duplication is avoided

ASSUMPTIONS/MYTHS

ଔ Computerized system is full proof

ଔ Audit in computerized environment required more technical knowledge

ଔ No need for control review as control are in built

ଔ Staff / operators have full knowledge of operations

ଔ NPA are System generated

MODULES

➢ Employee /user module
➢ Customer master module
➢ Account master module
➢ Transaction module
➢ Stationary module
➢ Remittance module
➢ Trade finance and foreign exchange
➢ Non customer account – pl/gl/sundry /suspense
➢ BCP AND DRP / Call centre and help desk

Planning - Branch Statutory Audit

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- ❑ Verification of Financial Statements, other Closing Returns & Certificates including Tax Audit Report.
- ❑ Verification of Advances including Credit Appraisal, Documentation & Monitoring of Advances
- ❑ Compliance to Asset Classification & Income Recognition Norms
- ❑ System and Control related Issues in Operation including Revenue Leakage
- ❑ Physical verification of assets e.g. Cash, Fixed Assets, Gold Coins, Stamps etc

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Common Audit Procedure

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- ❧ Obtaining General Ledger as on Closing date and comparing it with that as on a nearby date before 31st and after 31st to identify window dressing, if any.
- ❧ Checking Due Date Diaries for Renewal, Insurance, Inspection, Stock Statement etc
- ❧ Checking of Scheme Code Wise Jotting Summary that is balancing as on last date and comparing with GL Balances .
- ❧ Comparing the List of NPA Accounts as on Current Year with Previous year or interim Period.
- ❧ No need to check P&L and Balance Sheet with PL and GL, respectively as the same are system generated.

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Common Audit Procedure

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- ❧ Analyse sanction terms of top 10 borrower accounts. Verify whether correct rate of interest is fed in the system and whether sanction terms have been complied with.

- ❧ Similar analysis may be done for a few advances sanctioned during the year.

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CBS Commands

Ledger Verfification	
Finacle	"ACLI" – Account Ledger Inquiry
	"ACLPCA" – Customer Ledger Account Print
	"PSP" – Pass Sheet Print
BaNCS	DL / TL Accounts & Services – Print Option
	Deposit / CC / OD Accounts & Services – Print Option

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CBS – Commands

Transactions in Accounts -	
Finacle	"FTI" – Financial Transaction Inquiry
	"ACLI" – Account Ledger Inquiry
BaNCS	DL / TL Accounts & Services – Enquiries – Transaction
	Deposit / CC / OD Accounts & Services – Enquiries – Deposit / CC / OD Transaction

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CBS - Commands

Sanctioned Limit / Drawing Power -	
Finacle	"ACLHM" - Account Limit History Maintenance
BaNCS	DL / TL Accounts & Services – Enquiries – Account
	Deposit / CC / OD Accounts & Services – Enquiries – Deposit / CC / OD Account

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CBS - Commands

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Repayment Terms, Interest Parameters including Penal Interest -	
Finacle	"ACM" - Account Master "CUMM / CUMI" – Customer Master Maintenance / Customer Master Inquiry "LARSH" – Loans Repayment Schedule Report
BaNCS	DL / TL Accounts & Services – Enquiries – Account Deposit / CC / OD Accounts & Services – Enquiries – Deposit / CC / OD Account

CBS – Continued

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Interest Rate History -	
Finacle	"INTTM" – Interest Table Master Maintenance
BaNCS	DL / TL Accounts & Services – Interest Rate History Deposit / CC / OD Accounts & Services – Interest Rate History

CBS continued

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Turnover in an account or Debit & Credit Summation -	
Finacle	"ATOR" – Account Turnover Report "ACTI" – Account Turnover Inquiry
BaNCS	DL / TL Accounts & Services – Enquiries – Long Deposit / CC / OD Accounts & Services – Enquiries – Long

CBS continues

Account Classification -	
Finacle	"ACS" – Account Selection or "ACSP" – Account Selection Print
BaNCS	DL / TL Accounts & Services – Enquiries – Short – Select Option 1 – DL / TL {Date of NPA is available under Long Inquiry}
	Deposit / CC / OD Accounts & Services – Enquiries – Short - Select Option 2 – CC / OD {Date of NPA is available under Long Inquiry}

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CBS continues

Account Classification -	
Finacle	"NPARPT" (NPA Report)
BaNCS	CC OD Balance File,
	Loans Balance File

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CBS - continues

Interest Report -	
Finacle	"AINTRPT" – Interest Report for Account
BaNCS	Product Sheets

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CBS – continues

Security Maintenance -	
Finacle	"SRM" – Security Register Maintenance
BaNCS	DL / TL Accounts & Services – Security (Primary / Collateral) – Customer – Amend / Enquiry - Amend / Enquire Security

CBS ……

Lien Marking -	
Finacle	"ALM" – Account Lien Maintenance
BaNCS	DL / TL Accounts & Services – Security (Primary / Collateral) – Customer – Amend / Enquiry - Amend / Enquire Security

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Non-Fund Based Facilities -	
Finacle	"DCQRY" – Documentary Credit Query "GI" – Guarantee Inquiry
BaNCS	Available in Offline Reports or through EXIM Software

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Bills Purchased & Discounted -	
Finacle	"BI" – Bill Inquiry
	"FBI" – Foreign Bill Inquiry
BaNCS	Available in Offline Reports or through EXIM Software

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Security Stationery -

Finacle   "ISRA" - Inventory Status Report

BaNCS   Available in the module of "Valuable Paper Inventory System (VPIS)"

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Deduction of Tax at Source -	
Finacle	"TDSIP" – TDS Inquiry / Print
	"ACSP" - Account Selection for accounts having balance more than a threshold
BaNCS	Available in Offline Reports on account wise / transaction wise Tax Deduction

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Due Date Diaries in Finacle -	
INSTOEXP	Insurance Expiry List
INQLAC	Loan Document Expiry Date
LADRPT	LAD Report
STKSTMT	Stock Statement not submitted

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Other relevant Menu options in Finacle -	
ODFDREP	Report for Matured OD/FD Accounts
POVDPC	Party-wise Overdue Packing Credit
PLIST	Pending Instalments List
CULI	Customer Unutilised Limit Inquiry
EXCPRPT	Exceptional Report

Some issues / Limitation

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❑ In many banks CBS (Finacle) is still not used for classification of NPA accounts.

❑ Further, NPA due to non submission of stock statement and non renewal of limits is again required to be classified manually.

Issues/ Limitation

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- ❑ During transfer of data from CBS (Like Finacle) to Advances software (Like CCIS, ASCROM etc.) some alterations / mistakes are possible.

- ❑ Also there is a lot of data which needs to be fed afresh in Advances Software, since either CBS does not contain it or the data in CBS is not up to date (e.g. value of security are not there in CBS).

Issues / Limitation

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- ❧ Updating of data like dates of last inspection, review, documents etc. is not done. Also installment amount, date of first installment etc. are not fed. Thus, CBS may not be used to its fullest.

- ❧ 4) CBS does not generate most of the closing returns.

- ❧ 5) CBS has made our work difficult to the extent that now anybody e.g. central statutory auditor may review branch's data and thereby our work sitting in Z.O. / H.O. of the bank.

Revenue Leakages

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- ❧ Focus on areas where charges are not automatically applied by the software or where a particular module is not computerised
- ❧ Omission in charging penal rate of interest e.g. for non-submission of Financial Statements, Stock Book-debts Statements, Ext. Credit Rating etc.
- ❧ Rate of interest not correctly interpreted and charged especially in case of large advances
- ❧ Commitment Charges

Revenue Leakages

◈ Rate of interest in case of irregular advance related accounts
◈ Documentation Charges
◈ Processing Charges
◈ Inspection Charges
◈ Lead Bank (Consortium) Charges
◈ Cash Handling Charges
◈ Charges for use of Locker exceeding the permissible limit etc.

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Revenue Leakages

◈ See "Interest Failure Reports" for CC/OD and Loans to detect leakage of revenue. 'Interest Rate History' may also be referred.
◈ Ledger accounts of CC accounts on month ends or quarter ends may be analysed.
◈ Sanction letter of Top 10 or 20 accounts (Especially accounts where a 'Minimum Rate of Interest' is being stipulated and Account Master to be checked.

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Shortcuts

◈ F1 - HELP
◈ F2 - LIST OF ITEMS FOR SELECTION
◈ SHIFT + F4 - SELECTING THE ITEM FROM LIST
◈ F10 - COMMIT
◈ CTRL + D - PAGE DOWN
◈ CTRL + U - PAGE UP
◈ CTRL + E - EXPLODE DETAILS

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Case Study- NPA

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- ᘔ Facts
  - ᘓ XYZ has granted Term loan of 40 lacs on 1/4/2014. ROI 12%, EMI = 1 lac period 5 years, EMI to start from 1/4/2015
  - ᘓ Repayment in 2014- 15 = Nil .
  - ᘓ Payment from 1/4/2015 to 30/7/15 = 5 lacs
  - ᘓ Account was standard till 31/8/15 – Become NPA in Sep 15
- ᘔ Question : What is the reason for NPA
- ᘔ Issue : Alteration in Repayment schedule / Wrong Entering of Master data

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