



BANK AUDIT 2021 – NEW REQUIREMENTS / CHALLENGES

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BANK AUDIT -2020

- **Functioning of banks were normal till 3rd week of March 2020**
- **All regular periodic audits like concurrent, revenue, credit, IS and all internal review were on time**
- **Three Quarterly reviews done in conventional manner, physically**
- **The only challenge for year end audit was physical movement vs remote audit – Thanks to improved technology and ICAI guidance note , this hurdle was crossed successfully**

BANK AUDIT -2021 – SCENARIO

- Merger of Public Sector Banks**
- After effects of COVID 19 and changes in regulations**
- New reporting for PSB – Internal Financial Controls**
- New Formats for Branch/Whole bank LFAR – more detailed**
- Annexure to audit appointment letter – several specific certificates**

Vijaya Bank, Dena Bank



Bank of Baroda (1.4.2019)

Andhra Bank, Corporation Bank



Union Bank of India (1.4.2020)

Oriental Bank of Commerce , United Bank of India



Punjab National Bank (1.4.2020)

Syndicate Bank



Canara Bank (1.4.2020)

Allahabad Bank



Indian Bank (1.4.2020)

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FALL OUT OF PSB MERGER

- **Integration of software and systems – same borrower**
- **Integration of Accounting Policies – Legal expenses in NPA Accounts; Appropriation of recovery in NPA accounts; Recognition of income – locker rent; Guarantee fee; Discounting charges , method of providing depreciation**
- **Substantive testing through Branch Audit**



COVID – RBI CIRCULARS – IMPACT IRAC NORMS

RBI COVID 19 – Regulatory Package – Asset Classification and Provisioning

□ **RBI Circular dated April 17, 2020**

- **Moratorium of 3 months on payment of term loan instalments falling due between 01.03.2020 to 31.05.2020 & in case of CC accounts payment of Interest during this period was granted vide circular dated 27.03.2020**
- **All accounts classified as standard as on 29.02.2020, even if overdue, the moratorium period, wherever granted, shall be excluded from number of days past due for the purpose of asset classification under IRAC norms.**
- **In case of CC accounts, the deferment period, wherever granted, shall be excluded from out of order status for the purpose of asset classification under IRAC norms.**

RBI COVID 19 – Regulatory Package – Asset Classification and Provisioning

□ **RBI Circular dated April 17, 2020**

Additional provisioning

In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

(i) Quarter ended March 31, 2020 – not less than 5 %

(ii) Quarter ending June 30, 2020 – not less than 5 %

□ **Provision will be on those accounts which are in SMA 2 as on 29.02.2020**

RBI COVID 19 – Regulatory Package – Review of Resolution Timelines

□ **RBI Circular dated April 17, 2020**

- **Accounts which are under review period during this 01.03.2020 to 31.05.2020 period shall be excluded from the 30 day timeline for review period (extended from 01.06.2020 to 31.08.2020)**
- **All such accounts the review period of 30 days to be calculated from 01.06.2020 and then 180 days resolution period to be calculated. (from: 01.09.2020)**
- **Accounts where resolution period is not over as on 01.03.2020, the timelines for resolution shall be extended by 90 days period from the date of expiry of original date of 180 days.**

COVID-19 – Regulatory Package

RBI Circular dated March 27, 2020 & May 23, 2020

Purpose

To mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses.

Relief:

- 1. Rescheduling of Payments – Term Loans and Working Capital Facilities**
- 2. Easing of working capital financing**
- 3. Relaxation from Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)**

COVID-19 – Regulatory Package

Rescheduling of Payments – Term Loans & Working Capital

Term Loan (Includes EMIs, Interest / Principal, Bullet Payment, Credit Card dues)

Relief:

- 1. Permitted to grant a moratorium period of three months on payment of all instalments to all types of term loans which are falling due between **March 01, 2020 and May 31, 2020 (extended from June 01, 2020 to August 31, 2020)****
- 2. Accordingly the residual tenor of the account would be extended to the extent of such moratorium period granted**

Asset classification to be determined based on revised due dates

COVID-19 – Regulatory Package

Rescheduling of Payments – T L & W C

Working Capital Facilities (other than LCBD)

Relief:

Permitted to defer the recovery of interest applied on working capital finance facilities during the period March 01, 2020 upto May 31, 2020 (extended from June 01, 2020 to August 31, 2020)

Accumulated interest to be recovered immediately after 31.05.2020 (Lending institutions are permitted to convert accumulated interest into FITL which shall be repayable not later than March 31, 2021)

Asset classification to be determined based on revised due dates

COVID-19 – Regulatory Package

Easing of Working Capital Financing - Relaxation in margins

Discretion to the lending institutions regarding reduction in margin and reassessment of working capital cycle, during the period upto May 31, 2020. (Till August 31, 2020)

Limited impact to the extent of change in method of calculation of drawing power to the extent of reduction in margin and relaxation in consideration of working capital cycle (upto March 31, 2021)

COVID-19 – Regulatory Package

- ❑ **Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)**
- ❑ **The relief granted as specified and permitted under the said circular, will not be considered as concession or change in terms and conditions of loan agreements.**
AND
- ❑ **Will not be treated as concessions granted due to financial difficulty of the borrower and consequently, will not result in asset classification downgrade**
- ❑ **Hence , no downgrading is required.**
- ❑ **Anything beyond the relief specified in the circular will result in restructuring and thus would be required to be downgraded**

Interest Subvention – 21.04.2020

Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans during the years 2018-19 and 2019-20: Extended Period on account of Covid-19

- **In the wake of the nationwide lockdown due to outbreak of Covid -19 pandemic and the resultant restrictions imposed on movement of people, many farmers are not able to travel to bank branches for payment of their short term crop loan dues. As per RBI circular 27.3.2020 moratorium has been granted for three months on payment of installments falling due between March 1, 2020 and May 31, 2020 in respect of all term loans including short term crop loans.**
- **Banks are therefore advised to extend the benefit of Interest Subvention of 2% and Prompt Repayment Incentive of 3% for short term crop loans upto ₹3 lakh to farmers whose accounts have become due or shall become due between March 1, 2020 and May 31, 2020.**

Emergency Credit Line Guarantee Scheme

- ❑ **Circular Ref No. 2842/NCGTC/ECLGS dated May 23, 2020 issued by National Credit Guarantee Trustee Company (NCGTC) to extend guaranteed emergency credit line to MSME borrowers.**
- ❑ **Additional working capital term loans (in case of banks and FIs) and additional term loans (in case of NBFCs) upto 20% of their entire outstanding credit upto Rs 25 Crores (i.e. upto Rs. 5 Crore) as on February 29, 2020. subject to Account should be less than or equal to 60 days past due on that date.**
- ❑ **RBI Circular dated 21.06.2020**
- ❑ **Credit facilities extended under the scheme guaranteed by NCGTC are backed by an unconditional and irrevocable guarantee provided by Government of India, it has been decided that Member Lending Institutions shall assign zero percent risk weight on the credit facilities extended under this scheme to the extent of guarantee coverage.**

Extension of time limits for settlement of import payment – 22.05.2020

Import of goods and services- Extension of time limits for Settlement of import payment

Remittances against normal imports (i.e. excluding import of gold/diamonds and precious stones/ jewellery) should be completed not later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance etc.

In view of the disruptions due to outbreak of COVID- 19 pandemic, it has been decided to extend the time period for completion of remittances against such normal imports (except in cases where amounts are withheld towards guarantee of performance etc.) from six months to twelve months from the date of shipment for such imports made on or before July 31, 2020.

Export Credit Extension of period of advance – 23.05.2020

- Pre-shipment and Post-shipment Export Credit – Extension of Period of Advance**
- Exporters have been facing genuine difficulties such as delay / postponement of orders, delay in realisation of bills, etc.**
- RBI has already permitted the period of realisation and repatriation of the export proceeds to India to be increased from nine months to 15 months from the date of export in respect of exports made upto July 31, 2020.**
- In line with this relaxation, increased the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from one year to 15 months, for disbursements made upto July 31, 2020.**

Interest Subvention – 04.06.2020

Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Loans for Agriculture including Animal Husbandry, Dairy and Fisheries for extended period on account of Covid-19

- In order to ensure that farmers do not pay higher interest during the extended moratorium period, the Government has decided to continue the availability of 2% IS and 3% PRI to farmers for the extended period of repayment upto August 31, 2020 or date of repayment, whichever is earlier. This benefit will be applicable to all short term loans for Agriculture and Animal Husbandry, Dairy and Fisheries (AHDF) upto ₹3 lakh per farmer (upto ₹2 lakh for AHDF farmers).**

MSME Restructuring – RBI Circular dated 06.08.2020

One time relaxation given for Restructuring of MSME Standard Accounts without downgrading, subject to compliance of following conditions (as on 01.03.2020):

- 1. Aggregate exposure (FB/NFB) < Rs. 25 Crores**
 - 2. Borrower should be a Standard Asset**
 - 3. Borrower should be registered under GST on the date of implementation of restructuring, unless exempted.**
 - 4. Restructuring to be implemented on or before 31.03.2021**
 - 5. Additional provision of 5% on such accounts**
- Accounts restructured in terms of circular dated 01.01.2019 & 11.02.2020 shall be ineligible for this scheme**

Gold Loan LTV – 06.08.2020

- Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses**
- With a view to further mitigate the economic impact of the Covid19 pandemic on households, entrepreneurs and small businesses, it has been decided to increase the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent.**
- This enhanced LTV ratio will be applicable up to March 31, 2021 to enable the borrowers to tide over their temporary liquidity mismatches on account of COVID 19.**
- Fresh gold loans sanctioned on and after April 1, 2021 shall attract LTV ratio of 75 per cent.**

Adhoc/Short Review – 21.08.2020

Banks are expected to have a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly.

However, an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals, non-capturing and/or inaccurate capturing of review/renewal data in the banking/information systems, and non-coverage of review/renewal activities under the concurrent audit/internal audit mechanism.

Adhoc/Short Review – 21.08.2020

In this connection, we reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and **banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons.**

Banks are also advised to capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities should be brought under the scope of concurrent/internal audit/internal control mechanism of banks with immediate effect.

COVID RELATED ISSUES

- **Interim Decision of Supreme Court dated 3.9.2020 in PIL of Gajendra Sharma vs UOI – no further downgrading of account after 31.8.2020**
- **Ad hoc provisioning by banks based of mock identification of NPA**
- **GOI – Scheme of ex-gratia payment of difference between compound and simple interest in Retail, MSME, credit dues -1.3.2020 to 31.8.2020 – Claim with nodal agency SBI – Accounting ?**
- **Compliance with IRAC norms in the light of the above**



AUDIT REPORT – NEW REQUIREMENT

NEW REPORTING REQUIREMENT

- Whether the bank has adequate internal financial control systems in place and the operating effectiveness of such controls (compliance deferred to year ended 31.3.2021 vide RBI letter dated 19.5.2020)
- Section 143(3)(i) of Companies Act : *Whether the company has adequate [internal financial controls with reference to financial statements] in place and the operating effectiveness of such controls*
- [] substituted for ‘internal financial control system’ by the Companies Amendment Act 2017 wef 9.2.2018

NEW REPORTING REQUIREMENT (IFC contd..)

- Whether “internal financial control systems” & “internal financial controls with reference to financial statements” are the same ?
- Explanation to section 134(5)(e) under Companies Act , 2013 – Under Directors Responsibility Statement
- *For the purpose of this clause , the term ‘internal financial controls’ means the policies and procedure adopted by the company for ensuring the orderly and efficient conduct of its business , including adherence to company’s policies , the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information’*

NEW REPORTING REQUIREMENT (IFC contd...)

- *ICAI report on IFC - Meaning of Internal Financial Controls Over Financial Reporting*
- **A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles**

Applicability to SBAs

- The branches that are required to be covered for reporting on IFCoFR will be determined and scoped in by the SCAs. It is not necessary that all the branches of the Bank are covered for reporting on IFCoFR since the controls operating at the branches will be common controls that are designed centrally at the Bank and operated at the branches.

ICAI – Technical Guide

- **Appendix II**
- **Extract of RBI Clarification to PSBs on SCAs Reporting Requirements on IFCoFR**
- 2. In line with substitution of words “Internal Financial Control System” in Section 143(3)(i) of the Companies Act, 2013, by the words “Internal Financial Controls with reference to Financial Statements” as per the clause 43(ii) of Companies Amendment Act, 2017, the reporting requirement at Para 2(v) of the said letter stands modified to ‘Whether the bank has adequate Internal Financial Controls with reference to Financial Statements and the operating effectiveness of such controls’.

ICAI – Technical Guide

- **Appendix VI**
- A. Illustrative Audit Report by the SBA when a branch is not scoped in for audit of IFCoFR
- B. Illustrative Audit Report by the SBA when a branch is scoped in for audit of IFCoFR
- ANNEXURE “A” TO THE INDEPENDENT AUDITOR’S REPORT (Referred to in paragraph ___ under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date) Report on the Operating Effectiveness of Internal Financial Controls Over Financial Reporting as required by the Reserve Bank of India (the “RBI”) Letter DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended) . (the “RBI communication”)
- **Similar to Companies Act report**



LONG FORM AUDIT REPORT

REVISED LFAR – REASONS FOR REVISION

- **Last format was prescribed in 2002 - 19 years before , when:**
- **Banking transactions and record keeping done manually to a large extent**
- **Risk management not as big a focus area as it is now.**
- **Formats to keep up with the times, address the requirements of technology-driven new-age banking systems and do away with some questions that are no longer relevant.**



BANKING – CURRENT SCENARIO

- Digital banking, Core banking systems and Risk management**
- Mountain of non-performing assets, partly a result of weak credit assessment**

REVISED LFAR

- **The format of LFAR have been revised:**
- **Annex I for Statutory Central Auditors (SCA)**
- **Annex II for Branch Auditors**
- **An Appendix as part of Annex II for the specialized branches and**
- **Annex III on Large / Irregular / Critical accounts for branch auditors.**
- **The old LFAR format and other instructions of 2002 have been repealed.**

REVISED LFAR – WHOLE BANK

□ *Objectives*

- **The overall objective of the Long Form Audit Report (LFAR) should be to identify and assess the gaps and vulnerable areas in the business operations, risk management, compliance and the efficacy of internal audit and provide an independent opinion on the same to the Board of the bank and provide their observations.**

REVISED LFAR – BRANCHES

□ *Objectives*

- **The overall objective of the branch audit should be to have transaction testing and provide inputs to the Statutory central Auditors on adequacy of implementation of various policy and regulatory requirements, including efficacy of the system and assurance functions (risk management, compliance and internal audit) at branch level.**

REVISED LFAR – BRANCHES

□ *Objectives*

- **Where threshold is prescribed : the transaction detailing needs to be seen and commented upon.**
- **Below the threshold: the system and processes should be checked and commented upon.**

REVISED LFAR – BRANCHES

□ *Objectives*

- **Adverse comments LFAR : To consider whether a qualification in their main report is necessary.**
- **Every adverse comment in the LFAR would not necessarily result in a qualification in the main report.**
- **In deciding whether a qualification in the main report is necessary, the auditors should use their professional judgment in the facts and circumstances of each case.**



REVISED LFAR - BRANCHES

□ 1. **CASH**

□ 2. **BALANCE WITH BANKS, RBI ETC**

□ 3. **MONEY AT CALL AND SHORT NOTICE**

□ 4. **INVESTMENTS**

GENERAL INSTRUCTIONS – ADVANCES

- LARGE ADVANCES : Outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less.**
- EXTENT OF VERIFICATION : The transaction audit/account specific details to be seen and commented,**
- BELOW THRESHOLD : The process needs to be checked and commented upon.**
- ESCALATION : Advances with significant adverse features, needing attention of the management / Statutory Central Auditors, should be appended to the LFAR.**

LARGE ADVANCES

- List of Advances Accounts examined for Audit**
- Account Number,**
- Account Name,**
- Balance as at Year end (Funded),**
- Balance as at Year end (Non Funded),**
- Total.**
- % of TOTAL ADVANCE examined by SBA**

ADVANCES – NEW AREAS

- **Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner:-**
- • **Account No.**
- • **Account Name**
- • **Balance as at year end**
- **Take over Policy / Due diligence – compliance**
- **Quick mortality** accounts are defined as **bank** accounts, which become NPA within one year of original sanction or first disbursement, and in case of housing loan within one year from the date of commencement of installment, whichever is later

ADVANCES – NEW AREAS

- **Whether applicable interest rate is correctly fed into the system?**
- **Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to interest rate is reviewed MCLR (Marginal Cost of Funds Lending Rate) / EBLR (External Benchmark Lending Rate)? – Last circular dated 4.9.2019**
- **The interest rate under external benchmark shall be reset at least once in three months.**
- **All floating rate rupee loans sanctioned and renewed w.e.f. April 1, 2016 shall be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes subject to the provisions contained in paragraph 7 of this Master Direction.**

ADVANCES – NEW AREAS

- **Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts**

Observation should not be inconsistent with accounts identified as NPA

- **Whether Correct and valid credit rating from accredited agencies correctly fed into the system**
- **A rating scale could consist of 9 levels, of which levels 1 to 5 represent various grades of acceptable credit risk and levels 6 to 9 represent various grades of unacceptable credit risk associated with an exposure.(Guidance note on credit risk management by RBI)**

BRANCH LFAR - ADVANCES

- **Did the bank provide loans to companies for buy-back of shares/securities?**
- **RBI Master circular on Loans and Advances – Statutory and Other Restrictions- 2nd July 2007**
- **1.4 Restrictions on Credit to Companies for Buy-back of their Securities**
- In terms of Section 77A(1) of the Companies Act, 1956, companies are permitted to purchase their own shares or other specified securities out of their
 - free reserves, or
 - securities premium account, or
 - the proceeds of any shares or other specified securities,
- subject to compliance of various conditions specified in the Companies (Amendment) Act, 1999. **Therefore, banks should not provide loans to companies for buy-back of shares/securities.**
- **Section 68 of Companies Act , 2013 has same provisions**



BRANCH LFAR - ADVANCES

- **Details of:**
- **cases where stock audit was required but was not conducted**
- **where stock audit was conducted but no action was taken on adverse features**

BRANCH LFAR – Due Diligence

- Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements
- Give the list of accounts where such certificate/report is not obtained or not available on record. (In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)
- What is the RBI requirement ?

BRANCH LFAR – Due Diligence

- Reserve Bank of India **Notification no. DBOD. NO. BP.BC.110/08.12.001/2008-09 dated 10.2.2009**
- “Please refer to Paragraph 2(iii) of our circular RBI/2008-09/183/DBOD.No.BP.BC.46 /08.12.001/2008-09 dated September 19, 2008 on the captioned subject.
- 2. In terms of Paragraph 2(iii) of the above circular, in order to strengthen the information sharing system among banks in respect of the borrowers enjoying credit facilities from multiple banks, the banks are required **to obtain regular certification** by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in **Annex III** to the above circular.
- 3. In this context it is clarified that in addition to Company Secretaries, banks can also accept the certification by a Chartered Accountants & Cost Accountants. Further, on the basis of suggestions received from Indian Banks Association, **Annex III – Part I & Part II** (copy enclosed) has also been modified.”
- **Format of report in ICSI Guidance note on Diligence reports for Banks – 25 items to be reported upon, mainly relating to compliance with Companies Act 1956**

BRANCH LFAR – Red Flagged Accounts

- Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flag Accounts?
- RBI/2014-15/590 DBS.CO.CFMC.BC.No.007/23.04.001/2014-15 -May 7, 2015 – Framework for dealing with Loan Frauds
- **The concept of a Red Flagged Account (RFA) is being introduced in the current framework as an important step in fraud risk control. A RFA is one where a suspicion of fraudulent activity is thrown up by the presence of one or more Early Warning Signals (EWS). These signals in a loan account should immediately put the bank on alert regarding a weakness or wrong doing which may ultimately turn out to be fraudulent. A bank cannot afford to ignore such EWS but must instead use them as a trigger to launch a detailed investigation into a RFA.**

BRANCH LFAR – Red Flagged Accounts

- An **illustrative** list of some EWS is given for the guidance of banks in [Appendix I](#) to this circular. (about 45 instances)
- The EWS compiled by a bank would form the basis for classifying an account as a RFA. (exception reports)
- Threshold for EWS and RFA is an exposure of Rs.500 million or more (Rs.50 cr) at the level of a bank irrespective of the lending arrangement. The modalities for monitoring of loan frauds below Rs.500 million threshold is left to the discretion of banks.

BRANCH LFAR – Red Flagged Accounts

- **3.4 Role of Auditors:** During the course of the audit, auditors may come across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account. In such a situation, the auditor may immediately bring it to the notice of the top management and if necessary to the Audit Committee of the Board (ACB) for appropriate action.
- Banks will take a call on whether an account in which EWS are observed should be classified as a RFA or not. This exercise should be completed as soon as possible and in any case within a month of the EWS being noticed.
- Banks may carry out any further investigations within specified time lines and at the end of this time line, which cannot be more than six months, banks would either lift the RFA status or classify the account as a fraud.
- Same time lines would apply in case of consortium and multiple lending arrangements also

BRANCH LFAR

- Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.
- Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution

BRANCH LFAR

- Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2.
- Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA-1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.

BRANCH LFAR - Restructuring

- a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?
- b) Whether the RBI Guidelines for restructuring on all such cases have been followed.
- c) Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others

BRANCH LFAR - IBC

- Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch?
- Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?
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BRANCH LFAR - IBC

- In order to file IBC application u/s 7 of IBC Act, the following three conditions are required to be fulfilled;
- the related debt or liability should be covered under financial debt as defined u/s 5(8) of IBC which means any debt which is disbursed against the consideration for the time value of money i.e. interest and includes other as described in above section, and
- There has been a default in discharging of the above liability, and
- Amount of such default should be Rs. 1Cr (revised limit –notification dated 24.3.2020)

BRANCH LFAR – RETAIL LOANS

- In cases where documents are held at centralized processing centres / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves.
- Report the exceptions, if any

BRANCH LFAR – SUSPENSE/SUNDRY ASSETS

- Details of outstanding entries in excess of 90 days may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained.
- Are there items, which in your opinion are not recoverable and would require a provision/write-off? If so, give details.
- Are there any intangible items under this head e.g. losses not provided / pending investigation? (claims paid ?)
- If answer is YES, disclosure under Contingent Liabilities

BRANCH LFAR - DEPOSITS

- Does the bank have a **system of identification** of dormant/ inoperative accounts and internal controls with regard to operations in such accounts?
- Have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.
- As per paragraph 24.2 (ix) of the **Master Circular no 59/2015-16 on 'Customer Services in Banks' dated 01 July, 2015**, a savings as well as current account should be treated as inoperative / dormant if there are no transactions in the account for over a period of two years. The accounts which have not been operated upon over a period of two years should be segregated and maintained in separate ledgers

BRANCH LFAR- DEPOSITS

- Whether the scheme of automatic renewal of deposits apply to **FCNR(B) deposits**
- Where such deposits have been renewed , whether the branch has satisfied itself as to the **NON-RESIDENT** status of the depositor
- NR status shall be under FEMA, which is different from Income Tax
- Whether the renewal is made as per **APPLICABLE REGULATORY GUIDELINES** and original receipts / soft copy have been despatched

BRANCH LFAR – MINIMUM BALANCE

- Is the branch complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts?
- RBI circular dated 20.11.2014 on Levy of penal charges for non-maintenance of minimum balance in savings accounts
- notify customer through mail/ sms /letter and give one month time from the same
- if minimum balance is not restored, charges can be levied after intimating depositor
- Penal charges to be proportionate to the extent of short fall
- Penal charges should be reasonable in line with average cost of services
- to be ensured that the account does not turn –ve consequent to the levy

BRANCH AUDIT REPORTS

- **Books and Records**
- Details of software / systems (manual or otherwise) used at the branch which are not integrated with CBS
- Any adverse feature in IS audit having an impact on branch accounts
- Prompt generation and expeditious clearance of entries in **exception reports** generated

BRANCH LFAR - RECORDS

- Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.

BRANCH LFAR – FRAUDS/KYC/AML

- Furnish particulars of:
 - (i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.
 - (ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation
 - (iii) In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud (25 instances)

BRANCH LFAR – FRAUDS/KYC/AML

- (iv) Whether the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as RFA.
- Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing
- Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors

BRANCH LFAR – FRAUDS/KYC/AML

- Page 612 – Exposure draft to Guidance Note on Bank Audit 2021
- 13.26 Reserve Bank of India vide its **master Direction dated February 25, 2016 and updated up to April 20, 2020** on **“Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/Combating Financing of Terrorism (CFT)/Obligation of banks and financial institutions under PMLA, 2002”** has laid down certain guidelines to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. The guidelines prescribed in this circular, popularly known as KYC guidelines, also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently.
- 13.27 These guidelines contain detailed requirements for banks in respect of customer acceptance policy, customer identification procedures, monitoring of transactions and risk management.

BRANCH LFAR – FOREIGN EXCHANGE

- Are there any material adverse features pointed out in the reports of concurrent auditors, internal auditors and/ or the Reserve Bank of India's inspection report which continue to persist in relation to NRE/ NRO/ FCNR-B/ EEFC/ RFC and other similar deposits accounts. If so, furnish the particulars of such adverse features.
- Whether instructions / guidelines followed and if not list the irregularities observed in areas of : advances, export bills, bills for collection and any other area of FE operations

REVISED LFAR - CONCERNS

- Long Form Audit Report gets EVEN Longer ; So does the increased responsibilities for auditors. SBA/CSA becomes a specialized area requiring separate skill sets
- Most Banks moving to web based reporting for LFAR and hence will have to be completed at the branch itself. ICAI mandating seeking of several details from branches – practical difficulties
- RBI guidelines are freely available in RBI website. Branches may be required to follow internal guidelines which are mostly available in the intranet which would be based on RBI guidelines
- Can you still take shelter under “Limited time for auditors”- Both Whole Bank and branches ?



CERTIFICATIONS

CERTIFICATES TO BE ISSUED

- As many as nearly 40 Certificates to be issued covering various subsidy, interest subvention , priority sector lending, lending to sensitive sectors, utilization and end use certificate for various government schemes
- Auditor needs go through in detail RBI circular as well internal bank circulars in this regard , which these days are mostly available in the intranet
- ICAI guidance note also carries most of the RBI circulars

Format of Covering Report for various Certificates issued by SBAs

- Page 722-723 - Exposure draft on Guidance Note to Bank Audit -2021
- Introduction .
- Management Responsibility
- Auditors Responsibility
- Opinion
- Restrictions of use

Format of Covering Report for various Certificates issued by SBAs

- Page 722-723 - Exposure draft on Guidance Note to Bank Audit -2021
- **Introduction** : The accompanying Statement contains various certificates issued by us during the Statutory Audit of [Name of the Branch] [Branch Code] of [Name of the Bank] for the Financial year 2020 – 2021, listed in Annexure [Name], which we have initialled for identification purposes only.
- **Opinion** :Based on our examination as above, and the information and explanations given to us, we report that the Statement in Annexure [Name] is in agreement with the books of account and other records of [Name of the Branch] [Branch Code] of [Name of the Bank] for the Financial year 2020 – 2021 as produced to us for our examination, and the information thereof is prepared, in all material respects, in accordance with the applicable criteria.

CERTIFICATES TO BE ISSUED

- RBI circular dated 17.7.2019 – Unauthorised operation of Internal / Office accounts – Illustrative list of items that could be considered as falling under the circular
- Bank/Branch has complied with the RBI guidelines issued for opening, review, monitoring and reconciliation of internal/office accounts and for that standard operating procedure is in place

AUDIT CHALLENGES

- Need for updating RBI circulars , INCLUDING old circulars–
- RBI circular dated 17.7.2019 – Unauthorised operation of Internal / Office accounts – Illustrative list of items that could be considered as falling under the circular
- RBI/2014-15/590 DBS.CO.CFMC.BC.No.007/23.04.001/2014-15 - May 7, 2015 – Appendix I lists 45 illustrative cases which could be considered as Early Warning Signals
- Both these are generally covered under exception reports at branches

AUDIT CHALLENGES

- RBI circular restricting use of current accounts when cash credit facility is enjoyed with another bank – potential area of fraud – Review of transactions may be required if such current account exist prima facie
- RBI circular on automated identification of NPA and switching to daily identification of NPA- implementation there of
- *Auditors can request branches to give access to CRLIC database for details of exposures with other banks for major customers in each branch- RBI in SSM minutes have asked auditors to use this facility*

AUDIT CHALLENGES

- New models of advances like micro financing through POOL accounts – Buy out of retail loans from NBFC
- Already flagged by RBI in case of all banks that SOP is not adequate
- Advances through Retail centres, Credit Card dues
- Transactions in Pre Paid Instruments

CONCLUSION

- Bank Audit turning out to be more “skilled assignment” needing experience, exposure and taking judgmental decisions on EWS/Potential Frauds
- Swiftly moving from “true and fair view’ macro analysis to micro details certification
- **Ensuring compliance with ICAI Guidance Note holds the KEY ! Guidelines for remote audit likely to continue ... Look out for ICAI directions**
- Branch audit though reducing in quantity but will look for more qualitative report
- **NO REVISION OF BRANCH AUDIT FEE SINCE 2013 ?**

Hope the session does not leave you.....

