

DOCUMENTATION FOR STATUTORY BANK BRANCH AUDIT

Topics

Chapter I- INTRODUCTION

- 1.1 [An overview of the Banking Regulation Act, 1949](#)
- 1.2 [Audit of Bank Branches](#)

Chapter II- SPECIMEN DOCUMENTATION

- 2.1. [Pre-commencement work](#)
 - 2.1.1 [Specimen of No objection letter](#)
 - 2.1.2 [Specimen Checklist on independence policy](#)
 - 2.1.3 [Specimen of Audit Engagement letter](#)

- 2.3 [Understanding the business of the bank branch](#)
 - 2.2.1 [Specimen of Letter seeking information from Branch Manager](#)
 - 2.2.2 [Specimen Checklist for Business Assessment](#)
 - 2.2.3 [Specimen Checklist for Auditing in core banking environment](#)
 - 2.2.4 [Specimen Checklist for Special Considerations in CIS environment](#)
 - 2.2.5 [List of various laws applicable to the branch](#)
- 2.4 **Audit Planning**
 - 2.3.1 [Specimen Bank Branch Audit program](#)
- 2.5 **Substantive procedures**
 - 2.4.1 [Specimen Management Representation Letter](#)
 - 2.4.2 [Checklist of documents to be obtained from the Branch Management](#)

- 2.4.3 [Checklist of compliance of accounting standards](#)
- 2.4.4 [Checklist of compliance of Engagement standards](#)
- 2.4.5 [Index of recent RBI notifications relevant to audit of banks for the year 08-09](#)
- 2.4.6 [Checklist on LFAR](#)
- 2.4.7 [Checklist on items in Balance sheet and Profit and loss Account](#)
- 2.4.8 [Checklist on Foreign Exchange transactions](#)
- 2.4.9 [Checklist on other Key areas](#)
- 2.4.10 [Overview of BASEL II](#)
- 2.5 **Reporting**
 - 2.5.1 [Allied certificates given by statutory central and branch auditors](#)
 - 2.5.2 [Specimen of Memorandum of Changes](#)
 - 2.5.3 [Specimen of Main Report](#)
 - 2.5.4 [LFAR](#)
 - 2.5.5 [Tax Audit report](#)
 - 2.5.7 [JILANI committee recommendations and GHOSH committee recommendations](#)

Chapter I

INTRODUCTION

1.1 AN OVERVIEW OF THE BANKING REGULATION ACT, 1949

The Banking Regulation Act was passed as the Banking Companies Act, 1949 and came into force with effect from 16.03.49. Subsequently it was changed to Banking Regulations Act, 1949 with effect from 01.03.66. The Act consists of 56 sections under 5 parts and has 5 schedules. The contents of the Act are as follows:

Part 1 – Preliminary

Part II – Business of Banking Companies

Part IIA – Control over Management

Part IIB – Prohibition of certain activities in relation to Banking Companies

Part IIC - Acquisition of the Undertakings of Banking Companies in Certain

Cases Part III – Suspension of business and winding up of banking companies

Part IIIA – Special provisions for speedy disposal of winding up

proceedings Part IIIB – Provisions relating to certain operations of banking

companies Part IV – Miscellaneous (Penalties etc.)

Part V – Application of the Act to Co-operative Banks

Applicability of the Act

The Act applies to all banking companies and also will apply to co-operative societies in certain cases.

The Banking Regulation Act, 1949 will not apply to

- i. a primary agricultural credit society;
- ii. a co-operative land mortgage bank; and
- iii. Any other co-operative society, except in the manner and to the extent specified in Part V.

Important definitions under the Act

"Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise. (Section 5(b))

"Banking Company" means any company which transacts the business of banking in India.

Explanation: Any company which is engaged in the manufacture of goods or carries on any trade

and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking within the meaning of this clause. (Section 5(c))

"Branch" or "branch office", in relation to a banking company, means any branch or branch office, whether called a pay office or sub-pay office or by any other name, at which deposits are received, cheques cashed or moneys lent, and for the purposes of section 35 includes any place of business where any other form of business referred to in sub-section (1) of section 6 is transacted. (Section 5(CC))

Business of Banking Companies

Section 6 deals with the forms of business that a bank can engage in:

- 1) Borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; and drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bill of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, travellers' cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others; the negotiating of loan and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities
- 2) Acting as agents for any government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an

attorney on behalf of customers, but excluding the business of a Managing Agent or Secretary and Treasurer of a company.

- 3) Contracting for public and private loans and negotiating and issuing the same.
- 4) Effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stock, debentures or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue.
- 5) Carrying on and transacting every kind of guarantee and indemnity business.
- 6) Managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims.
- 7) Acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security.
- 8) Undertaking and executing trusts.
- 9) Undertaking the administration of estates as executor, trustee or otherwise.
- 10) Establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts, and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pension and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent object or for any exhibition or for any public, general or useful object.
- 11) Acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purpose of the company.
- 12) Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company.
- 13) Doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company.

No banking company should engage in any form of business other than those mentioned above.

Every company carrying on the business of banking should use the words bank, banker or banking as part of its name.

Section 8 of the Banking Regulation Act, 1949 prohibits buying or selling or bartering of goods except in connection with the realization of security given to or held by it, or in connection with bills of exchange received for collection or negotiation or with such other business approved under the Act.

Licensing of banking companies (Sec.21)

Every banking company before commencing banking business should obtain a licence from Reserve Bank of India.

Before granting licence, the Reserve Bank should be satisfied that the following conditions are fulfilled:

- a) that the company is or will be in a position to pay its present or future depositors in full as their claims accrue;
- b) that the affairs of the company are not being, or are not likely to be, conducted in a manner detrimental to the interests of its present or future depositors;
- c) that the general character of the proposed management of the company will not be prejudicial to the public interest or the interest of its depositors;
- d) that the company has adequate capital structure and earning prospects;
- e) that the public interest will be served by the grant of a licence to the company to carry on banking business in India;
- f) that having regard to the banking facilities available in the proposed principal area of operations of the company, the potential scope for expansion of banks already in existence in the area and other relevant factors the grant of the licence would not be prejudicial to the operation and consolidation of the banking system consistent with monetary stability and economic growth;
- g) any other condition, the fulfilment of which would, in the opinion of the Reserve Bank, be necessary to ensure that the carrying on of banking business in India by the company will not be prejudicial to the public interest or the interests of the depositors.

The Reserve Bank may cancel a licence granted to a banking company –

- i. if the company ceases to carry on banking business in India, or
- ii. if the company at any time fails to comply with any of the conditions imposed upon it, or
- iii. IF at any time any of the conditions referred to above are not fulfilled.

Any banking company aggrieved by the decision of the Reserve Bank cancelling a licence can within thirty days from the date on which such decision is communicated to it, appeal to the Central Government. The decision of the Central Government will be final.

Restrictions on opening of new, and transfer of existing, places of business

No banking company should open a new place of business in India or change otherwise than within the same city, town or village, the location of an existing place of business situated in India without the prior permission of the Reserve Bank.

No banking company incorporated in India should open a new place of business outside India or change, otherwise than within the same city, town or village in any country or area outside India, the location of an existing place of business situated in that country or area without the prior permission of the Reserve Bank.

This restriction will not apply to the opening of a bank for a period not exceeding one month as a temporary place of business within a city, town or village or the environs thereof within which the banking company already has a place of business, for the purpose of affording banking facilities to the public on the occasion of an exhibition, a conference or a mela or any other like occasion.

Prohibition and restriction on certain forms of employment

- No banking company should employ or be managed by a managing agent.

- No banking company should also employ any person who has been adjudged insolvent or has suspended payment to his creditors or has been convicted by a criminal court of an offence involving moral turpitude.
- No banking company should employ any person whose remuneration or part of the remuneration takes the form of commission or of a share in the profits of the company.
- No banking company should employ any person whose remuneration is excessive in the opinion of the Reserve Bank.
- No banking company should be managed by a person who is a director of any other company (not being a subsidiary of the banking company or a company registered under section 25 of the Companies Act, 1956) or who is engaged in any other business or whose term of office exceeds five years.

Board of Directors of a banking company (Sections 10A to 10D, 16)

- 1) Not less than fifty-one per cent of the total number of members of the Board of Directors of a banking company should consist of persons, who have special knowledge or practical experience in respect of one or more of the following matters, namely,-
 - (i) accountancy,
 - (ii) agriculture and rural economy,
 - (iii) banking
 - (iv) co-operation,
 - (v) economics,
 - (vi) finance,
 - (vii) law,

(viii) small-scale industry,

(ix) any other matter the special knowledge of, and practical experience, which would, in the opinion of the Reserve Bank, be useful to the banking company.

- 2) Out of the aforesaid number of Directors, not less than two should be persons having special knowledge or practical experience in respect of agriculture and rural economy, co-operation or small-scale industry.
- 3) Further the directors should not have substantial interest in, or be connected with, whether as employee, manager or managing agent in-
 - (i) any company, not being a company registered under section 25 of the Companies Act, 1956 (1 of 1956), or
 - (ii) any firm, which carries on any trade, commerce or industry and which, in either case, is not a small-scale industrial concern, or
 - (iii) be proprietors of any trading, commercial or industrial concern, not being a small-scale industrial concern.
- 4) A director of a banking company other than its Chairman or whole time director should not hold office continuously for a period exceeding eight years. A Chairman or whole time director who ceases to hold office should not be appointed as director of the banking company for a period of four years from the date of ceasing to the Chairman or whole time director.
- 5) The banking company should be managed by a whole time Chairman.
- 6) If the Chairman is appointed on a part-time basis -
 - Then such appointment should be with the previous approval of the Reserve Bank and subject to the conditions specified while giving the approval.
 - The management of whole of the affairs of the banking company should be entrusted to a Managing Director.

- Every Chairman appointed on a whole-time basis and every Managing Director of such banking company should not hold office for a period exceeding five years but they will be eligible for re-election or re-appointment.
 - The Chairman appointed on a whole-time basis is not prohibited from being a director of a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956.
- 8) Every Chairman who is appointed on a whole time basis and every Managing Director of a banking company where the Chairman is appointed on a part-time basis should be a person who has special knowledge and practical experience of the –
- working of a banking company or of the State Bank of India or any subsidiary bank or a financial institution, or
 - financial, economic or business administration.
- 9) A person will be disqualified to be a Chairman who is appointed on a whole time basis and Managing Director of a banking company where the Chairman is appointed on a part-time basis, if –
- He is a director of a company other than a subsidiary of the banking company or a company registered under Section 25 of the Companies Act, 1956 or
 - He is a partner of any firm which carries on any trade, business or industry or
 - Has substantial interest in any other company or firm or
 - Is a director, manager, managing agent, partner or proprietor of any trading, commercial or industrial concern, or
 - Is engaged in any other business or vocation.
- 10) If the Reserve Bank is of the opinion that the person appointed as Chairman on whole time basis or Managing Director of a banking company where the Chairman is appointed on a part-time basis is not a fit and proper person to hold such office, can require the banking company to elect or appoint any person as the Chairman or Managing Director within a period of two months from the receipt of the order. If the

- banking company fails to appoint or elect a suitable person, then the Reserve Bank can appoint a suitable person as the Chairman or Managing Director.
- 10) The banking company and any person against whom an order of removal has been passed by the Reserve Bank can prefer an appeal to the Central Government and the decision of the Central Government will be final and cannot be questioned in any Court.
 - 11) The Reserve Bank in certain special cases, allow the Chairman of a banking company appointed on a whole time basis or the Managing Director of a banking company where the Chairman is appointed on a part-time basis, to undertake part-time honorary work.
 - 12) In cases where the Chairman of a banking company appointed on a whole time basis or the Managing Director of a banking company where the Chairman is appointed on a part-time basis, dies, resigns or is not in a position to carry out his duties, the banking company with the approval of the Reserve Bank make suitable arrangements for carrying out the duties of the Chairman or Managing Director, for a period not exceeding four months.
 - 13) Chairman of a banking company appointed on a whole time basis or the Managing Director of a banking company where the Chairman is appointed on a part-time basis and a director of a banking company appointed by the Reserve Bank is not required to hold qualification shares in the banking company.
 - 14) No banking company incorporate in India should have as a director in its Board of directors any person who is a director of any other banking company. This provision will not be applicable in case the director has been appointed by the Reserve Bank.
 - 15) No banking company should have in its Board of directors, more than three directors who are directors of companies which among themselves are entitled to exercise voting rights in excess of twenty per cent of the total voting rights of all the shareholders to that banking company.

Minimum paid capital and reserves of a banking company (Section 11)

In case of a banking company incorporated outside India –

- a) the aggregate value of its paid-up capital and reserves should not be less than fifteen lakhs of rupees and if it has a place or places of business in the city of Bombay or Calcutta or both, twenty lakhs of rupees; and
- b) the banking company should deposit and keep deposited with the Reserve Bank either in cash or in the form of unencumbered approved securities, or partly in cash and partly in the form of such securities –
 - i. an amount which is not less than the minimum amount specified in clause a) and;
 - ii. after expiration of each year an amount business transacted through its branches in India, as disclosed in the profit and loss account prepared with reference to that year.

The amount deposited with the Reserve Bank by a banking company incorporated outside India will be considered as an asset of the company where the creditors of the company will have first charge, in case the company ceases to carry on banking business in India.

In case of other banking companies (i.e. banking companies incorporated in India) the aggregate value of its paid-up capital and reserves should not be less than –

- a) if it has places of business in more than one State, five lakhs of rupees, and if any such place or places of business is or are situated in the city of Bombay or Calcutta or both, ten lakhs of rupees;
- b) if it has all its places of business in one State none of which is situated in the city of Bombay or Calcutta, one lakh of rupees in respect of its principal place of business, plus ten thousand rupees in respect of each of its other places of business situated in the same district in which it has its principal place of business, plus twenty-five thousand rupees in respect of each place of business situated elsewhere in the State otherwise than in the same district.
 - a. No banking company to which this clause applies will be required to have paid-up capital and reserves exceeding an aggregate value of five lakh rupees;
 - b. no banking company to which this clause applies and which has only one place of business, will be required to have paid-up capital and reserves exceeding an aggregate value of fifty thousand rupees;

- c) If it has all its places of business in one State, one or more of which is or are situated in the city of Bombay or Calcutta, five lakhs of rupees, plus twenty-five thousand rupees in respect of each place of business situated outside the city of Bombay or Calcutta, as the case may be.
 - a. No banking company to which this clause applies will be required to have paid-up capital and reserves exceeding an aggregate value of ten lakhs of rupees.

**Paid-up capital, subscribed capital and authorized capital and voting rights of shareholder
(Section 12)**

Every company carrying on the business of banking in India should comply with the following conditions:

- i. The subscribed capital of the company should not be less than one-half of the authorised capital, and the paid-up capital should not be less than one-half of the subscribed capital and that, if the capital is increased, it should comply with the conditions prescribed in this clause within a period not exceeding two years.
- ii. The capital of the company should consist of only ordinary shares.
- iii. No person holding shares in a banking company should exercise voting rights in excess of ten percent of the total voting rights of all the shareholders of the banking company.
- iv. Every chairman, managing director or chief executive officer of a banking company should furnish to the Reserve Bank returns containing full particulars of the extent and value of his holding of shares, whether directly or indirectly, in the banking company and of any change in the extent of such holding or any variation in the rights attaching thereto.

Restriction on commission, brokerage, discount etc. on sale of shares

No banking company should pay out directly or indirectly by way of commission, brokerage, discount or remuneration in any form in respect of any shares issued by it, any amount exceeding in the aggregate two and one-half per cent of the paid-up value of the said shares.

Charge on unpaid capital

No banking company should create any charge upon any unpaid capital of the company and any such charge so created will be invalid.

Floating charge on assets

No banking company should create a floating charge on the undertaking or any property of the company or any part thereof, unless the creation of such floating charge is certified in writing by the Reserve Bank as not being detrimental to the interests of the depositors of such company. Where such charge has been created without obtaining the certificate of the Reserve Bank, such charge will be invalid.

If the banking company is aggrieved by the refusal of certificate from the Reserve Bank, it can appeal to the Central Government within ninety days from the date of such refusal.

Payment of Dividend (Section 15)

No banking company should pay any dividend on its shares until all its capitalized expenses (including preliminary expenses, organization expenses, share-selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.

Notwithstanding anything contained above or in the Companies Act, 1956, a banking company can pay dividends on its shares without writing off –

- i. The depreciation, if any, in the value of its investments in approved securities in any case where such depreciation has not actually been capitalized or otherwise accounted for as a loss;
- ii. The depreciation, if any, in the value of its investments in shares, debentures or bonds (other than approved securities) in any case where adequate provision for such depreciation has been made to the satisfaction of the auditor of the banking company;
- iii. The bad debts, if any, in any case where adequate provision for such debts has been made to the satisfaction of the auditor of the banking company.

Reserve Fund

Every banking company incorporated in India should create a reserve fund should out of the balance of profit of each year as disclosed in the profit and loss account, before any dividend is declared, transfer to the reserve fund a sum equivalent to not less than twenty per cent of such profit.

Where a banking company appropriates any sum or sums from the reserve fund or the share premium account, it should, within twenty-one days from the date of such appropriation, report the fact to the Reserve Bank, explaining the circumstances relating to such appropriation.

Cash Reserve (Sec.18)

Every banking company other than a scheduled bank should maintain in India by way of cash reserve with itself or by way of balance in a current account with the Reserve Bank, or by way of net balance in current accounts or in one or more of the aforesaid ways, a sum equivalent to at least three per cent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight. The banking company should submit to the Reserve Bank before the twentieth day of every month a return showing the amount so held on alternate Fridays during a month with particulars of its demand and time liabilities in India on such Fridays or if any such Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of business on the preceding working day.

Restriction on nature of subsidiary companies

A banking company should not form any subsidiary company except a subsidiary company formed for one or more of the following purposes:

- (a) the undertaking of any business which is permissible for a banking company to undertake, or
- (b) with the previous permission in writing of the Reserve Bank, the carrying on of the business of banking exclusively outside India, or

(c) the undertaking of such other business, which the Reserve Bank may, with the prior approval of the Central Government, consider to be conducive to the spread of banking in India or to be other wise useful or necessary in the public interest.

No banking company should hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid-up share capital of that company or thirty per cent of its own paid-up share capital and reserves, whichever is less.

Restrictions on loans and advances

No banking company should:

- a) grant any loans or advances on the security of its own shares, or
- b) enter into any commitment for granting any loan or advance to or on behalf of—
 - i. any of its directors,
 - ii. any firm in which any of its directors is interested as partner, manager, employee or guarantor, or
 - iii. any company [not being a subsidiary of the banking company or a company registered under section 25 of the Companies Act, 1956, or a Government company] of which the subsidiary or the holding company of which any of the directors of the banking company is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or
- c) any individual in respect of whom any of its directors is a partner or guarantor.

A banking company should not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by—

- (a) any of its directors, or
- (b) any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
- (c) any individual if any of its directors is his partner or guarantor.

Any remission made in contravention of these provisions will be void and of no effect.

Disposal of non-banking assets

Section 9 prohibits banks from holding any immovable property howsoever acquired except as acquired for its own use for a period exceeding 7 years from acquisition of the property. The Reserve Bank may in certain cases extend the period of seven years by another period not exceeding five years if it is satisfied that the extension would be in the interests of the depositors of the banking company.

Maintenance of a percentage of assets (Sec.24 & 25)

Every banking company should maintain in India in cash, gold or unencumbered approved securities, valued at a price not exceeding the current market price, an amount which should not at the close of business on any day be less than 20 percent of the total of its demand and time liabilities in India.

A scheduled bank, in addition to the average daily balance which it is, required to maintain under section 42 of the Reserve Bank of India Act, 1934 and every other banking company, in addition to the cash reserve which it is required to maintain under section 18 of the Banking Regulation Act, 1949 should maintain in India in cash or in gold valued at a price not exceeding the current market price or in unencumbered approved securities valued at a price determined in accordance with such one or more of, or combination of, the following methods of valuation, namely, valuation with reference to cost price, market price, book value or face value, as may be specified by the Reserve Bank from time to time, other percentage not exceeding forty per cent, as the Reserve Bank may, from time to time, by notification in the Official Gazette, specify, of the total of its demand and time liabilities in India, as on the last Friday of the second preceding fortnight.

Every banking company should within 21 days after the end of the month to which it relates, furnish to the Reserve Bank a monthly return showing particulars of its assets maintained in

accordance with this section, and its demand and time liabilities in India at the close of business on each alternate Friday during the month, or if any such Friday is a public holiday, at the close of business on the preceding working day. In case of Regional Rural Bank a copy of the said return should be furnished to the National Bank also.

If on any alternate Friday or, if such Friday is a public holiday, on the preceding working day, the amount maintained by a banking company at the close of business on that day falls below the minimum prescribed, then such banking company will be liable to pay to the Reserve Bank in respect of that day's default, penal interest for that day at the rate of three per cent per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day.

The assets in India of every banking company at the close of business on the last Friday of every quarter or, if that Friday is a public holiday under the Negotiable Instruments Act, 1881, at the close of the business on the preceding working day, should not be less than seventy-five percent of its demand and time liabilities in India. Every banking company should within one month from the end of every quarter, submit to the Reserve Bank a return of the assets and liabilities as at the close of business on the last Friday of the previous quarter, or, if that Friday is a public holiday under the Negotiable Instruments Act, 1881 at the close of business on the preceding working day.

Submission of returns

Every banking company should within thirty days after the close of each calendar year, submit a return to the Reserve Bank as at the end of such calendar year of all accounts in India which have not been operated upon for ten years. In the case of money deposited for a fixed period the said term of ten years should be reckoned from the date of the expiry of such fixed period.

Every banking company should before the close of the month succeeding that to which it relates, submit to the Reserve Bank a return showing its assets and liabilities in India as at the close of business on the last Friday of every month or if that Friday is a public holiday under the Negotiable Instruments Act, 1881 at the close of business on the preceding working day.

Every regional rural bank should submit a copy of the return which it submits to the Reserve Bank, to the National Bank also.

Accounts and Balance Sheet (Sec.29)

Every banking company incorporated in India should at the expiration of each calendar year prepare a balance sheet and profit and loss account as on the last working day of that year in the Forms set out in the Third Schedule or as near thereto as circumstances admit. The period to which the profit and loss account relates will, in the case of a banking company, be the period ending with the last working day of the year immediately preceding the year in which the annual general meeting is held.

The accounts and balance sheet along with the auditor's report should be furnished as returns to the Reserve Bank within three months from the end of the period to which they refer. Three copies of accounts and balance sheet along with the auditor's report should be furnished to the Registrar of Companies also.

Every banking company incorporated outside India should, not later than the first Monday in August of any year in which it carries on business, display in a conspicuous place in its principal office and in every branch office in India a copy of its last audited balance-sheet and profit and loss account and should keep the copy so displayed until replaced by a copy of the subsequent balance-sheet and profit and loss account so prepared.

Audit (Sec.30)

The balance sheet and profit and loss account should be audited by a duly qualified auditor. Prior approval of the Reserve Bank should be obtained before appointing, re-appointing or removing any auditor or auditors of a banking company.

The auditor should state the following information in his report:

- (a) whether or not the information and explanation required by him have been found to be satisfactory;

- (b) whether or not the transactions of the company which have come to his notice have been within the powers of the company;
- (c) whether or not the returns received from branch offices of the company have been found adequate for the purposes of his audit;
- (d) whether the profit and loss account shows a true balance of profit or loss for the period covered by such account;
- (e) any other matter which he considers should be brought to the notice of the shareholders of the company.

Penalties

Whoever in any return, balance-sheet or other document or in any information required or furnished under any provision of the Banking Regulation Act, 1949 willfully makes a statement which is false in any material particular, knowing it to be false, or willfully omits to make a material statement, will be punishable with imprisonment for a term which may extend to three years and will also be liable to fine.

If any person fails to produce any book, account or other document or to furnish any statement or information which is his duty to produce or furnish, or to answer any question relating to the business of a banking company which is asked by an officer making an inspection or scrutiny, will be punishable with a fine which may extend to two thousand rupees in respect of each offence, and if he persists in such refusal, to a further fine which may extend to one hundred rupees for every day during which the offence continues.

Where a contravention or default has been committed by a company, every person who, at the time the contravention or default was committed, was in charge of, and was responsible to, the company, for the conduct of the business of the company, as well as the company, will be deemed to be guilty of the contravention or default and will be liable to be proceeded against and punished accordingly.

[Top](#)

1.2 Audit of branches

Audit of branches of banking companies is required under section 228 of the Companies Act, 1956. Hence, it is obligatory for a banking company to get the financial statements of each of its branch offices audited except where exemption from audit is obtained in respect of certain branches under the Companies (Branch Audit Exemption) Rules, 1961 and as per the guidelines of the Reserve Bank of India issued from time to time.

Branch audit vis-a –vis Head office audit

The branch auditor has the same powers and duties in respect of audit of financial statements of the branch as those of the central auditors in relation to audit of head office. The branch auditor's report on the financial statements examined by him is forwarded to the central auditors with a copy to the management of the bank. The branch auditor of a public sector bank, private sector bank or foreign bank is also required to furnish a long form audit report to the bank management and to send a copy thereof to the central auditors. The central auditors, in preparing their report on the financial statements of the bank, deal with the branch audit reports in such manner, as they consider necessary.

However, there are significant differences in the scope of audit between a branch audit and HO audit. While the banking business takes place at the branches, the Head office takes care of administrative and policy decisions. Besides, accounting for certain transactions such as Treasury operations are centralized.

Areas generally not to be considered at branch, as they will be considered by HO include:

- ❖ Provision for Gratuity.
- ❖ Provision for Taxation.
- ❖ Provision for Audit fees
- ❖ Depreciation on Assets like premises, where fixed asset is accounted for at HO.
- ❖ Provision for pension and other retirement funds.
- ❖ Transfers to reserves.
- ❖ Dividends.

Peculiarities of bank branch audit include

1. Audit is carried out once a year and completed in a very short span
2. There is a need for trained personnel to carry out audit considering the large volume and variety of transactions in terms of both number and value
3. It is very essential for the auditors to constantly update knowledge and be abreast of latest changes in RBI regulations

Reasons for special audit considerations in the audit of banks

1. Particular nature of risks associated with the transactions undertaken by banks;
2. The scale of banking operations and the resultant significant exposures which can arise within short periods of time;
3. The extensive dependence on IT to process transactions.
4. The effect of the statutory and regulatory requirements; and
5. The continuing development of new services and banking practices which may not be matched by the concurrent development of accounting principles and auditing practices.

The auditor should consider the effect of the above factors in designing his audit approach.

[Top](#)

Chapter II- SPECIMEN DOCUMENTATION

Every audit undergoes five stages

1. Pre- commencement
2. Understanding the business of bank branch audit
3. Audit Planning
4. Substantive Procedures
5. Reporting

The documentation required at each stage are detailed

2.1 Pre- commencement of Audit

2.1.1 Specimen of No Objection Letter

On the letter head of the Auditor

Date:

To,

(Name of the Previous Auditor)

(Address of the Previous Auditor)

Dear Sir,

Sub. : Statutory Audit of (Name of the Bank), (Name of the Branch) branch
for the year ended 31/03/2009

We wish to inform you that we have been appointed as Statutory Auditors of (Name of the Bank), (Name of the Branch) Branch for the year ended 31/03/2009 .Since you were the previous auditors of the said branch for the year ended 31/03/2008 we would like to know whether you have any objections, professional or otherwise, on our accepting the said assignment. Kindly inform the same within 7 days from the date of receipt of this letter, failing which we shall treat that you have No Objection and proceed further.

Thanking You.

Yours Faithfully,

For (Name of Firm)
Chartered Accountants,

(Name of the Auditor)
Partner

[Top](#)

2.1.2 Specimen checklist on Independence Policy

Sl. No	Question	Compliance
1	Whether there is pressure to inappropriately reduce the work performed?	
2	Was there any obligation to carry out, modify or suppress or modify findings, conclusions and recommendations?	
3	Have you been involved in management, business, activities or executive decisions of the client?	
4	Whether you have communicated to previous auditor in writing?	
5	Was there a change in the constitution of the firm since your application to the ICAI?	
6	Do you have any close family relationship with any client staff at senior management level?	

7	Do you have any pecuniary interest in the client other than consideration received for work?	
8	Are you indebted to the bank for a sum exceeding Rs 1000/?	
9	Do you hold any security of the bank carrying voting rights?	
10	Have you or a close family member taken a loan from or to or given or accepted any guarantee from or to a client?	
11	Do you have sufficient knowledge of the client and its management and are you aware of the possible threats to independence?	
12	Whether the firm or any of its partners or staff were involved in concurrent audit, revenue audit, stock audit, Information systems audit of the branch?	
13	Have you accepted goods or services on favourable terms, or received undue hospitality from a client?	

Note: If the answers to any of the questions is ‘yes’ the firm should consider the effect on independence or the possible loss of the appearance of independence. The firm should consider whether the impairment could be removed before the commencement of audit/attestation etc.

[Top](#)

2.1.3 Specimen of Audit Engagement Letter

On the letter head of the Auditor

Date:

To,

The Branch Manager,

(Name of the Bank),

(Name of the Branch),

(Address of the Branch)

Dear Sir,

Sub. : Audit Engagement letter in case of the Branch Statutory Audit and Branch Tax Audit of
(Name of the Bank) (Name of the Branch) for the period-----.

We have been appointed as branch statutory auditors for auditing the accounts of your branch for the year ended 31/03/2009 vide letter No. dated (date), under Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970. The appointment also includes assignment of conducting tax audit under Income Tax Act, 1961, for the previous year ending -- ----i.e. relevant to assessment year -----, issue of Long Form Audit Report, and Issue of Certificates as stated the said appointment letter.

We have communicated our acceptance to your Head office vide our letter reference Dated.... to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements. We will conduct our audit in accordance with the auditing standards generally accepted in India and with the requirements of the Banking Regulation Act 1949 and other applicable statutes.

Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation.

However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which might come to our notice.

The responsibility for the preparation of financial statements on a going concern basis is that of the management. The management is also responsible for selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period.

The responsibility of the management also includes the maintenance of adequate accounting records and internal controls for safeguarding of the assets of the entity and for the preventing and detecting fraud or other irregularities. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

Our tax audit report in Form No. 3CA along with Statement of Particulars in Form No. 3CD of the Income Tax Rules, 1962 shall be issued on the basis of the books of account and explanations given to us by you on various issues relevant to the tax audit.

Our Long For Audit Report along with Statement of Particulars and annexures attached thereto shall be issued on the basis of the books of account produced before us and information and explanations given to us by you on various relevant issues and on the basis of audit carried out by us and our comments in the various reports will be based on our opinion relating to the applicable law, wherever relevant.

We shall not be liable for any unfavourable impact upon any tax proceedings, arising from anything contained in or omitted from the tax audit report.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' under the Chartered Accountants Act, 1949. The reviewer may examine our working papers during the course of the peer review.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records; documentation and other information are requested in connection with our audit.

We will commence the assignment on a mutually agreed date and as per the time schedule provided by the head office of your bank for timely completion of accounts of the bank.

Our fees will be billed on completion of assignment as per directions stated in the appointment letter. Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.

We appreciate the opportunity to be of service to you.

XYZ & Co.

Chartered Accountants

.....

(Signature)

(Name of the Member)

(Designation)

Acknowledged on behalf

OfBank.....Branch

.....

(Signature)

Name and Designation

Date

[Top](#)

2.2 Understanding the business of the bank branch

2.2.1 Specimen of a letter seeking information from branch manager

On the letter head of Auditor

Date:

The Branch Manager,

(Name of the Bank - Branch)

(Address of the Branch)

Dear Sir,

Sub: Information required at the time of commencement of Statutory Audit of your branch for the year 2008-09

This letter is provided in connection with your audit of financial statements of _____branch of _____ bank for the year ended 31.03.2009 for the purpose of expressing an opinion as to whether the financial statement give a true and fair view of the financial position and of results of operations for the year. Please be informed that audit of your branch will be started by our audit team headed by _____ on_____.

In order to complete the audit and furnish the report within the stipulated time limit, your whole-hearted co-operation is solicited.

In order to enable us to finalise and furnish our report on the au dit of the accounts for the year 2008 - 2009 of your branch, kindly keep the following records/information/clarification ready and make the same available to our audit team on their visit to your branch:

1. Latest reports

For our scrutiny, the following reports for the last three years on the accounts of your branch, and compliance by the branch check the observations contained therein:

- (a) Internal Inspection Report;
- (b) Revenue / Concurrent Audit Report/System Audit Report;
- (c) RBI Inspection Report, if such inspection took place;
- (d) Income and Expenditure Control Audit Report; and
- (e) Copy of Certificates

2. Circulars in connection with accounts

Please let us have a copy of the head office circulars/instructions in connection with closing of your accounts for the year, to the extent not communicated to us or incorporated in our letter of appointment. Also provide us with the latest updated Internal Instructions and Circulars issued by the controlling authorities.

3. Accounting policies

Please let us have a list of the accounting policies adopted by the bank with particular reference to items of income and expenditure.

Please confirm whether, as compared to the earlier year, there are any changes in the accounting policies during the year under audit; and if so, the financial effect thereof may be computed to enable us to verify the same.

4. Balancing of books

Please confirm the present status of balancing of the subsidiary records with the relevant control accounts, and in case of differences between balances in the control and subsidiary records, please let us know the efforts being made to reconcile / balance the same. This information may please be given head-wise for the relevant control accounts, indicating the dates when the balances were last tallied.

5. Overdue/matured term deposits

Please confirm having transferred them to Current Account Deposit at call A/c. If not, details/particulars of credit balances comprising overdue matured term deposits as at the yearend which continue to be shown as term deposits particularly where the branch does not have any instructions/communication for renewal of such deposits from the account holders and amount of provision made on such overdue/matured term deposits.

6. Advances

- (a) Please confirm whether in respect of the advances against tangible securities, the bank holds evidence of existence and market value of the relevant securities as at the year-end.
- (b) We may be informed of the year-end status of the accounts each with outstanding above 1% of the total Advances Portfolio of, the branch or Rs. 100 lakhs whichever is lower, particularly those which have been adversely commented upon in the latest reports on the branch and in respect of which provisions have been made/recommended as at the previous year-end.

Information in relation to such advances accounts whose provision is computed / recommended may please be prepared indicating:

- (i) Name of the borrower
- (ii) Type of facility
- (iii) * Total amount outstanding as at the year-end (both for principal and interest] specifying the date up to which interest has been levied and recovered.
- (iv) Nature of default and action taken.
- (v) Brief history and present status of the advance.
- (vi) *Provision already made/recommended.

*Corresponding figures for the previous year-end may please be given.

The previously mentioned information may please be kept ready and be made available to us along with the branch returns.

- (c) Please confirm whether the borrowers' accounts have been correctly categorised, according to the prevailing RBI prudential norms applicable for the year, into Standard, Sub-standard, Doubtful or Loss assets.

Please confirm whether you have examined the accounts and applied the norms *borrower-wise* and not account-wise for categorising the accounts. Please let us have

the particulars of provisions computed/recommended in respect of the above during the financial year under audit.

- (d) A list of all advances accounts which have been identified as of the nature of bad/ doubtful accounts and where pending formal sanction of the higher authorities, the relevant amounts have not been reclassified/recategorised in the books of the Branches for provision/write off. This covers all accounts identified by the Bank or internal/ external auditors or by RBI inspectors but the amount has not been written off wholly or partly.

In case the branch has itself recommended action against the borrowers or for initiating legal or other coercive action for recovery of dues, a list of such borrowers' accounts may be furnished to us.

- (e) Please let us have a list of borrowers' accounts where classification made as at the end of the previous year has been changed to a better classification, stating reasons for the same.
- (f) Please also confirm whether any income has been adjusted/recorded to revenue, contrary to the norms of income recognition notified by the Reserve Bank of India and/or Head Office circulars issued in this regard; and particularly where the chances of recovery/ reliability of the income are remote.
- (g) Please furnish us the list of accounts re-structured as per Circular issued by RBI on Restructuring of Advances by banks dated August 27, 2008; December 08, 2008; January 02, 2009 and February 04, 2009.

Please also confirm whether any income has been recorded on Non Performing Accounts other than on actual realisation.

- 7. Outstanding in suspense/sundry account

Please let us have a year-wise break up of amounts outstanding in Suspense/Sundry accounts as on 31-3-2009. Reasons for non-adjustment of items included in these may be made known.

8. Contingent liabilities

- (a) Please confirm whether other than for advances, there are any matters involving the branch in any claims in litigation, arbitration or other disputes in which there may be some financial implications, including for staff claims, municipal taxes, local levies etc. If so these may be listed for our verification, and you may confirm whether you have included these as contingent liabilities.
- (b) Please confirm whether guarantees are being disclosed net of margins or otherwise as at the year-end, and whether the expired guarantees where the claim period has also expired, continue to be disclosed in the Branch return. Please confirm specifically.

9. Interest provision

- (a) Please confirm whether interest provision has been made on deposits etc, in accordance with the latest instructions of the Head Office. A copy of these may be made available for our scrutiny.
- (b) Please confirm whether any amount recorded as income up to the year-end, which remains unrecovered or not releasable, has been reversed from any of the income heads or has been debited to any expenditure head during the year. If so, please let us have details to enable us to verify the same. Please confirm the accounting treatment as regards reversal, if any, of interest / other income recorded up to the previous year - end; and the amount reversed during the year under audit i.e., income of earlier years derecognised during the year.

10. Foreign currency outstanding transactions

Please confirm whether amount outstanding as at the year-end have been converted as at the year -end rates as applicable, rather than at the dates the entries originated-particularly for bills outstanding, guarantees, L/Cs etc.

Please confirm the amount of inward value of foreign currency parcels, if any, which *originated prior to the year-end from other branches, but could not be recorded as these were in transit – and for which entries were made after the year end.

11. Investments

In case, the branch holds any investments behalf of the bank:

- (a) These may be produced for physical verification and/or evidence of holding the same be made available.
- (b) Stocks of unused security paper stationery/numbered forms like B/RS, SGL Forms etc. may please be produced for physical verification.
- (c) It may be confirmed whether income accrued/collected has been accounted as per the laid down procedure.

12. Long Form Audit Report – Branch response to the Questionnaire

In connection with the Long Form Audit Report, please let us have complete information as regards each item in the questionnaire, to enable us to verify the same for the purpose of our audit.

Kindly let us have complete information regarding following items mentioned in the questionnaire of LFAR for the purpose of verification:

- 1) Branch closing instructions.
- 2) Instructions of Controlling Authorities with respect to various issues.
- 3) Organisation chart.
- 4) Authorisation level and powers of branch officials.

- 5) Previous years audit report/ LFAR/ Tax audit report and compliance thereon.
- 6) Cash Retention Limit.
- 7) Bank confirmations/Bank reconciliation's.
- 8) Insurance for Cash/Cash-in-transit.
- 9) In case of advances > 2 Crore: - sanctioned limit and outstanding. (Both funded and non funded)
- 10) List of NPA's and provisioning thereon with the date of NPA.
- 11) List of overdue/ overdrawn.
- 12) Stock audit reports/Unit inspection reports.
- 13) Valuation reports of Accounts NPA and outstanding > 1 Crore where valuation is prior to 31/03/2005.
- 14) Status of Frauds.
- 15) Break up of Suspense A/c's.
- 16) Listing of Provisions/Prepaid.
- 17) List of Security items as at 31st March.
- 18) Listing of all advances party wise and limit wise.
- 19) Listing of outstanding facility wise.
- 20) Listing of Contingent liabilities.
- 21) Listing of Fixed assets item wise tallied with the Balance sheet figure.
- 22) Status of claims lodged with ECGC/DICGC.
- 23) Cases of overdue proposals for review/renewal.
- 24) Cases of Sanctions not disbursed.
- 25) Break up of matured deposits Year wise.
- 26) Schedule of Charges (for booking of Income).
- 27) System audit report, conducted, if any.
- 28) List of Non corporate entities enjoying limit > 10 lakhs.
- 29) Listing of Sundry deposits/Bills payables
- 30) Report in desired format of advances > 2 Crore.
- 31) Stock register/ Insurance register/ Stationery Register/ Draw power Register/Cheque Book Issuance Register/ Cash book/ Sanction Register/ Custody register/ Key/ Pay Order register/ DD issued Register/ Document register.

- 32) Head office/ Inter branch reconciliation/ Cheque bouncing register.
- 33) Balance sheet/ Profit and Loss A/c as at 31st March/ 30th June/ 30th September/ 31st December and 31st March of closing year.
- 34) List of Computer system (configuration wise) and Accounting system in operation.
- 35) List of MIS reports/Returns submitted to various authorities.
- 36) Overdue locker rents/Vacant lockers.
- 37) Cash withdrawals/deposits > 10 lakhs.
- 38) ATM Cards/Pins on hand not issued and lying on hand.
- 39) Cheque books not issued and lying in stock.
- 40) Status of PC virus upgrades.
- 41) Number of inoperative accounts/ dormant accounts.
- 42) Number of accounts maintaining balances below prescribed minimum.
- 43) Details of Guarantees.
- 44) Details of Customers complaints.

13. Tax Audit in terms of section 44AB of the Income-tax Act, 1961

Please let us have the information required for tax audits under section 44AB of the Income-tax Act, 1961 to enable *us* verify the same for the purpose of our report thereon.

Kindly let us have complete information regarding following items mentioned in the questionnaire of Tax Audit in Form No. 3CD for the purpose of verification:

- a) Depreciation schedule as per the requirements of clause No. xiv of Form 3CD.
- b) List of books of accounts maintained.
- c) Details of tax, fees, cess, and duties allowed u/s 43B of the Income Tax Act as per the prescribed format.
- d) Details of Tax Deducted at Source on various payments made to the various payees along with the challans for the payment of the same to the Govt. and showing the delay, if any in such payment in the prescribed format.
- e) Permanent Account Number of the Bank.

f) Details of Income/Expenditure of prior period credited/debited to Profit and Loss Account.

14. Other certification

Let us have, duly authenticated, information as regards other matters which, as per our letter of appointment, required certification.

Following confirmation certificates may be kept ready for our verification and records.

- a. Bank Balance confirmation as on 31st March 2009 for all the Bank Accounts held by the Branch.
- b. Certificate of physical verification of fixed assets for the yearend.
- c. Cash balance certificate as on 31st March 2009
- d. Certificate regarding contingent liabilities.
- e. Certificate of physical verification of security items as on 31st March 2009 and certifying differences if any between book balance and actual balance on physical verification.
- f. Certificate for SLR compliance.
- g. Certificate for DICGC Claims
- h. Certificate for PMRY Scheme
- i. Certificate regarding non-contravention of Sec.269 T of the Income Tax Act.
- j. Statement of capital adequacy data.
- k. Statement on maturity pattern of loans and advances (residual maturity).
- l. Statement on maturity pattern of deposits (residual maturity).
- m. Movement of NPAs.
- n. Any other statement required by the Bank for MIS or other purposes.
- o. Certificate regarding loans under PMRY Scheme.
- p. Certificate regarding implementation of Jilani Committee and Ghosh Committee recommendations.
- q. Advance to Sensitive Sectors.

15. Interest Provision

Kindly confirm whether the interest provisions on deposits, H.O. interest is made as per the instructions of H.O.

We shall be grateful if you could also confirm the name to the officer(s) nominated by the bank to comply with our requirements in connection with the above, so that our reports / certificates are expedited.

We shall appreciate your kind co-operation in the matter.

Thanking you,

Yours faithfully,

**For (Name of the Auditor)
Chartered Accountants**

(Name of the Partner)

Partner

Membership No

[Top](#)

2.2.2 Specimen checklist for business assessment

Name of the Bank:

Head Office:

Address of the Head office:

Number of Branches

Number of CBS branches:

a) Within India

b) Outside India

Website of the Bank:

Banking Software used:

Total Deposits of the Bank:

Total Advances of the Bank

Name of the Central Statutory Auditor

Credit card:

Debit Card:

ATM card:

Branch Profile:

Name of the Bank in charge :

Mobile Number:

Specialized Branch:

[Housing, Agricultural, NRI etc]

Region/ Zone in which the branch is located:

Name of the Concurrent Auditor:

Business Hours of the Branch : (on weekdays)

: (On Saturdays)

Balance sheet/Profit and Loss A/c as at 31st March/30th June/30th September/31st December and
31st March of 2009

List of Computer system (configuration wise) and Accounting system in operation

List of MIS reports>Returns submitted to various authorities.

Business Achievement:

Rs. In lakhs

As on	DEPOSITS			ADVANCES		
	Budgeted	Actual	Short(-) Excess(+)	Budgeted	Actual	Short(-) Excess(+)
Beginning of the month						
End of the month						

Current year projection						
--------------------------------	--	--	--	--	--	--

Premises:

- Ownership or rental?	
- Copy of agreement on record?	
- TDS deducted promptly and paid on time?	
- Fire Insurance policy is in force?	
- Property/ Water Tax paid on time?	
- Branch board displays working hours?	
- Notice board contains latest information?	
- Suggestion box kept?	

Staff:

	Persons holding post As on 31.03.2009
Managers	
Accountant	
Asst. Accountant	
Clerks	
Sub-staff	

Total	

Financial Powers of the Officers:

Administrative Powers of Officers:

Furniture & Fixtures:

As on 01.04.2008

Additions/ Deductions during the year:

As on 31.03.2009

Cash:

Retention Limit (Rs. in Lakhs)

Keys in the Dual custody of ----- since -----

Number of tokens in all and number of missing tokens Their numbers are-----

Insurance for Cash/Cash-in-transit

Staff in charge:

Petty Cash:

Staff in charge is----- since-----

Postage/ documentary stamps/ Stationery

As on 01.04.2008

Additions/ Deductions during the year: As on 31.03.2009

Staff in charge

Bank Balance:

Name of the banks where balances are held:

Confirmation of Balances held?

Lockers / safe deposit vault

Total number of lockers-----

Rented out as on 01.04.2008

Surrendered/ Closed during the year:

Rented out during the year:

Rented out as on As on 31.03.2009

Staff in charge

Deposit Schemes: (As on 31.03.2009) Rs. in lakhs

	Number of Accounts [as on .01.4.2008]	Accounts opened during the year	Accounts closed during the year	Balance
Savings				
Current				
Term Deposits				
Other Schemes				

Foreign Exchange and Derivative Transactions:

	as on .01.4.2008	as on 31.03.2009
List of derivative Products offered:		
Staff in charge:		
Foreign Currency Loans		

Export Credit in foreign Currency		
Guarantees against Exports:		
NRE		
NRO		
NRNR		
FCNR-B		
EEFC		
RFC		
Bills for Collection		

Advances:

	As on 01.04.2008	Disbursed during the year	Repayments during the year	As on 31.03.2009
Types of Facilities				
A) Funded				
i. Term Loan				
ii. Demand Loan				
iii. Cash Credit				
iv. Overdrafts				
v. Bill Discounting/Purchases				
vi. Packing Credit				
B) Non- Funded				
i. LC				
ii. Guarantees				
Types of security				
A) Tangible				
B) Intangible				
Priority Sector Advances				

Non- Priority Sector Advances Inland Foreign				
Suit Filed Accounts				
Standard Assets				
Sub- Standard Assets				
Doubtful Assets				
Non- Performing Assets				
Inspections of Units				

Particulars of restructured Accounts

Rs. in crores

		CDR Mechanism	SME Debt restructuring	OTHERS
Standard Advances restructured	Number of Borrowers: Amount Outstanding: Sacrifice [diminution in Fair value]			
Sub-Standard Advances restructured	Number of Borrowers: Amount Outstanding: Sacrifice [diminution in			

	Fair value]			
Doubtful	Number of Borrowers: Amount Outstanding: Sacrifice [diminution in Fair value]			
Total	Number of Borrowers: Amount Outstanding: Sacrifice [diminution in Fair value]			

Investments

Investment Policy

	As on 01.04.2008	As on 31.03.2009
Securities of the Central and State Governments and other approved securities		
Shares		
Debentures and Bonds		
Financial Derivatives		
Commercial Papers		
Certificate of Deposits		
Others		
Investment outside India		

Income and expenditure

Interest earned during the year	
Other income earned during the year	
Interest expended during the year	
Operating expenses during the year	
Income leakage detected	
Test checking done by branch officials on	

[Top](#)

2.2.3 Specimen Checklist for Auditing in a Core Banking Environment

Introduction

Core Banking Solutions (CBS) or Centralised Banking Solutions is the process which is completed in a centralized environment i.e. under which the information relating to the customer's account (i.e. financial dealings, profession, income, family members etc.) is stored in the Central Server of the bank (that is available to all the networked branches) instead of the branch server. Depending upon the size and needs of a bank, it could be for the all the operations or for limited operations. This task is carried through advance software by making use of the services provided by specialized agencies.

The key features of a CBS include a centralised server, which stores data pertaining to retail and corporate Banking at transaction level, which is linked via high speed, secure and redundant networks to the various branches of the Banks. The main server is a common point of contact to the various delivery channels like ATMs, Internet Banking, Branches, Mobile Banking, etc.

The central database server and associated servers like Mail Servers, Application Servers, Authentication Servers, and Storage Servers, etc., are hosted at a data centre, which is at the core of the entire architecture. Adequate Security is provided to the IT infrastructure by means of firewalls, network intrusion detection systems, anti-virus software at the system and application levels, proxy servers, etc.

A disaster recovery site (DRS), which simply put is a redundant data centre, is also an integral part of the IT infrastructure. There also needs to be a well-documented set of procedures to be followed, in the case of a disaster striking the data centre

In its circular, [Cir. No DBS.PP.BC1/11/01.005/2006-07 dated November 16, 2006]

–Compliance Function in Banks||, RBI has directed in Para 6.9 that –Banks with fully operational core banking solutions should centralize their regulatory reporting at the Compliance Department. In other cases, Compliance Department shall monitor timely submission of regulatory returns by the controlling offices through appropriate mechanism, such as a Monthly Returns Calendar, which may indicate the returns/reports to be submitted by each branch/controlling office and their dates of submission.||

While it is the responsibility of the management to ensure adequate and effective control systems at the branches, statutory auditors have to express their opinion on the results generated by these systems.

Specimen audit checklist with respect to core banking

A). Understanding the CBS environment

1. Obtain an overview of the CBS
2. Understand the perception of the Senior Management on CBS
3. Understand how the CBS has been used for compiling Financial Information

B) Migration Controls

4. If the branch has migrated from previous legacy package to CBS, then, in order to ensure consistency and integrity of data migrate, check & comment whether Certificate of Verification of Integrity and Consistency of data migrated has been preserved on branch records.

5. If branch has undergone an independent Migration Audit, check whether all irregularities and recommendations have been duly attended/followed.

C) Security Controls

6. Whether authorised, correct and complete data is made available for processing?
7. Whether the latest version of antivirus software is installed in servers/PCs of branches and it is regularly updated?

E) Service Risk

8. Is the communication network slow for some of the days?
9. IS the Branch connected under ISDN?
10. If ISDN is used, does the branch keep track of duration and frequency of use?

E) Disaster Recovery

11. Does the branch have a copy of the Disaster Recovery and Business continuity Plan?
12. Whether concerned staff members are aware of their responsibility in case of disaster?

F) Integrity of the system

13. Whether system restarts without distorting the completion of the entries and records in case of interruption due to power, mechanical or processing failures?

G) Access controls

14. Whether floppy drives and USB connections are disabled on machines running the CBS?
15. Whether access to the computer room is restricted to authorised persons only?
16. Whether system prevents unauthorised amendments to the programmes?
17. Whether – access controls || assigned to the staff-working match with the responsibilities, as per manual?
18. Does the branch have access to number of authorized users to the branch data?
19. Whether important passwords like DBA's are kept in sealed cover with branch manager, so that in case of emergency they can be used?

H) Change control

20. Whether Account Master and balance can be modified/amended/alterd only by the authorised personnel?

21. Whether changes made in the Parameters or user levels are authenticated?
22. Whether charges are calculated manually for accounts when function is not regulated through parameters? Whether such charges are properly accounted for and authorised?
23. Whether exceptional transactions report are authorised and verified on a daily basis by the concerned officials?
24. Whether all modules in the software are implemented?
25. Whether all the GL accounts codes authorised by HO are in existence in the system?
26. Whether balance in GL tallies with the balance in Subsidiary book?

I) Backups

27. Whether daily and monthly backups are taken?
28. Whether the offsite backups are properly secured and preserved?
29. Whether backups are duly labelled and indexed and maintained under joint custody?
30. Whether backup register is maintained and updated?
31. Whether the backup media is properly stored in a secure place e.g. in fireproof cabinet secured with lock and key?
32. Whether hardware is covered by Annual maintenance contract?
33. Has branch maintained a hardware inventory register?
34. Does the branch have a stand- by UPS?

J) Control over Software Updates (New features).

35. Check whether list of such updates/ customizations have been maintained in chronological order at the branch and to comment whether these have been complied with/actions prescribed for branches have been taken and controlled.

K) Day-End Controls

36. Obtain list of reports generated by the system such as
 - a. Exceptional report
 - b. List of users
 - c. Access Log
 - d. Rejected/Cancelled entries
 - e. Over-limits/TOD Report
 - f. GL affected Balances Report

g. Report on large cash transactions/KYC & Anti Money Laundering etc.

37. Check whether all the mandatory reports are taken daily including on Sundays and holidays, as ATM transactions are carried out on these days also, and are scrutinised adequately and to comment whether exceptions/ anomalies, if encountered during the day, have been duly noted and disposed of.

38. Peruse transaction logs of heavy days [especially after multiple holidays]

39. Review Exception Transactions Reports

L) Control Over Periodical/Mass-Runs (System Generated Transactions)

40. Obtain listing of runs/system generated transactions conveyed to the branch from time to time which are being applied at the Data Centre. Examples include:

- a. Application of Interest
- b. Application of service charges
- c. Updation of parameters globally
- d. Balancing & Reconciliations
- e. Classification of inoperative accounts

41. Check whether print reports of such runs/system generated transactions are taken and scrutinised by the branch for correctness and comment whether discrepancies/inconsistencies encountered are duly noted and disposed of.

42. Check specifically & comment whether interest test-check has been carried out at the branch to verify the correctness and worksheets of such verification procedures have been preserved on branch records.

M) Control over Proxy/Parking Transactions

43. Check whether report on such transactions (which remain in unposted status) is taken as a part of day end process and scrutinised for prompt reversal.

44. Check and comment specifically on old outstanding entries and reasons for non-reversal of the same

N) Control over Impersonal/Office Accounts

45. Check Accounts which are opened by the Bank for their own operational purposes and are of impersonal nature.

a. For instance:

- (a) Sundry credit accounts,
- (b) Sundry deposit accounts,
- (c) suspense
- (d) H.O Account etc

46. Check whether these accounts have been mapped to correct GL Sub head and entries in the accounts have been done correctly. For instance:

- i. Postings in sundry credit accounts and sundry deposit accounts have been duly verified by the branch.
- ii. Deposit from public and Deposit from Banks have been shown correctly in appropriate GL Subheads.
- iii. Credit balances in Loan accounts have not been shown in sundry deposit account.

47. Check whether these transactions are scrutinised by the branch for correctness and for prompt adjustment.

O) Advances and Foreign Exchange

48. Inquire modalities of entry of new sanctions into the CBS

49. Inquire whether loan documentation is controlled through the system

50. check whether Securities Master Maintenance is updated regularly

51. check whether Linking of Credit-limits of a customer is correctly done

52. Check whether asset classification done by the system has been verified by the branch for correctness.

53. Check whether various statements for control over Forex Business are scrutinised by the branch for their correctness.

54. inquire Whether system prompts for renewals

55. Inquire whether CBS identifies NPAs and reverses income

56. Whether loan security amount are entered to enable computing provision requirements?

57. Whether drawing power calculation is correctly done?

P) Deposits

- 58. Check whether proper mapping of accounts is done. For Instance linking of applicable interest rate table to SB (General), SB (Staff), SB (Pensioners) etc
- 59. To check whether auto–renewal of overdue TDRs has been enabled and comment whether report on such effective renewals and failures and on application of interest have been taken and scrutinised by the branch for correctness.
- 60. To check whether various TDS rates linked to different types of depositors/Other deductees have been verified for correctness in terms of TDS Rules.
- 61. To check whether all accounts of the customer have been linked to a customer-id for the purposes of TDS.

Q) Legal Compliances and Other Controls

- 62. Check whether eligible expenditures under FBT Laws have been debited in appropriate pre-designated account head under appropriate GL Subhead and reports generated have been verified
- 63. Service Tax has been debited in appropriate pre-designated account head under appropriate GL Subhead and reports generated have been verified
- 64. Check whether ATM cash and Transactions are verified periodically
- 65. Internet Banking

Check & comment specifically whether adequate validation procedures such as verification of data relating to customer profile

- a) Identity and address proof
- b) Nature of constitution and
- c) Mode of operations etc. fed into system have been carried out at Branch

R) Audit conclusions

- 66. Discuss all significant CBS audit findings with the Bank’s Senior Management

67. Where there are any reservations on control matters, determine whether they need to be communicated in writing

68. What is the impact of such reservations on financial statements?

[Top](#)

2.2.4 Specimen Checklist for Special Considerations in CIS environment

A) Bank Audit in Computerised Environment

		Yes	No
1	Physical Security :		
A	Servers :		
a)	Server room is securely located		
b)	Servers are installed in a separate server cabin		
c)	Server room is locked overnight and kept clean		
d)	Servers and electricity supply are secured from tampering		
e)	Server room access is controlled / monitored.		
f)	Server room is located not close to UPS room		
g)	Separate air-conditioner is provided for server room		
B	Nodes :		
a)	Administration node is securely located.		
b)	Administration node access is controlled / monitored		
C	Printers and scanners		
a)	Network printer is kept outside the server room and secured		
b)	Printers attached to nodes are securely located		
c)	Access to printer is monitored		
d)	Scanner is securely kept under lock and key		
D	Uninterrupted Power Supply (UPS) System		

a)	UPS system is securely installed / access restricted		
b)	UPS system is under AMC		
c)	No other load is connected to UPS system		
d)	UPS is tested periodically		
2.	General :		
a)	All computer hardware and software items are numbered.		
b)	Stationery register for valuable peripherals like printer ribbons, cartridge tapes etc is maintained		
c)	Computer assets are physically present as per records.		
d)	All computer hardware and software items appearing in the inventory register are covered under warranty / AMC.		
e)	Details of insurance policy are available and all computer hardware items appearing in inventory register are covered.		
f)	Fire Extinguishers are installed.		
g)	Anti – Virus software is loaded on the server & Nodes with hard disk		
h)	Network layout map is displayed in the server room.		
i)	Business continuity plan is documented and the staff concerned is aware of specific duties and responsibilities.		
j)	Telephone number of service contractors / contact persons are displayed in the server room		
3.	Passwords		
a)	Proper control over creation / addition / deletion of Users is exercised.		
b)	Password maintenance is taken care of		
c)	Passwords are changed at periodic intervals by the Users		
d)	User names are as per Bank's service records		
e)	Access levels of Users are based on a need to know, need to do basis		
f)	Each officer / staff has only one User-ID		

g)	Users log out when leaving the work table / node, each time.		
h)	User IDs of staff transferred, suspended or on long leave are disabled		
4	Data Integrity :		
a)	Proper system of input of data exists		
b)	Master printouts are complete, correct & bear authentication		
c)	Changes in Master data records are authenticated and filed along with source documentation for verification		
d)	Transactions are scrutinised with source documents & authorised.		
e)	Input source documents (e.g. cheques, vouchers, other instruments) bear initials for data entered / authorised.		
f)	Register is maintained up-to-date for input of sanctioned limits, drawing limits and interest rate slabs in advances accounts		
g)	Changes in sanctioned limits and interest rate slabs are input timely and confirmed immediately.		
h)	Total number of input source documents (vouchers) is tallied daily with cash book/ summary report.		
5	Process Controls :		
a)	Re-opening of days is recorded and controlled.		
b)	Release of clearing effects are done timely		
c)	Release of Transfer / Clearing / Remittance transactions is done as per guidelines.		
d)	Day-End is done on the same day		
e)	Consistency check is carried out daily		
f)	TOD charges calculation / application is carried out daily		
g)	WAE charges calculation / application is carried out daily on the next working day before opening a new day		
h)	Interest calculation / application in advance account is done timely		

i)	Minimum balance charges calculation / application in SB, CD accounts is done on regular basis, as prescribed.		
j)	Folio charges calculation / application is done regularly as prescribed		
k)	Scanning / confirmation of signatures in all operative accounts is timely and up to date		
l)	Control is exercised over postings and opening of new heads in GL Sundry Deposits, Sundry Credits and Suspense Debits		
m)	Transfer book is called with transfer vouchers of the day & tallied		
n)	Transfer book total is tallied with cash-book transfer column daily.		
6	Output Controls :		
a)	Following computer reports are generated, scrutinised and available: ledgers, consistency check reports, and exceptional transactions reports, audit trails, out of order position of advance accounts and debit balances in deposit accounts.		
b)	Interest applied reports, charges applied reports – inoperative accounts, minimum balance, folio, TOD are generated and available.		
c)	Monthly jottings of all on line sub-systems, General Ledger Balances Book, Cash book , Transfer book, Scrolls, Clearing, P&L and BDS statements are generated, scrutinised, authenticated and available		
d)	Passbooks, statement of accounts, advice of drawing, debit advice etc. are generated timely and sent wherever necessary		
e)	Out-put/reports are filed chronologically, bound, stacked and available		
f)	Daily vouchers are stitched: cash, clearing & transfer scroll-wise		
7	Backups :		
a)	Backups are taken as per Systems and Procedures Manual		

b)	Backup Control Register is maintained up-to-date		
c)	One set of backups is stored off-site regularly		
d)	Backups stored in-house are safe and under dual control		
8	Revenue Recovery Controls :		
a)	Revenue is recovered correctly and on time		
9	Balancing of books of accounts :		
a)	Savings bank accounts are balanced monthly, authenticated and jottings are available.		
b)	Current Deposit accounts including Sundries are balanced monthly, authenticated and jottings are available		
c)	Cash Credit accounts are balanced monthly, authenticated and jottings are available		
d)	Overdraft accounts are balanced monthly, authenticated and jottings are available		
e)	Payslip outstandings are balanced monthly, authenticated and jottings are available :		
f)	Following Term Deposit sub – systems are balanced regularly, authenticated and jottings are available :		
g)	Short Deposits		
h)	Recurring Deposits		
i)	Fixed deposits		
j)	Monthly income certificates		
k)	Double benefit deposits		
l)	Branch Performance Report statement reflects factual position of balancing.		
m)	P&L statements are generated monthly & authenticated copies available.		
n)	Balancing of sundry ledgers is regular and branch has taken due care to wipe out Suspense Debit entries timely.		
10	System Effectiveness :		

a)	Computer training is imparted to all concerned personnel		
b)	Pass-books are issued/updated instantly		
c)	Statements of accounts are made available to customers timely		
d)	Demand drafts/ payslips are issued within the prescribed time-frame		
e)	Cash dispensation is within the prescribed time-frame		
f)	Non-cash transaction services are provided even after normal business hours		

B) Automated Teller Machines		
A) Plastic Card And Pin Controls		
1. Is access to the physical area in which encoding is accomplished limited to authorized personnel with dual control procedures employed?		
2. Are proper inventory controls over blank plastic cards in place? (There should be proper accounting for the number of cards used, including test cards and spoiled cards.)		
3. Are reasonable dual control practices in place where possible? (Only a limited working supply of blank cards and cards in the process of being embossed/encoded should be allowed out of dual custody. Adequate interim storage and accounting must exist for all cards not under dual control.)		
4. Are controls in place to ensure that all cards are initially disbursed from the storage area, and end up either in the mail area or are properly disposed of?		
5. Does the bank use a service bureau to handle access device operations? If so:		
a. Does the bank have a contractual arrangement in place to ensure that all aspects of safeguarding customer information, card and PIN controls, destruction of no-longer-needed documents, returned cards and PIN mailers, etc. are handled in accordance with bank specifications? ?		
6. Does the bank receive returned ATM cards, and if so, are they handled separately and not by issuing personnel?		
a. If so, does the bank use a returned ATM/Debit Card Log to show evidence of receipt, dual control, and final disposition of the card?		
b. Are customers identified prior to the bank returning the card?		
c. Does the bank protect other customer and non-customer		

information when requesting a signature as evidence of return of a captured card by covering the information and/or by having the customer sign a separate piece of paper?		
d. Are returned cards and PINs destroyed within a reasonable time period, and is the destruction date and dual control evidenced on the log?		
7. Are PINs stored separate from plastic cards?		
8. Are PIN mailers processed and delivered with the same security accorded the delivery of bankcards to cardholders?		
9. Do PIN systems record the number of unsuccessful PIN entries and restrict access to a customer's account after a small number of attempts?		
10. Are PIN systems designed so that PINs can be changed without re-issuance of cards?		
11. Does the bank have procedures in place that limit the number of employees who are authorized to order ATM cards and PINs?		
B) ATM Activity		
14. Are captured cards logged in and maintained in double custody until the owner claims it, it is forwarded to the issuing financial institution, or it is destroyed in dual custody?		
15. Are unclaimed captured cards destroyed after a reasonable period of time?		
16. Are customers identified prior to the bank returning the card?		
17. Is there a well-defined procedure for handling captured cards from other institutions?		
18. Is there evidence that an officer reviews the ATM Suspicious Activity Report daily?		
19. Is there evidence of appropriate follow-up on suspicious activity?		

C) Daily/Monthly Procedures		
20. Is there evidence that the ATM is subject to a surprise cash count at least once monthly?		
21. Are procedures in place for after-hours servicing of the ATM? Is this handled by bank employees or by an –outsidell vendor? Are proper dual controls evident - i.e., log for after-hours personnel and contracts of outside vendors?		
22. Is the daily access made under dual control and so documented? Review log.		
23. Are the daily transactions processed under strict dual control?		
24. Is the daily work microfilmed prior to processing?		
D) Safety And Security		
25. Are alarm devices connected to all automated teller machines?		
26. Are the ATM and customer visible from the street?		
27. Is the ATM area equipped with a fire extinguisher?		
29. Are the key and the combination changed periodically when situations such as employee turnover occur or in accordance with bank policy?		
30. Does the bank furnish to ATM users a –Notice of Precautionsll?		
31. Are ATM cameras periodically checked to ensure proper operability?		

[Top](#)

2.2.5 List of various laws applicable to the branch

The principal legislations governing the functioning of the various types of banks are

- 1) Banking Regulation Act,1949 and
- 2) Reserve Bank of India Act,1934

The other applicable laws include:

- a. Banking Companies (Nationalization of Undertakings) Act, 1970
- b. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
- c. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
- d. Negotiable Instruments Act 1881
- e. State Bank of India Act, 1955
- f. State Bank of India (Subsidiary Banks) Act, 1959
- g. Regional Rural Banks Act, 1976
- h. Companies Act, 1956
- i. Co-operative Societies Act, 1912 or the relevant state Co-operative
- j. Information Technology Act, 2000
- k. Prevention of Money Laundering Act, 2002
- l. Credit Information Companies Regulation Act, 2005
- m. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

[Top](#)

2.3. Audit Planning

2.3.1. Specimen Bank Branch Audit Program

Name of the Bank and Branch:

Region/ Zone in which Branch is located:

Date of Commencement:

Date of completion:

TIME & MANPOWER PLANNING

- a) Partner appointed for the audit
- b) Assistants appointed for the audit
- c) date of first visit
- d) date of commencement of audit
- e) date when requirement is sent
- f) Tentative date of completion of audit
- g) Date of dispatch of reports
- h) Date of discussion with branch manager

AUDIT program

Sr. No	Area of Work	Branch Staff responsible	Work done by	Date
A	General - Pre Audit Work			
1.	Attended Bank seminar/ study of ICAI guidance note on bank audit			
2.	Training of audit assistants on issues in bank audit			
3	Study of Business mix of the Branch & determination of the sample size and percentage of checking in each area			
4	Review of Latest available inspection reports of Internal/Concurrent/RBI/Statutory/System Auditors and compliance thereof			
5	Review of Closing Circular issued by Head Office			
6	Study of Significant accounting policies of the Bank & Computer System			

	7	Compliance of Mandatory Accounting Standards / Auditing Standards and RBI circulars			
	8	whether intimation given to the Branch Manager regarding requirements for audit and documents to be kept ready for audit			
	9	Last year's audited P/L , Balance sheet, Auditor's report, observations and rectifications by BRANCH			
	10	last year LFAR			
	11	Profit and Loss account and Balance sheet with schedules			
B	Physical Verification				
	1	Physical verification of Cash, Adhesive stamp documents and postage and cross verification of the same with GL balances.			
	2	Physical verification of Investments			
	3	Physical verification of valuable stationery like cheque books, Demand Drafts, Pay - Orders etc.			
C	Verification of Returns and Reconciliation				
	1	Verification of returns submitted to RBI / HO / ZO (Monthly/ Quarterly / Half Yearly / Yearly)			
	2	Verification of Annual Closing Returns			
	3	Verification of HO / Branches / Other Banks Reconciliation, Branch Adjustment Account			
	4	Verification of Statement of Fraud			
D	Verification of Balances				
	1	Checking of opening balances in GL with previous year audited Balance Sheet and Profit & Loss Account			
	2	Cross Verification of Trial Balance, Profit & Loss Account and Balance Sheet figures as on 31 st March with GL figures			

	3	Verify that all balances are shown under proper heads			
E	Balance Sheet				
	1	Verify whether the Balance sheet copies are signed by the Manager and other officials?			
	2	Advances			
		a. Credit Appraisal			
		b. Sanctioning and Disbursement			
		c. Documentation - Pre-sanction & Post Sanction			
		d. Monitoring/ Review/ Supervision by the Branch			
		1. Submission of financial statements			
		2. Submission of I.T. Returns			
		3. Timely submission of stock statements			
		4. Calculation of Drawing Power			
		5. Inspection of Godowns			
		6. Operations in the account - overdue/ sticky accounts / diversion of funds/ cheques duly honoured/ limit not exceeded frequently			
		7. Renewal of documents due			
		8. Penal interest for default			
		9. Insurance coverage			
		10.Registration and Mortgage of property			
	3	Analysis of entries outstanding in suspense Account, Sundry Debtors, Sundry Creditors			
	4	Verification of assets classified as NPA Verification of Upgraded Accounts earlier classified as NPA			
	5	Review of suit filed accounts / Decreed accounts & their follow - up			
	6	Checking of additions, deductions, transfer of fixed assets with relevant supporting			

7	Verify that credit balances in OD, CC, inoperative current accounts are not netted off with advances and are shown separately under demand deposits			
8	Verify that Interest accrued but not due on loans is not included in advances			
9	Deposits			
	1. After the Balance Sheet date & till the date of audit whether there have been any unusual large movements in the aggregate deposits held at the year end			
	2. Verification of Staff Accounts			
	3. Check that guidelines issued by RBI for in-operative & dormant accounts are strictly followed			
	4. Verify that overdue, matured time deposits are shown in demand deposits			
	5. Verify that interest accrued but not due is not included in deposits but shown under other liabilities			
10	Analysis of entries outstanding in Bills Payable/ Sundry Deposits etc.			
11	Obtain list of contingent liabilities not acknowledged as debts by the branch			
Balance sheet Finalisation				
1	Verify Balance Sheet figures with General ledger			
2	Casting of Balance sheet and cross checking of balance sheet schedules			
3	Srutinize balance sheet a) all balances to be shown in proper heads b) credit balances in OD/CC/ inoperative current			

		accounts are to be shown as demand deposits c) verify compliance of anti- money laundering guidelines d) Overdue deposits, matured time deposits, cash certificates, certificates of deposits are shown in Demand deposits e)Check reconciliation of General Ledger and Subsidiary Ledger f) Check Inter- office Reconciliation			
F	Profit & Loss Account				
	1	Verify whether Income recognition norms prescribed by RBI has been strictly followed by the branch			
	2	Verification of provision of interest on standard , sub-standard, doubtful & loss assets and appropriate accounting treatment thereof			
	3	Checking of proper classification of revenue and expenditure items			
	4	Ratio Analysis and comparison with previous year figures			
	5	Verify whether there is any divergent trend in major items of income & expenditure and analysis of reasons thereof			
	6	Test checking of interest on deposits and advances			
	7	Test checking of commission and discount on bills etc.			
	8	Verification of accounts of major heads of income & expenditure			

	9	Verification of provisions for prepaid and outstanding income & expenditure			
	10	Verification of locker rent received and due and provision thereof			
	11	Verification of provision for depreciation on fixed assets			
	12	Checking of prior period expenses and income and provisioning thereof			
	13	Checking of provisions for ECGC/ DICGC claims			
Profit and Loss Finalisation					
	1	Verify Profit and Loss account with Profit and loss Ledgers			
	2	Casting of Profit and loss booklets and cross checking with Profit and Loss Account schedules			
	3	Profit and Loss Account Scrutiny			
G	LFAR				
	1	Checking of items as per LFAR checklist			
	2	Preparation of annexures to LFAR			
	3	Preparation of LFAR			
H	Tax Audit Report				
	1	Check the followings in detail-			
		1. Payments made to clubs			
		2. Details of revenue expenditure capitalised			
		3. Whether TDS has been remitted before the due date			
		4. Particulars of Income and Expenditure of earlier years debited / credited to Profit & Loss Account which are of			

		material nature			
		5. Verify whether any repayment of deposits have been made in violation of section 269 T of the Income Tax Act 1961.			
	2	Checking of Tax Audit Schedules			
	3	Preparation of Tax Audit Report			
I	Verification of Checklist of Jilani Committee Recommendations				
J	Verification of Checklist of Ghosh Committee Recommendations				
K	Collection of following certificates and statements from Branch				
	1	Physical verification of cash			
	2	Physical verification of Adhesive Stamp Documents, Postage, Security etc.			
	3	Physical verification of Investments			
	4	Physical verification of Fixed Assets carried out by Branch			
	5	NPA Statement, Profit & Loss Account, Balance Sheet, Trial Balance certified by Branch Manager			
	6	Management Representation Letter			
	7	Certificate from Branch Manager for attendance of Audit			
L	Issue of Certificates				
	1	Certificate for Review of Loan Portfolio			
	2	Certificate relating to recoveries in claim paid accounts under small loan Guarantee Scheme 1971 and Small Loan (SSI) Guarantee Scheme, 1981			
	3	Certificate in respect of subsidy utilised under the scheme Prime Minister's Rojgar Yojana (PMRY) and correctness of claim made			

	4	Certificate regarding the implementation of Jilani & Ghosh Committee recommendations			
	5	Certificate regarding possession of investment documents on behalf of Head Office			
	6	Certificate for DICGC Claim			
	7	Movement of NPAs			
	8	Advances to sensitive sectors			
M	Finalisation				
	1	Preparation of Draft of the following-			
		1. Audit Report			
		2. LFAR & Annexures			
		3. Tax Audit Report			
		4. Jilani Committee Recommendations			
		5. Ghosh Committee Recommendations			
		6. Memoradum of Changes			
	2	Discussion of Draft Report with Branch Manager			
	3	Preparation of Final Report			
	4	Submission of Final Report along with Copies of Signed Balance Sheet, Profit & Loss Account and certificates.			
N	Review of work done by Audit Team				
	1	Senior			
	2	Junior			
	3	Articled Clerks			
	4	Employee			

[Top](#)

2.4 Substantive Procedures

2.4.1 Specimen Management Representation Letter

On the letter Head of Branch

Date:

To,

(Name of the Auditor)

(Address of the Auditor)

Sub: Representation letter for statutory audit for the year from 1st April 2008 to 31st March 2009

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of (Name of the Bank) (Name of the Branch) Branch for the year ended 31st March, 2009 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of the (Name of the Bank), (Name of the Branch) Branch as of 31st March, 2009, Balance Sheet and Profit & Loss Account of the branch for the year ended 31st March, 2009.

We acknowledge our responsibility for preparation of financial statements in accordance with circular issued by Finance and Accounts Department, Head office and the guidelines issued by RBI/ICAI/ HO of Bank in accordance with applicable other pronouncements.

We confirm, to the best of our knowledge and belief, the following representations:

I INCOME:

1. Interest and other income are recognized on accrual basis, except the following, which are recognized on cash basis

(A) Interest and other income on Non Performing Assets as per norms prescribed by the Head Office.

(B) Commission, Exchange on LC and BGs, Bills, Brokerage and locker rent.

(C) Interest on overdue bill purchased/ discounted.

2. Interest on all advances up to March 31,2009 , has been properly applied and accounted for in the books of account of the Branch. Necessary provision has been made for debits and credits in borrowal accounts from the last application date i.e.-----

3. Revenue leakage as pointed out by the Statutory Auditors/Concurrent Auditors/Inspectors of inspection Department of the Bank has been collected /accounted for.

4. No income relating to future years, except commission on DPGs, BGs, Locker

Rent, as the case may be, have been credited to the Profit and Loss Account for the year ended on 31.03.

5. All income earned during the years, except as stated above in paragraphs 1 to 4 has been credited to the Profit and Loss Account and no unearned income has been credited to the Profit and Loss Account for the year ended on 31.03.2009

II EXPENDITURE:

6. Revenue Expenditure is accounted on accrual basis, except Property Tax, insurance charges and interest on overdue deposits and leave encashment. Necessary provision is made for revenue items kept under Sundry Debtors Account.

7. Interest on Deposits is properly accounted for up to March 31, 2009 .Necessary provision is made for further deposits received/paid on or after.

8. Bonus had been paid to all eligible employees as per the instructions of Head Office.

9. No expenditure of personal nature has been debited to the Profit and Loss Account for the year ended on 31.03.2009, except those paid as per the rules and regulations of the Bank.

10. Payment towards expenditure in excess of Rs20, 000/- are effected through account payee Cheques / DDs / Pay Orders or credited to the Current/Savings Account of the Payee and no cash payment is made.

11. Liabilities of any contingent nature have not been debited to the Profit and Loss Account for the year ended on 31.03.2009.

12. No capital expenditure is debited to the Profit and Loss Account. However as per the Bank's Policy depreciation is provided @ 100% on all fixed assets costing up to Rs 5,000/- each, acquired during the year.

13. Legal expenses incurred on suit filed accounts have been debited to Profit and Loss Account and other expenses are neither kept under Sundry Debtors nor debited to Customers' account.

III ASSETS

14. Cash balances, Stamps and Stationery as on March 31, 2009 is physically verified and tallied with the amount stated in the Balance Sheet.

15. Cash and other valuable securities are adequately and comprehensively insured through a Blanket Policy taken by Head office

16. In respect of cash held in Chest for and behalf of RBI, the insurance is the responsibility of HO (Strike out if Not Applicable)

17. Balances with other Banks and The Reserve Bank of India as at March 31st 2009 were reconciled and no amount of revenue nature is kept under reconciliation.

(Strike out if Not Applicable)

18. All advances stated in the Balance Sheet as at 31.03.2009 are fully recoverable and good, except those stated in IRAC returns.

19. Drawing power has been reworked on receipt of monthly Stock statements certified by the borrower.

20. Security values recorded in Returns are as per the latest valuation reports received.

21. All advances have been properly classified as Performing Assets. All Non- Performing Assets have been correctly classified, further as Sub-standard, Doubtful, Loss assets and the provisions have been correctly worked out as per the norms prescribed by the Head Office and furnished in IRAC returns. We further certify that all Loss assets have been classified as Loss assets only and not otherwise. Provision for doubtful assets shown in the IRAC returns is sufficient and no further loss is expected on these accounts.

22. All Restructured accounts have been correctly and fully furnished in the Return of Restructured accounts including sacrifice made.

23. Fixed Asset Register has been properly maintained at the Branch. All Fixed assets have been physically verified and tallied with the Book Balances. All Fixed Assets shown in the Balance Sheet are in working condition and are put to use. Fixed Assets have been recorded on the date they are put to use and not from the date of payment.
24. Capital expenditure incurred only for the assets put to use have been fully capitalized and is not shown in Work in process/advances for capital works – Sundry Debtors.
25. All transfers-in and transfer-out of capital assets have been correctly accounted.
26. Only purchases of Fixed Assets have been shown as additions to Fixed Assets and no transfers - in of these Assets are included in the additions to Fixed Assets.
27. All sales of fixed assets are correctly shown in the return of Assets sold. No transfer-out of Fixed Assets is included in this return.
28. Depreciation on Fixed Assets has been correctly provided as per the guidelines of Head Office.
29. There has been no impairment loss on any assets as on 31.03.2009 necessitating recognition in the profit & loss account.

IV LIABILITIES

30. All known and accrued liabilities have been provided for in the accounts, except property tax, insurance charges, interest on overdue deposits and leave encashment.
31. All Liabilities stated in the Balance Sheet as at 31st March 2009 are existing and no in fructuous Liabilities are included in the accounts.
32. There are no commitments on capital account which are not provided in the accounts.

V OTHER MATTERS

33. The Branch was subjected to (a) Revenue Audits/Internal Inspection/RBI Inspection/Credit Audits and the reports with their compliance have been furnished. The previous Branch Auditors' Reports and LFAR and Compliance thereof are furnished to you during the course of Audit.
34. The effect of MOC, if any, for the year 2007-08 is incorporated in the accounts of 2008-09.
35. Information furnished in the annual closing returns is complete and correct.
36. No loans or advances or any other payment has been made to the directors/persons having substantial interest in the Bank or their relatives.

37. All documents relating to the advances of the Bank are properly filled up and not kept blank. All these documents are current and not barred by time. A list of borrowers whose documents are kept blank/time barred are as under.

Sl.N o.	Loan No.	Name of the Borrower	Nature of advance	Amount Outstanding	Date of Expiry of Documents	Reasons for keeping documents blank

38. The branch has not made any claim under DICGC Scheme. Also it has not collected / recovered any dues in respect of advances covered earlier under DICGC Scheme.

39. The Branch is under Core banking Solutions system and all Books of Accounts and subsidiary records are balanced and there are no differences in any General Ledger Head.

40. The Branch has sanctioned loan within the permissible level of financial authority as per Head Office Circular on Delegation of Financial powers. All loans exceeding the permissible Branch limit are processed and sanctioned at appropriate levels. There has been no excess allowed during the year which requires reporting to controlling authorities.

41. Legal action has been initiated in all cases where the same has been approved by the controlling authorities except in the following cases

Units	Approval for legal action	Action directed	pending

42. In all case of write off of advances, necessary approval has been obtained from controlling authorities. The details are:

Name of the customer	Amount	Action directed	Approval ref

43. There has been no fraud at the branch during the year under audit.

44. There are no claims against the branch not acknowledged as debt. Thanking You,

Yours Faithfully,

For

Branch

Branch Head

[Top](#)

2.4.2 Checklist of documents to be taken from Management

Following certificates/ documents should be in the audit file after audit of Bank branch

S.No	Description of the certificate	Obtained on	Date of certificate	Checked by
1	A certificate from the Branch Manager stating that the excess cash holding is being reported to the controlling authority on a regular basis;			
2	A certificate from the Branch Manager to the effect that the closing instructions submitted by the Branch are the latest updated instructions and no instruction have been issued after that date.			
2	A photo copy each of the confirmation certificates for Balances with RBI, SBI and other banks;			
3	A copy of the reconciliation statement in respect of differences in such balances with RBI, SBI and other banks;			
4	A copy of the Demat Account relating to investments;			
5	List of overdue or matured			

	investments at the end of the year duly confirmed by the Branch Manager;			
6	List of large advances i.e. those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the Branch or Rs.2.00 crores whichever is less duly certified by the Branch Manager;			
7	List of renewal proposals pending at Branch Level at the end of the year duly confirmed by the Branch Manager;			
8	A copy of the letter from Head Office regarding Sanction limit of the Branch Manager;			
9	List of proposals sanctioned during the year;			
10	List of cases where registration of creation of charge with Registrar of Companies pending at the			

	end of the year;			
11	List of cases where the prescribed period of 30 days for registration of creation of charge is over as at the end of the year;			
12	List of cases where search reports obtained from professionals for loans sanctioned to various companies;			
13	List of cases where the Branch has not obtained acknowledgement of Debt (AOD)/ Balance Confirmation letters at the end of the year;			
14	List of cases where the Branch has not obtained stock/book debts statements at the end of the year;			
15	List of cases where the stock audit is mandatorily required to be carried out			
16	Compliance on Adverse features noted in stock audit reports and whether all issues			

	are closed.			
17	A certificate from the Branch Manager for inspection or physical verification of securities charged to the Bank;			
18	Statement from the Branch Head regarding cases of inspection due as on March 31st and inspection actually carried out during the year;			
19	List of cases where copies of insurance policies are yet to be received at the end of the year;			
20	Statement of credit card dues at the year end;			
21	Copy of Head office instructions for identification of NPAs and classification of advances;			
23	Copies of Master circular issued by the Reserve Bank of India;			
34	List of cases where authorized legal action for recovery of advances are pending at the end of the year;			
25	A list of cases where legal action for recovery of advances or recalling of advances was authorized by			