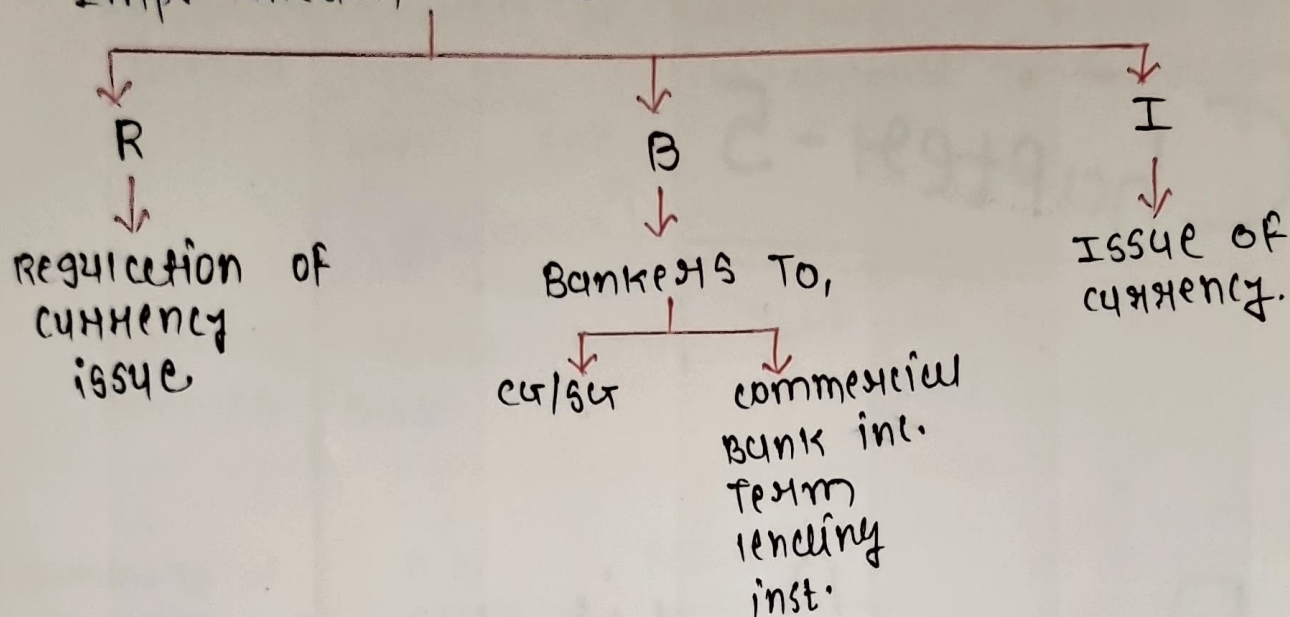


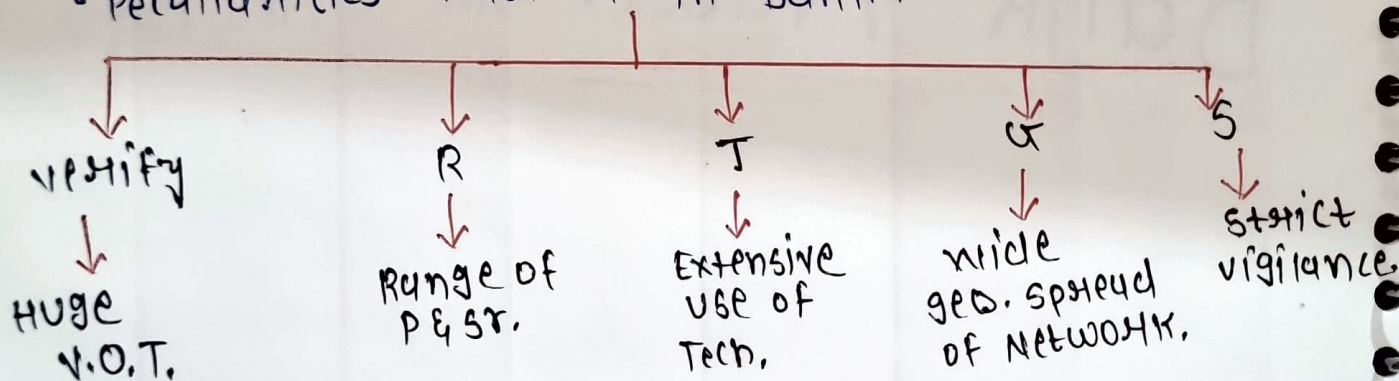
Chapter-5

Bank Audit

• Imp. function of RBI :-



• peculiarities involved in Bank :-



• Types of Bank Audit Report To be issue :-

Along with Main Report following shall be issue by SCAs :-

• GHOSH & JILANI :-

→ status of compliance by Bank with Regs. To
Implementation of Reco. of ghosh committee,
and jilani committee fraud and
ICS/credit system. malpractices.

- **SAW :-** SLR Requirement (Report on compliance)
- **LONG :-** LFAR (30th June Every year)
- **Irregularities :-** if notice, whether attention require.
- **in :-** Adequate & effective ICFR for B.C. [Co. Act 2013]
- **THE :-** Report on Treasury operation, whether conducted as per RBI instruction.

• **AIR :-**

↓
Asset classification. → Income recognition & provisioning
→ AS per RBI guidelines.

- **RATIO :-** Report on ACR in Annual AAR.

• **Reporting for Nationalised Bank & SBI :-**

→ to at following, whether, ...

- F.S. provide T&FV
- Adequate info./EXP. given by Bank which satisfy Auditor.
- Transaction made within power of Bank.
- Adequate return from Branch received.
- Any other viz. necessary

Bank Audit Approach

A [Audit plan]

It should be drawn based on,

- C: M.O. of compliance in Pre-Report
- A: Nature of adverse feature
- R: A.R. Based on Branch office
- O: Nature & M.O. of operation.

Advantage of E.T.D.

- I & A susceptibility of FS MMS & E that enable auditor (ET) to consider apt. response.
- Better dele. of MMS.
- Helpful in determine procedure to be found if fraud identified.
- To address the fraud, assess need to appoint specialist.

C [Control environment]

it includes,

- effective seq. of duties.
- physical securities & contingencies planning.
- accurate measurement.
- approval of trans.
- setting up limit.

E [E.T. discussion]

- personnel performing (+) expert = Eng. team.

- done at planning stage.
- should be docs.

E.T.D. includes.

- ERROR may occur occur in P.Y.

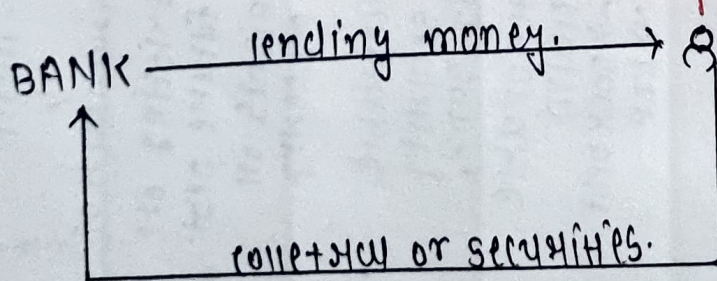
- method by which fraud might be perpetrated by B. Plan.
- Audit response → ER, PR, SR
- need to maintain PS
- Alert for info. that indicate MMS.

- Form and content of F.S.
- sec. 29(1) & (2) of BRA, 1949.
- Applicable To $\rightarrow$ B.C + SBI + RBI + NB
- SCH-III of BRA 1949 form-A and form-B
BIS P&L

- Appointment and Remn. of auditors.

Types of Bank.	Appointing Authority	Remn.
N.B.	BOD	RBI [consult with CG]
Other B.C.	SH @ ATM.	sec. 142 of Co. Act, 2013.
RRBs CG 50% SH 35% SP. Bankr. 35%	concerned bank. [Appn. of CG],	

- Security over Advances:-



Bank have legal power to sell the c/s in case of default in repayment within time.

MODES OF CREATION OF SECURITIES

mortgage

Reg.

• MORT. deed signed by MORT.

• equitable.

• mortgage of title deeds.

pledge

Bank → lending

• delivery of goods
• involve bailment
• possession: Bank
• legal: custom owner

lien

• creation of legal charge with the consent of owner.

Hypothecation

• owner ship
• possession to Bank (XXX)
• Physical possession
→ customer.

Assign-ment

• Transfer of existing or future debt
• rights on property
• acceptable security by Bank,
• ACTIONABLE claim
→ BOOK DEBT
→ LIP

Setoff

• Stat. Right of creditor/bank.
• s100
• dr. Bul. CH. 32
• All should have same right.

SECURITIES

IMP

• Mortgage.
• PROPERTY OR
[PEM]

MP

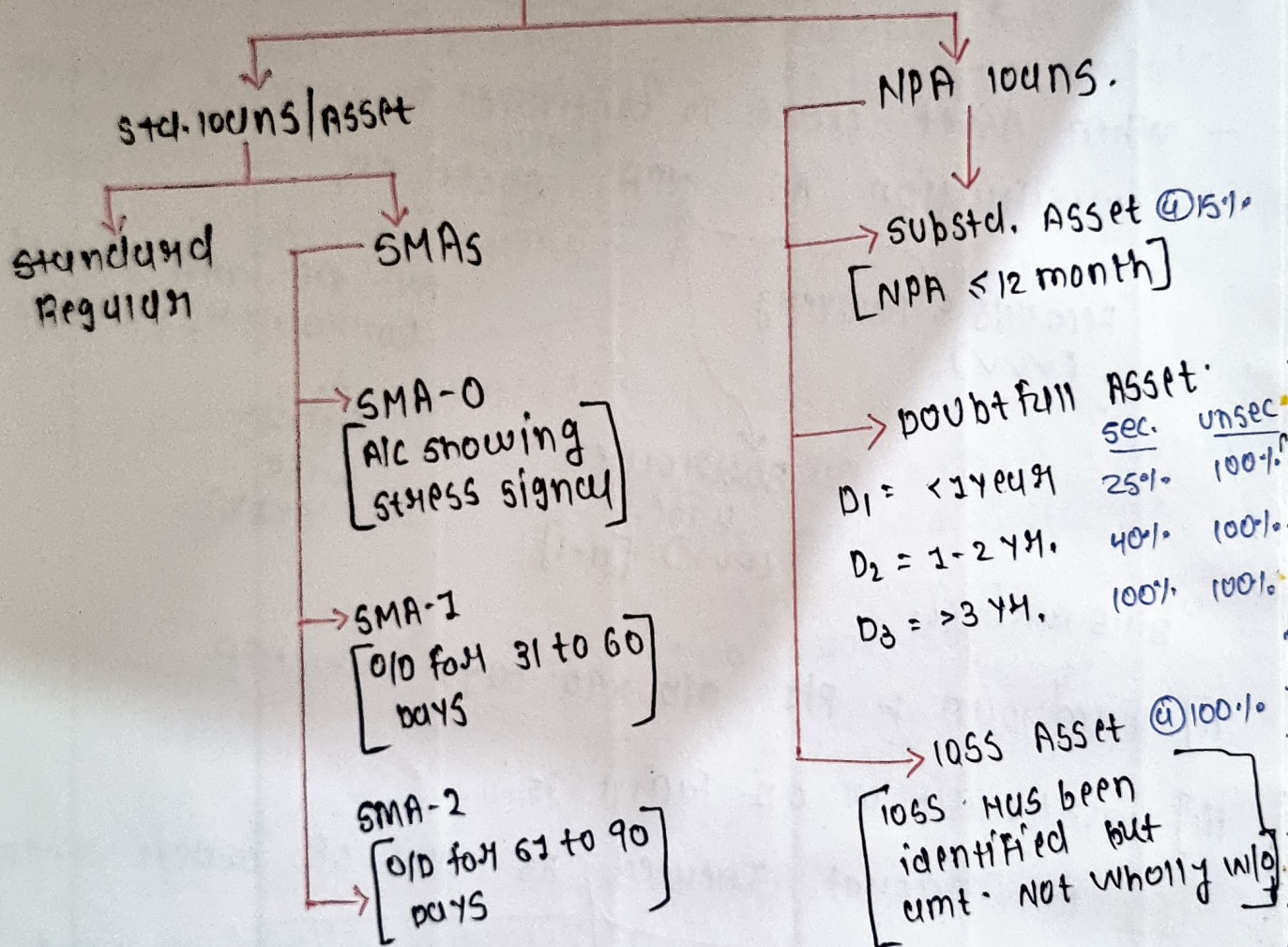
• Hypo-
• thecation
• [cash or
• stock]

pledge.
[gold]

Trsf. of Right.

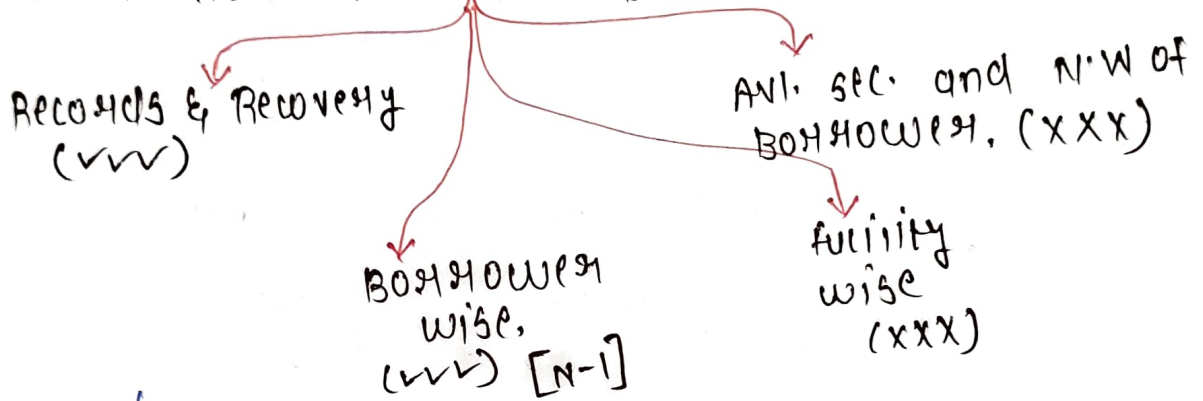
Assignment
or lien
[debt OR
LIP]

Classification of ADVANCES [AS per RBI prudential norms]



NPA

- When Asset cease to continue to generate income
- classification AS NPA based on,



Bills pay./disc.

i.] Term loan & PI o/b > 90 days → NPA

ii.] cash/credit or o.d. facility:-

An Account Treated AS out of order when,

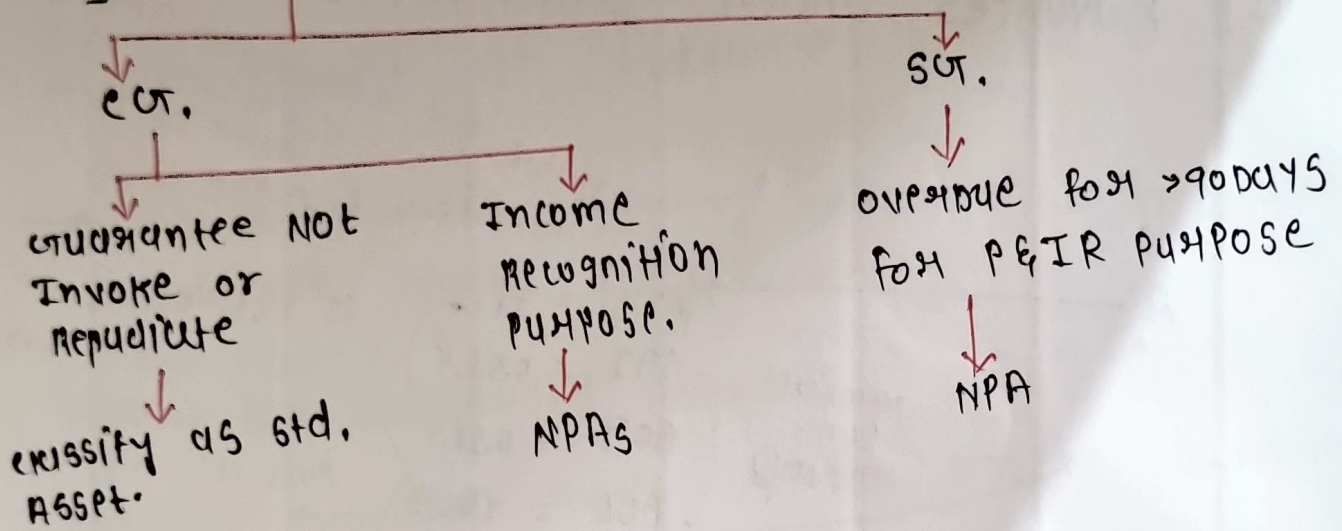
O.S.B. > SL/DD
Credit continued

O.S.B. < SL/DD
No credit
Int. for 90 days

Credit are there
But not enough to
cover interest
debited.

N-1:-
MAY. X HAS TWO LOAN
CASH LOAN
REGULAR
→ NPA on Borrower wise
NOT facility wise.
→ ∴ Both loan is NPA.

iii] Govt. Guaranteed Advances:-



iv.] Agricultural Advances:-

पशुधन.	Treated as NPA if installment of PI OD > 90 days .
• short duration crop.	Two crop season.
• long duration crop	one crop season.

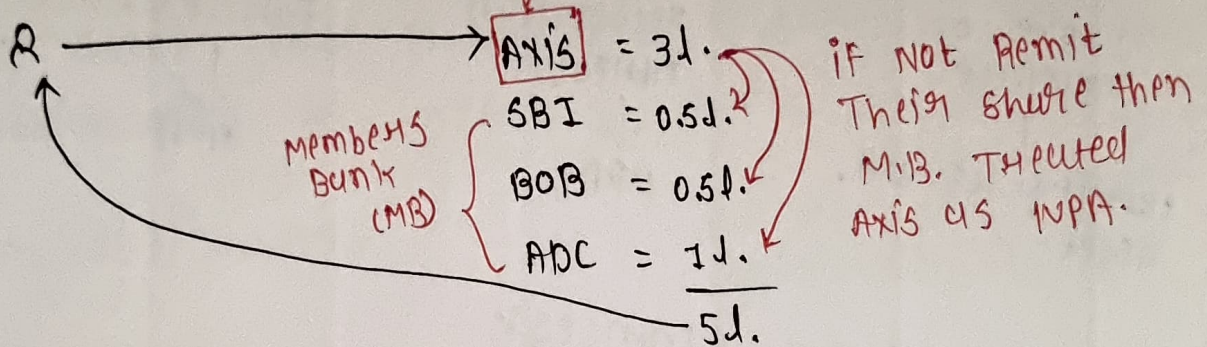
v.] Credit Card Account (CCA):-

Bank gives option to user to pay either TAD or MAD

↓
if not paid within 90 days from next statement date. (Gap b/w two stat & 1 month)

↓
NPA.

vi] Advances under Consortium :-



vii] Advances Against T.D. / INPs / KVPs :- if Adequate margin N.A. then NPA.

• EROISON in value of securities :-

if R.V. < 50% of value asessed by bank and Apporval by RBI

↓
Doubtful Asset
i.e. NPA.

R.V. < 10% of OSB in loan A/C

↓
Loss Asset i.e. NPA

↓
it may either w/o or provided by Bank.

NOTE:- For Drawing Power Refer Text Book pg. 10.26.

Audit of Advances

→ The Auditor is primarily concerned with obtaining evidence about the following.

NOW: NO Unrecorded Advances

Picture: provision made as per RBI NORMS, AS, GAAP

video: Basis of valuation of advances is APPT. and properly applied

40 :-

D₁ - Adv. represent Amt. due to the bank.

D₂ - o/s at the date of B/S. date.

D₃ - supported by loan document & other docs.

D₄ - Adv. are disclosed, classified and describe.

→ Auditor obtain SAE about Advances by study of ICS and B/L

Examining.

- ① validity of Recorded Amt
- ② loan docs.
- ③ E, E, V of security

② Reviewing operation of Account

③ carrying out APPT. A.P (SA 520)

• Evaluation of ICs over Advances:-

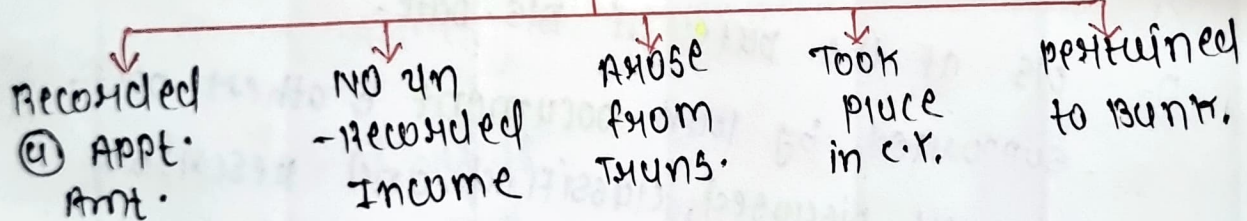
→ IC over Advances includes,

- credit worthiness of borrower.
- Necessary docs. should be executed.
- D.P. Register should be updated every month.
- A/c should within DP & SL.
- ↑ if not then brought to the notice of controlling authority.
- each Adv. A/c operation should review at least once in a year, and more in case of large Adv.

NOTE: detail elaboration on pg. 10.29. (M2)

• Audit of Revenue items:-

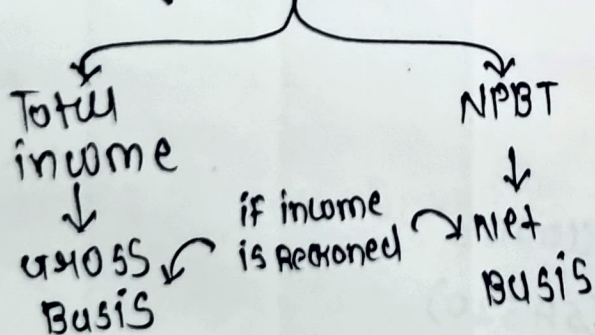
→ Auditor's concern regarding Audit of Revenue item.
obtain Reasonable Assurance that income is,



Particulars

Basis for Recognition

• Any Income > 1% of



Accrual Basis

- Immaterial income
- int. fees, commission.
- uncertain income

Cash Basis

Accrual Basis

Cash Basis

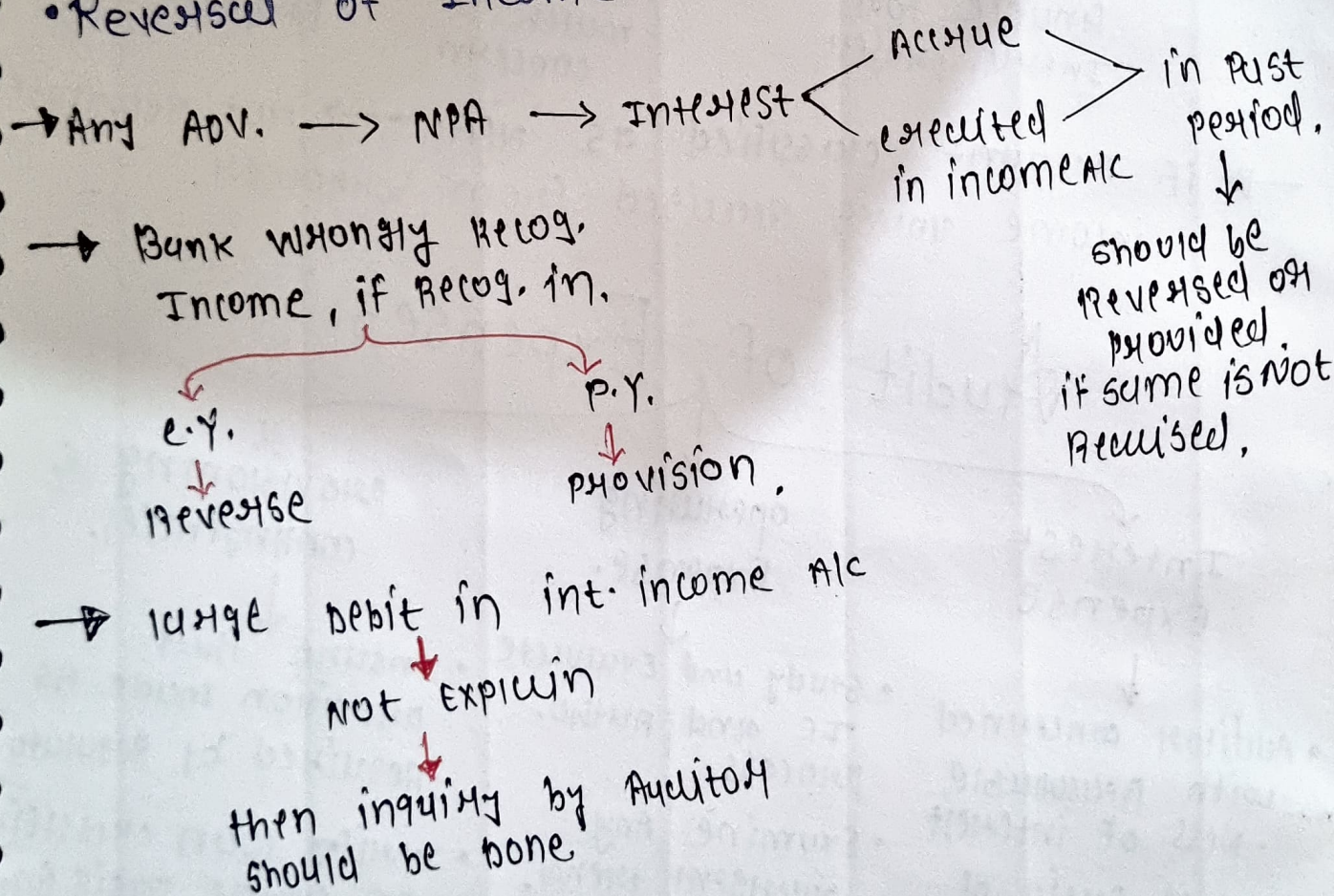
• fees & commission as a result of re-negotiation / settlement of old debt

• Int. on T.D./INPs/KVPs / LIP Adv. against

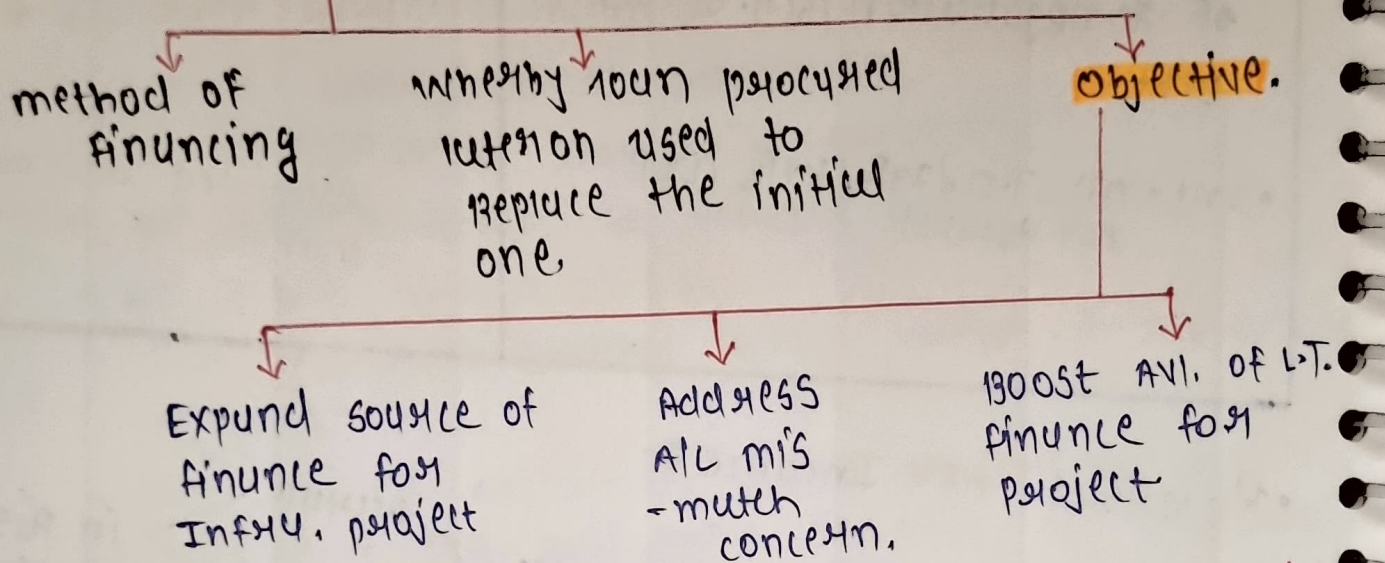
Accrual Basis.

on pro rata provided adequate margin is there.

• Reversal of Income :-



Take out Finance



→ if Account classified as NPA. → Not Recognise income unless received from borrower.

Audit of Expenses.

Interest Expense

- Auditor concerned with Reasonableness of interest
- Analyse ratio of int. paid on deposits, & borrowing
- compute Avg. ROI with p.y. figure and Analyse any material diff.
- Recalculation
- int. upto BSD. [ensure]
- Int. rate according to RBI norms / Internl. Reg.

Operating Expense.

- Study and Evaluate IC and Autho. process.
- Examine any divergent trend.
- perform SAP
- verify Exp. with supporting docs.
- check calculation whenever required.

provisioning & contingencies.

- ensure that provision made as required by Regulator
- verify loan classification on sample basis for understand how Bank compute Pro. for std. Asset & NPAs.
- check whether Pro. for Taxation Appt. calculated or not
- Examine other provision,

- Reason for c.c. limit interest variance is,
 - c.c. may not fully utilised,
 - large account sanctioned that result in lower int. income,
- concurrent Auditor of Bank cannot accept stat. audit of same Bank or any of its Branch i.e. Internal auditor cannot accept stat. audit during same year, of same Bank.