

CONCURRENT AUDIT

(BANKS)

Concurrent Audit is a systematic examination of *all financial transactions* at a branch on continuous basis to ensure accuracy and due compliance with the internal systems, procedures and guidelines of the bank.

TYPES OF AUDIT IN BANKS

INTERNAL AUDIT

- By **Bank's own staff** appointed as Auditor under the control of Inspection Department of the Bank.
- **Scope is unlimited** and covers every aspect of Branch working.
- **Surprise** Inspection at regular interval.

EXTERNAL AUDIT

- By a Firm of **Chartered Accountants** appointed by the Bank, by **RBI**, any **Government authority**.
- **Scope is defined** in the Appointment letter / letter by RBI / Govt. authority.
- **Generally pre intimated** to the Branch to be audited.

EXTERNAL AUDIT

- **Revenue Audit** (Income & Expenditure Audit).
- **System Audit** – related to Computerisation.
- **RBI Audit** for limited purpose e.g. KYC, Govt. Transactions, Cash verification of Currency Chest branches, General Inspection of Co-operative Banks etc.
- **Audit by Govt. authority** of branches conducting Govt. transactions.

(All the above Audits cover limited area)

- **CONCURRENT AUDIT** - In few Banks it is done by Bank's own staff.

Object of Concurrent Audit...

Concurrent audit is an examination, which is ***contemporary to the occurrence of transaction or is carried out as near to it as possible***. Thus concurrent audit is a **regular process** that has to be carried out **round the year** at a branch on an on going basis. Concurrent audit is an independent appraisal activity conceived as a systematic examination of all financial transactions at a branch **to ensure accuracy and compliance of internal systems and procedures** as laid down by the bank. *It aims at minimizing the incidence of serious errors and fraudulent manipulations.*

CONCURRENT AUDIT

- Scope of Concurrent Audit is generally defined in the appointment letter, but lastly it is mentioned that “***the guidelines provided are illustrative in nature and NOT EXHAUSTIVE***”. Therefore the scope of Concurrent Audit is **wide** as compared to other types of external audits.
- Format of Audit report is provided by the Bank.

Concurrent Audit .. Contd.

- Every function of the Bank **related to the Branch under Audit** is **covered** in the Concurrent Audit.
- Branch working can be divided into following categories:
 - a. General Banking.
 - b. Loans and advances.
 - c. Other services.

General Banking

General Banking includes:

- **Cash** – custody, receipts, payments, remittances – Inward – Outward.
- **Deposits** - Account opening, transfer of accounts from one branch to other branch, closing of accounts, Operations in Deposit accounts and related work.

General Banking ... contd...

- **Remittances** - Issue of Demand Drafts, Pay Orders, transfer of funds by RTGS / NEFT.
- **Clearing** – Presentation of Cheques on behalf of customers, payment of cheques of customers. ECS clearing.
- **OBC / IBC** – Outward and Inward Bills for collection.
- **House Keeping** – Maintenance of record, up keep of premises, furniture, display of various information and caution notices.

General Banking ... contd...

- **Staff related** - All staff related matters.
- **Branch Security** - Security of assets.
- **Licenses** - Display of various licenses and timely renewal.
- **Office Accounts** – Various parking accounts are to be maintained in the Bank.
- **Bank Accounts** – Reconciliation of Bank Accounts.
- **Security Stationery** – Control and record.

General Banking ... contd...

- **Delivery of Cheque Books** - Requests for issue of Cheque Books and delivery of Cheque Books.
- **Custody and delivery of ATM Cards / Pin mailers:** Safety of ATM cards and Pin mailers.
- **Postage & Courier** - Postal Receipts / Acknowledgements .
- **Customer Service** - Complaints register.
- **Submission of Returns and payment of Taxes:**

Loans & Advances

- **Sanction of New Loans-** There are various types of loans sanctioned by the Bank which can be classified into two categories i.e. Term Loans and Demand Loans.
- **Existing Loans –** Conduct of accounts.
- **Assets classification -** All the advances are to be classified into two categories – Performing and Non Performing Assets.
- **Bank Guarantees & LCs -** Issue, revoking, renewal, cancellation.
- **Solvency Certificates –**

Other Services

Other services include:

- **Government Transactions** - Collection of various taxes and payment on behalf of Governments.
- **Lockers & Safe Deposits** – Locker facility is provided where security guards are posted.
- **Demat Accounts** – Opening of Demat accounts of customers and transactions.
- **Foreign Exchange Transactions** – At notified branches.

Other Services ... contd...

- **Cross selling** – Insurance products, Mutual Funds, Collection of various Bills like Electricity, Phone, Insurance premium etc.
Apart from covering all the above areas, it is also expected to comment upon business development, achievements of targets, quality of customer service, compliance of Ghosh Committee and Jilani Committee, Mitra Committee recommendations etc.

Object of Concurrent Audit ... contd

In concurrent audit it is expected that the Auditor or his representative **visits the branch frequently** and check all the vouchers, transactions in various accounts, loan documents etc. and **gives his observations** at regular intervals through Audit Notes to Branch for rectification. He should also ensure that the irregularities are either rectified or satisfactory explanation is given by the Branch staff. **contd...**

Objects of Concurrent Audit .. Contd.

In the report, *only those irregularities which were pointed out to the branch but not rectified till the end of the month or quarter* are to be reported. This is a continuous process and not one time job like other audits.

Important:

*Concurrent Audit report should not be a routine report but **it should help the Management** of the Bank in improving the performance of the Branch.*

Conduct of Concurrent Audit

- **Cash Department:**

- Cash Verification:** Surprise physical cash verification is necessary. Cash retention limit.
- Cash in ATM:** Physical cash in ATM is to be verified.
- Registers :** Various registers related to Cash transactions should be properly maintained.
- Excess / Shortage Cash:** Any instance of excess / shortage in cash should be recorded and reported to higher authority.

Cash Department ... contd....

- **Cash cabins:** Safety measures.
- **Clean Note Policy of RBI:** Sorting of notes into Soiled and issuable, non stapling of cash packets. Exchange of soiled and torn notes.
- **Alarm system in Cash cabins:** Alarm system to be checked.
- **Ultra violet lamp:** Whether Ultra violet lamp is in working condition and is used for detection of fake notes.

Cash Department ... contd...

- **Note Counting Machine:** Packet to be manually checked and then checked on Machine to ensure correct working of Machine.
- **Display of Notice:** Whether a notice is displayed at the Cash counter advising the customers to count the Cash before leaving the counter.
- **Tokens :** Number of Tokens in use and lost to be verified with record. Whether numbers of lost tokens are displayed in Cash counter.

Cash Department... contd.

- **PAN No. for High value transactions:** Whether PAN No. of the customers depositing cash in excess of ₹ 50,000/- is obtained and recorded on voucher.
- **Branding of Rubber Stamps:** All the Cash vouchers are to be with Cash Received / Cash Paid stamps duly signed by the Cashier.
- **Accounting of Late Receipt :** All the cash receipts accepted after the Banking hours should be properly accounted for.

Conduct of Concurrent Audit ..contd.

Deposits

- **Types of Deposits:**

- a. Demand Deposits
- b. Time Deposits

Demand Deposits:

- i. Savings Bank – Interest paid on daily product
- ii. Current Account – Generally No Interest is paid

Time Deposits: Any deposit which is payable after specified Term.

Deposits ... contd...

- **New Accounts:**
- **Account opening form:** Account opening form duly filled and signed by the depositor is required for opening of any type of account. Every account is treated as a separate account.
- **KYC compliance :** Know Your Customer. Before opening any account of customer, compliance of KYC norms is necessary. **Personal information is optional.**

What is KYC

- KYC is an acronym for “**Know your Customer**”, a term used for customer identification process. It involves making reasonable efforts to determine **true identity** and beneficial ownership of accounts, **source of funds**, the nature of **customer’s business**, reasonableness of **operations in the account** in relation to the customer’s business, etc which in turn helps the banks to manage their risks prudently. *The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.*
- KYC has two components - Identity and Address. While identity remains the same, the address may change and hence the banks are required to periodically update their records.

Deposits ... contd.

- **Entry in system:** All the entries in the system should be as per particulars given in the account opening form.
- **Transactions in Accounts:** Generally first credit in the account should be in “Cash”.
- **Rate of Interest:** Whether applicable rate of interest is entered.
- **Monitoring of newly opened accounts:** All the transactions in newly opened accounts should be monitored for first six months.

Deposits ... contd...

Existing Accounts:

- **Monitoring of High Value Transactions:** Every high value transaction in the account should be verified, if **credit** the source of income, if **debit** where the amount has gone.
- **AML:** Anti Money Laundering Act 2002. Under the provisions of this act the transactions in the account should be in relation to the known source of income of the depositor as declared in the A/c opening form.

Deposits ... contd...

- **Operations in the Account:** Operations in the accounts should be allowed only as per the mandate given at the time of opening the account or as per latest *request in writing by ALL the depositors*.
- **Closure of Deposit Accounts:** Any deposit account can be closed only with the written consent of **ALL** the depositors.

Deposits Contd...

- **Premature closure of Term Deposit Account:**
Any Term Deposit account can be closed any time before the due date. Interest is paid at **applicable rate of interest** for the completed term (**not the agreed rate of interest**) Less penal interest / charges.
- Application for premature closure of Term Deposit accounts should be signed by **ALL** the depositors.

Deposits ... Contd..

- **Settlement of Accounts on Death of the customer:** The balance in the account of deceased depositor can be paid to “**Nominee**” on proper identification on the basis of written request by the claimant. If there is no nomination, then the amount is to be paid to the legal heirs after completing required formalities. All the claims to be verified. No penal interest is charged in case of premature closure on death of the customer.

Deposits ... contd...

- **Deduction of TDS:** TDS is to be deducted on interest paid on Term Deposit accounts **except on Recurring Deposit** accounts at the applicable rates.
- **Additional rate of interest :** Additional rate of interest is paid to Senior citizens and staff members.

Depositscontd...

- **Renewal of Overdue Term Deposits:** The overdue Term Deposits can be renewed (**at the discretion of the Bank**) from the date on which it has been matured.
- Interest will be paid at the applicable rate for the renewed period on that date.
- If it not renewed within the period specified by the Bank, interest at **Savings Bank rate** is payable for which period the deposit has remained with the Bank from the date of maturity.

Deposits ... contd...

- **Stop Payment of Cheques:** The depositor can stop payment of any cheque issued by him BEFORE it is paid by the Bank. Stop payment instructions to be given in writing to be signed by the “Depositor”.
- Branch to give acknowledgement to the Depositor noting the **Time and Date of receipt** and immediately update in the System.

General Banking - Remittances

- **Issue of Demand Drafts:** Demand Drafts are to be issued as per the particulars given in the Demand Draft request form to remit the funds from one place to another. (In some Banks it is also used for making local remittances)
- **Issue of Pay Orders / Banker's Cheque:** Issued as per the request of customers or for making Bank's own payments payable locally.

General Banking – remittance condnt.

- **RTGS / NEFT** : Funds can be remitted to other Banks through RTGS (Real Time Gross Settlement) / NEFT (National Electronic Funds Transfer). Low rate of Exchange as compared to Demand Drafts. Settlement of funds on same day. IFSC code (Indian Financial System Code) of the other Branch and correct account number of customer is necessary.

General Banking - Clearing

- **Clearing:** Where there are number of banks, Clearing House is managed by one Bank with the permission of RBI. Cheques of all the Banks are exchanged and net amount is debited or credited to individual Bank's account maintained at the Bank managing Clearing House.
- **Where there is no such arrangement** cheques are presented personally to individual branches and payment is made either in cash or through transfer.

General Banking – contd...

- **OBC / IBC** : Outstation cheques are sent to respective branches either through own bank's branch at that centre or directly to that Bank through Post / Courier. Similarly cheques are received from other Banks. On receipt of proceeds from that Bank amount is credited to the customer's accounts.

General Banking – House keeping

- **House Keeping** - House keeping includes neatness of record keeping, furniture, premises, amenities, display of various information boards for knowledge of customers e.g. No smoking, Interest rates, Service charges, Name and designation of the Controller with Phone No. and address of office, caution boards in Locker room etc. Drinking water and proper sitting arrangement for customers.

General Banking – Staff related

- **Punctuality:** Attendance register and Leave record to be checked.
- **Staff Accounts:** Staff members are eligible for concessional rate of interest on advances and additional rate of interest. Staff accounts should be checked to see whether any suspicious transactions are routed through their accounts.
- **Behaviour with the customers and with other staff members.**

General Banking - Security

- **Security Guard** : If security guard is posted whether he performs the duty as “Security Guard” or is used for other work.
- **Fire Extinguishers**: Whether proper type of Fire Extinguishers are provided to the Branch and are refilled on due dates. Whether branch staff is aware of handling the same.
- **Alarm system** : Working of alarm system, location of the switches.

General Banking – Security contd...

- **CCTV Cameras:** Working of CCTV cameras, coverage and storage of data.
- **Security of Loan Documents :** Loan documents should be properly kept in lock.
- **AMC :** Whether preventive measures are taken up to keep all the equipments, computers, UPS etc. in working conditions.

General Banking ... Licenses

- **RBI License:** No branch of any bank can be opened without permission from RBI.
- **Registration under Shops & Establishment Act:** The registration should be renewed from time to time and copy to be displayed.
- **Certificate from Weights & Measures Deptt.** If branch is having any weighing machine, certificate from Weights & Measures Deptt. duly renewed is necessary.

General Banking .. Office A/cs

- **Office Accounts:** Banks maintain various parking accounts with the permission of Head Office. Proper control on these accounts is necessary.
 - a. **Sundry Debtors / Suspense A/c :** Advance against expenditure to be incurred. Not only outstanding entries but all the transactions routed through these accounts to be checked.

General Banking --- Office A/cs

- **Sundry Creditors / Sundry Deposit A/c** : To park the unaccounted credits. Entries should be reversed within reasonable period.
- **Subsidy Reserve Fund A/c** : Subsidy amount under various schemes are received from Government. Proper record and disposal of this amount is to be ensured.
- **Income / Expenditure Heads:** Debits to Income heads to be verified. Entries in all Expenditure heads to be verified with vouchers.

General Banking – Bank A/cs

- **Accounts with other Banks:** If the branch is maintaining accounts with other branch, same should be reconciled at monthly intervals, if any entries are outstanding for long time, the same should be reported. If amount is invested in Term Deposits with other Banks, the interest received / receivable should be checked.
- **Inter branch accounts:** Report of inter branch accounts to be verified.

General Banking Security Stationery

- **Security Stationery:** Cheque Books, Draft Books, Inter Branch advices, Locker Receipt Books, Pay orders etc. are to be kept safely and issue and use to be controlled properly. Security Stationery register is maintained to record receipt and use of these items. It should be in dual custody.
- **Stamps on Hand:** Bulk purchasing of stamps is made by the bank for use of customers. Stamps on hand to be checked.

General Banking ... contd....

- **Cheque Books:** Cheque books are issued to customers against written request and against acknowledgement. Cheque Book issue register is maintained. The undelivered cheque books to be verified with the record.
- **ATM Cards / Pin mailers:** ATM cards / Pin mailers are to be delivered only against acknowledgement and after proper identification of the customers. Undelivered Cards and Pins to be verified.

General Banking ... Postage & Courier

- **Postage:** Postage register and balance of stamps to be checked, whether verified regularly by Bank official. Receipts for Regd. Post and VPs and value received to be checked.
- **Courier:** Whether correct amount is charged as per agreement, whether delivery acknowledgements are given along with Bills.

General Banking .. Customer service

- **Customer Service:** “May I Help You” counter at Big branches, vouchers of all types to be kept at proper place for use of customers, behaviour of staff with customers should be proper. Behaviour of junior staff with superiors and of superior staff with junior staff should be cordial. Time norms for various types of transactions to be displayed and followed.

General Banking ... Returns / Taxes

- **Returns:** All the periodic returns to be submitted to Controlling authority, Govt. authority etc. in time. Delay or misrepresentation if any to be reported. Submission of Form 15 H/G.
- **Taxes:** Property Tax, Water Tax, TDS, Service Tax etc. to be remitted in time. Delay or shortage / excess if any to be reported.
- **Lease Agreement** to be verified to check the rent paid.

Loans & Advances

- **New Sanctions:**

- a. **Loan sanction process:** Whether laid down instructions are followed for sanctioning new loans, and amount sanctioned is within the delegated powers of the sanctioning authority. Whether control returns after sanction of loans under discretionary powers of Branch Manager are submitted to Controlling authority for noting. In case of loans sanctioned by Higher authority whether all the terms & conditions are complied. KYC compliance.

Loans & Advances .. Contd...

- **Pre sanction inspection:** Pre sanction inspection report to be kept on record. It should contain all the facts and specific comment for considering sanction of the loan.
- **Loan Documents:** Standard loan documents are to be obtained for each type of loan with proper stamp duty and duly filled up & signed on all the pages by the borrowers / guarantors and authorised person in case of Corporate customers. A checklist may be obtained from Branch.

Loans & Advances ... contd..

- **Recovery of Processing Fees and other charges:** Applicable processing fees and other charges are to be recovered in cash before disbursing the loan.
- **Noting of Bank's charge:** Bank's charge should be noted with the proper authority and evidence to be kept on record.
- **Opening the A/c in system:** All the particulars i.e repayment period, limit sanctioned, rate of interest, product code etc. to be checked in system.

Loans & Advances ... contd...

- **Post Sanction Inspection:** After release of loan, Post sanction inspection should be carried out to ensure end use of funds. Assets purchased should be verified with Bills. Receipts / Invoices of assets purchased to be obtained and kept on record. Post sanction report with detailed observations regarding availability of assets purchased and its condition to be kept on record.

Loans & Advances ... contd...

- **Loan against Bank's TDR:** Normally loan upto 90% of the face value + accrued interest can be sanctioned against Bank's TDRs. Interest of 1% to 2% in excess of applicable rate of interest on TDR is charge on the loan amount. TDR is to be discharged by the depositor and is kept in Bank as security.
- **Gold Loan:** Certificate from approved Gold smith, regarding purity and weight of the ornaments is to be obtained.

Loans & Advances contd.....

- **Loan against NSC :** NSCs are to be pledged with the Bank and endorsement of Post office is necessary for having noted Bank's charge.
- **Loan against LIC policies:** Banks sanction loan against the security of LIC policies considering the surrender value of the policy. The policy should be assigned to the Bank duly noted by the Insurance company.

Loans & Advances contd...

- **Vehicle Loans:** Blank form No. 29 / 30 of RTO are to be obtained duly signed by the borrower and kept on record.
- **Loan against Ware house Receipts:** Generally short term loans of 3 to 6 months are sanctioned against the security of Ware House Receipts. The Ware House Receipts with endorsement of Ware House In-charge to be kept as security.

Loans & Advances .. Contd...

- **Existing Loans:**
- **Periodic Inspection Reports:** Periodic inspection of all the units is to be done by Bank's officials and reports are to be kept on record. Last date of inspection of High value advances to be noted for reporting. Auditors should also visit such units and give their comments.

Loans & Advances... contd..

- **Review / Renewals:** All the Cash Credit A/cs and Overdraft A/cs are to be renewed every year. If the renewal is pending for some reason, the A/c should be reviewed and further operations be allowed but it should be renewed within 3 months. The due dates of renewals of all the Cash Credit / Overdraft accounts may noted for reference. All overdue accounts to be reported.

Loans & Advances .. Contd...

- **Transactions in the Accounts:** In case of Term Loan A/cs the repayment should be as per terms of sanction. In case of Cash Credit / Overdraft A/cs all transactions of business should be routed through this account. If there are frequent overdrawings or cash withdrawals of high value from the account the same should be commented in the report. If any transaction not related to the business is noticed it should also be reported.

Loans & Advances ... contd...

- **Stock Statements:** In case of Cash credit / Overdraft A/cs monthly stock statements are to be obtained containing the information about stock on hand, debtors, creditors, purchases during the month and sales during the month. The D.P. should be calculated on the basis of above information and drawings to be allowed accordingly. The stock statements should be checked and compared with earlier statements and if any discrepancy is noticed same should be commented.

Loans & Advances ... contd...

- **Insurance:** All the assets financed by the Bank should be adequately insured and Bank's name should be noted in the Policy as financier. It should be ensured that the policies are renewed in time, due date diary for renewal of policies should be maintained.
- **Rephasing / Rescheduling :** In case of genuine difficulties, the repayment can be rephased / rescheduled.

Loans & Advances ... contd...

- **Assets Classification & Income Recognition:**
All the advances accounts are to be classified into two categories i.e. Performing Assets (Standard Assets) / Non performing assets.
- **Non Performing Assets** are further classified into following categories:
 - a. Substandard
 - b. Doubtful – I, II, III
 - c. Loss

Loans & Advances ... contd...

- **Norms of Assets Classification:** Assets classification is based on the conduct of A/c. All Term Loan accounts where repayment of installments is regular and if three or more installments are in arrears the account is treated as NPA. In case of Agri. Term Loan accounts generally the installments are fixed on yearly or half yearly basis depending upon harvesting of crops.

NPA Norms

- A non performing asset (**NPA**) is a loan or an advance where;
 - i. Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of **a term loan**,
 - ii. the account remains 'out of order' in respect of an **Overdraft/Cash Credit (OD/CC)**,
 - iii. the bill remains overdue for a period of more than 90 days in the case of **bills purchased and discounted**,

NPA Norms ... contd...

- **iv.** the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- **v.** the instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

NPA – Substandard Asset

- A **substandard asset** would be one, which has remained NPA for a period less than or equal to 12 months.
- In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

NPA – Doubtful Asset

- An asset would be classified as **doubtful** if it has remained in the substandard category for a period of 12 months.
- A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

NPA – Doubtful Assets .. contd

- **Doubtful Assets** are further classified into 3 categories – Doubtful I, Doubtful II and Doubtful III depending upon the period for which the asset has remained in Doubtful category.

NPA – Loss Assets

- A **loss asset** is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.
- In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

NPA - Prevention

- **PNPA** : (Potential Non Performing Assets)
Every month review of all overdue accounts is to be taken to initiate suitable action for recovery to avoid the account becoming NPA.
- **SMA** : Special Mention Accounts are those accounts which are in Standard category by definition but having signs of becoming NPA.
- **If one account is NPA** all other accounts of that borrower should be classified as NPA.

NPA - Provisioning

- **Sub standard Assets:** @15% on secured portion and @25% on Unsecured portion.
- **Doubtful – I :** @25%
- **Doubtful – II :** @40%
- **Doubtful – III :** @100%
- **Loss Assets:** @100%

NPA - Upgradation

- If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the **account should no longer be treated as nonperforming** and may be classified as 'standard' accounts.
- Detailed guidelines on Prudential norms are given by RBI in its Circular No. **RBI/2012-13/39 DBOD.No.BP.BC.9 /21.04.048/2012-13 Dt. 02/07/2012** available on RBI site.

Bank Guarantees

- **Bank Guarantees:** Commission on Bank Guarantees depend upon security given by the customer.
- Guarantee should be issued in prescribed format duly signed by the competent authority.
- Period should be clearly specified.
- On expiry of the period, entry should be reversed.