

***SEMINAR ON BANK AUDIT BY BORIVALI CHAPTER OF WIRC
ON 26.03.2017***

**POST DEMONETISATION EFFECTS ON
BANK BRANCH AUDIT**

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Agenda

- Demonetisation - Basics
- Objectives of Demonetisation
- Effected Areas
- Guiding Principles
- Reporting Requirements
- Review Methodology
- Checklists
- Fraud angle
- Questions & Answers

DEMONETISATION



SANITISATION

**Most things you forget in your pocket
can be put up for drying.
But not your data.**



March 27, 2017

Sanitize media prior to reuse. Always dispose your media securely.

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Demonetisation



Basics of Demonetisation

- Demonetisation is an act of stripping a currency from being legal tender.
- Basic purpose is to curtail shadow economy & crack down use of illicit and counterfeit cash for illegal activities and terrorism
- Earlier two instances of demonetisation in 1946 and 1978 was for curtailing tax evasion by blackmoney outside the economy.
- In fact only 6% of cash is in the form of black money rest are in the form of benami property, bullion and jewellery.

Post Demonetisation Issues

- Specified Bank Notes (SBN) of Rs. 500 and 1000 ceased to be the legal tender wef 09.11.2016.
- Certain prescribed procedures were not followed by Bank branches.
- Instances of hoarding of large chunk of cash by certain individuals.
- Misuse of bank accounts by unscrupulous elements
- Connivance of few banks officials
- Dealing with the Fake Currency.

Objectives of Demonetisation

- Reduction of parallel economy & reduce corruption
- Identification and removal of internal black money
- Detection and removal of fake currency
- Digitisation of the economy
- More Financial Inclusion

Effected areas in Bank branches

- Facilities for exchange of currency notes
- Cash Deposit transactions
- Cash withdrawal transactions
- Reporting requirements
- Record Keeping
- Special attention to Currency Chest branches

Exchange of Notes

- Whether limits of exchange of notes on various dates are adhered to? (4000, 2500, 2000, 5000, NIL)
- Whether adequate supporting documents collected & preserved? (ID proof, in person, authority letter, multiple times etc.)
- Facilities to Foreign citizen.
- Facilities at ATM counter.
- Facility was available only once.

Cash Deposit transactions

- No limits for KYC compliant accounts
- Maximum amount for non-KYC Rs. 50,000/=
- No cash deposit in small savings scheme accounts (PPF, Senior Citizen deposit, Sukanya samriddhi, Atal pension etc.)
- From 19/12/16, explanation in presence of Bank official.

Cash Deposit- Checkpoints

- Denomination details in paying-in slips
- Separate slip for SBN and non-SBN
- Authority letter for deposit by third party
- Adherence to FEMA guidelines for NRI accounts
- Circulars issued by RBI on KYC-Compliance
- Amendments of income-tax rule for seeking PAN.

Cash Withdrawal

- Various limits of withdrawal through branch on daily, weekly basis.
- Controls for personal OD Account (Check for misuse)
- Relaxed Limits for farmers & Traders
- No limits for white level ATM operators
- Relaxation for wedding up to 2,50,000/=
- Controls for PMJDY- up to 10000/=
- No debit for non-KYC compliant A/cs where total deposit exceeds Rs. 2 lakhs during the period.

Withdrawal through ATM & POS

- Various limits on different dates – 2000, 2500 & 4500 per day per card
- POS limit – 2000 per day per card
- Required documents

Guiding Principles

- Various circular issued by RBI after 08/11/16 (Refer www.rbi.org.in) – 52 in numbers.
- Guidelines by Income Tax Department
- Guidelines by MOF, Govt. of India.
- Benami Txn prohibition Act, 1988 as amended on 11/08/16
- Latest KYC guidelines
- Latest AML guidelines

Reporting Requirements

- Reporting of daily balance of SBN including deposits
- Reports on fake currency detected.
- Daily movement of SBN
- Maintenance of records of Mahatma Gandhi series (new) Bank notes.
- Record of deposits of deposit of SBN to RBI and currency chest.
- SBN can't form part of cash balance as on 31.12.2016.

Review Methodology

- Review exchange, deposit, withdrawal based on the available documents daily.
- Reconciliation of SBN – number and amount
- Ensure compliance with payment threshold guidelines along with legal tender notes.
- Review CCTV recording covering cash area.
- Review cash vault/ balance register, any overwriting?
- Review usual volume and number of business. Any steep variation – analyse.

NPA Classification

- RBI relaxes recognition of NPA on certain conditions
- Applicable to TL/WC advances up to 1 crore
- Relaxation given for 60 days, may defer recognition
- Additional 30 days for certain specific categories
- Defer downgrade for running WC/TL up to limit of 1 crore
- Applicable only for STD to Sub-STD.

Checklists – 1/2

- Whether limit for exchange over the counter are adhered to?
- Whether prescribed documents have been obtained?
- Additional document for Foreign citizen.
- Instances of exchange facility to same person more than once?
- Exchanges based on authority letter?
- Records for exchange maintained?
- Whether CCTV backup of cash area is available? Adequate backup?

Checklist-2/2

- Review CCTV records on random basis, any misuse?
- Whether in-edible ink was put on after Nov, 16.
- Report any abnormal increase of exchange over the counter.
- Compare average footfall, capacity of the branch to handle customer.
- Whether facility of exchange provide by BC attached to the branch?
- (similar checklists are available for deposit, withdrawal, reporting and review)

Checklist - additional

- Review excess of cash over retention limit and the insurance coverage.
- Frequent use of sensitive office accounts like suspense, sundry, inoperative etc a/c for cash transaction purpose.
- Frequency of ATM downtime and justification thereof.
- Adequacy of cash in ATM.

Fraud Angles

- Mis-appropriation of cash by replenishment agencies.
- Unusual volume and number of cash transactions on certain days.
- Reconciliation of SBN
- Dealing with Currency chest
- Diverting money and laundering fake currency for personal gain.
- Misuse of documents submitted by customer – identity theft
- Misuse of PMJDY A/c for black money conversion.

Fraud issues

- Possibility of depositing fake currencies in RBI during the process.
- ATM spitting fake/ duplicate currencies in few cases
- Internal audit report on demonetisation
- Concurrent auditor's report
- Handling DCCB
- Operations in dormant accounts
- Preventive steps for illegal accumulation of new currency notes.

Possible fraud cases

- Cancellation of Demand draft & pay in new currencies
- Currency on commission basis by cashier
- Opening fake accounts and laundered money
- Micro Finance agents (BC)
- Back dated transactions.
- More internet banking, more chances of phishing for less literate.
- Check the STR generated on all new accounts
- MORE ON CREATING AWARENESS

Transaction Inquiry

Finacle - Windows Internet Explorer
 http://172.17.7.29:8061/fincrv/crv.jsp?sessionId=O:47988174§ok=cc2fae5d76ed3ade5281e8bd04860d3f&finsessionid=O:47988174&fabsessionid=&mopname=HACI
 File Edit View Favorites Tools Help
 Favorites BI launch pad (2) Suggested Sites BI launch pad Web Slice Gallery
 Finacle Finacle

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Finacle Core Banking

Account Details
 General Details
 Transaction Inquiry
 Balance Details
 Interest Inquiry
 Inward Cheques Inquiry
 Outward Cheques Inquiry
 Account Turnover Details
 Limit Details
 Related Party Inquiry
 TD Transaction Details
 TD Interest Details
 TD Tax Deduction Details
 TD Renewal History Details
 Asset Classification
 Retail Loans Inquiry
 Delivery Channel Transaction
 Bill and Coll History of Revolving OD
 Interest Rate Inquiry
 Fee Details

Customer Details
 Customer Search
 Portfolio Statement
 Limits and Margin

General Details
 Turnover
 Asset Classification Inquiry

Non Resident
 Maturities
 Standing Instructions

Account Inquiry
 Sweeps Details
 Inquiry of All Assets

Summary
 Trade Finance

Transactions Inquiry

15-12-2016

A/c. No	29040100001593	CCY / SOL ID	INR / 2904
Names	NANDA DULAL KUNDU (OFFICER)	Balance	1,031.83 Cr
GL Sub Head	13421	Closing Bal.	1,031.83 Cr
Opening Bal.	3,778.83 Cr	Funds In Clearing	0.00
Float Balance	0.00 Cr	Eff. Available Amt	1,031.83 Cr
Available Amt.	1,031.83 Cr	A/c. Open Date	31-07-2004
Cust. Status	STAFF STAFF	A/c. Status Date	24-12-2005
A/c. Status	A Active		
Last Purge Date	23-12-2005		
Address	CROWN B FLAT NO 404 VASANT MARVAL WESTERN EXPRESS HIGHWAY BORIVALI E	State	MH MAHARASHTRA
City	MUMBA MUMBAI	Postal Code	400066
Country	IN INDIA	Telex No.	
Phone No.	9820041550 / 9967481550		
Email ID	kundu.nd@bankofbaroda.com		

Tran. Date	Value Date	Chq. No.	Withdrawl	Deposit	Balance	Narration
30-11-2016	30-11-2016			1,000.00 Cr	1,031.83 Cr	eBanking :
28-11-2016	28-11-2016		1,047.00 Dr		31.83 Cr	eBanking : 57003931/HBBR4930172568/MTNL MUMBAI
16-11-2016	16-11-2016		2,700.00 Dr		1,078.83 Cr	eBanking :

Account Selection

Finacle - Windows Internet Explorer

http://172.17.2.110:8082/BOB_REP/finsd211.htm?solId=0000

File Edit View Favorites Tools Help

BI launch pad (2) Suggested Sites BI launch pad Web Slice Gallery

Your current security settings put your computer at risk. Click here to change your security settings...

baf12004 Account Selection 15-12-2016

Account Selection and List

Selection Criteria

Sol/Set ID	0605	VAZ CORNER, TALEWA	A/c. Label	
CCY	INR	INDIAN RUPEE	A/c. Ownership	
GL Subhead Code			A/c. Prefix	
Scheme Code			A/c. Short Name	
Cust. ID			Ledger No.	
Employee ID			A/c. Status	
A/c. Manager ID			Mode of Operation	
Freeze Code			Minor A/c.	
Freeze Reason Code			Open Date - Low	
Location Code			Open Date - High	
Guarantee Cover Code			Close Date - Low	
Nature of Advance			Close Date - High	
Purpose of Advance			Include Closed A/c. ?	N
AND or OR FLAG	A	FOR ANDING THE FILTERATION CRITERIA	Lien Flg	
Operation	I	ACCOUNT INQUIRY	Min. Bal.	D
Addl criteria ind			Max. Bal.	C
Purge Alwd Flg				

Menu Option Transmit ScreenLock Accept Commit PrevRec NextRec WhoAml Background PrevBlk NextBlk

30-11-2010	30-11-2010	1,000.00
28-11-2016	28-11-2016	1,047.00 Dr
16-11-2016	16-11-2016	2,700.00 Dr

Done

Local intranet | Protected Mode: Off

100%

EN 16:14 15-12-2016

Important Reports – Trade Finance

- *FBBR – Bill Reg.
- *RINTRPT – Int PC Disb
- *GILR & GR – Guarantee Reg.
- *DCLIABRG – LC Reg.
- *FBBR – I/W Rem. Reg.
- *FCTCR – Cur. Sale Repo
- *DTMR – Fgn TT/MT
- *RPCRPT – PC/PCFC Repo.
- *CHRGADVP – Cust Adv Repo
- *RPT₁₂ – PC/PCFC Sanction Memo
- *FWCRG – Forward Booking Reg.
- *RRETURN – R Return
- *XOSSTMT – XOS Statement

Final Tips

- Mastery on ACS, AFI and FTI menu
- Use analytics from Bank
- Compare the trend, any unusual behaviour or changes
- Read all internal and RBI circulars
- Whether all accounts are really balanced & reconciled?

FRMS ALERTS

- Cash transactions > 50,000 in a day
- Transaction in an inactive a/c
- Txn > 1 lac in newly opened a/c
- Intersol Txn – staff A/c
- Dr Txn in other office A/c
- Txn in Dormant A/c
- Cash Txn in sensitive office A/c
- Cr > 50000 in staff A/c

Question & Answer

- THANK YOU