

Planning of Bank Branch Audit & Recent Circulars

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(All images/ data in the presentation from the web/internet)

Disclaimer: All the statements made in the presentation are the author's views.

**Bank Branch Audit – Pune branch of WIRC of ICAI
26th March 2022**

Audit Planning

- Good **planning** is half done
- Planning necessary for every audit
- Bank Audit: A typical audit
 - Earlier – Balance Sheet Audit
 - New concept --- Transaction Audit
- Audit Sampling:
 - Earlier – At the discretion of auditors
 - Now ---- Mandated levels of sample size
- Transaction Audit (?) – How to ?
 - Tools: Systems and procedures, Audit trail, Exception report

Planning is crucial !

- Time Constraint
 - Delayed appointments
 - Less time : More Work;
 - **Quality** of work & Risk factors
- Increase in workload due to **changes/ additions** in LFAR
- Reliance upon system generated reports (?)



Key Ingredients of planning

- Experienced team
- Proper Homework (pre-audit)
- Audit program – Mandays planning
- Secret ingredient :
 Psychology

Off-Site Planning/ Before the audit

- Before the Audit /Off site planning:
 1. Pre-audit planning
 2. **Manpower** planning
 3. Work plan – Audit program



1. Pre -Audit Planning

- Consent letter/ Appointment Letter / Acceptance Letter
- NOC of Previous Auditor
- Visit or detailed call for basic Information from branch
- Size of Branch – LB/ ELB/ VLB etc.
- Type of Branch – Agriculture/ SME/ Forex etc.
- Relevant RBI Circulars
- Closing circulars of Bank
- Last year's audit report (with all annexures, schedules, certificates etc.)
- Last 3 months concurrent audit reports
- Internal inspection reports/ Credit audit reports etc.
- NPA/ Overdues list as on 31st March of Year under Audit

2. Manpower Plan

Total: 3 to 4 persons

- Proprietor / Partner
- One experienced person in Loans
- One experienced person in Software systems
- One junior

3. Work Plan - Audit Program

- Difference in Statutory reports and LFAR
- Guiding principles for Branch Auditors in LFAR
 1. Transaction testing and implementation adequacy
 2. Efficacy of system: Risk management, compliance and internal audit
 3. Systems and Processes
 4. Data Inputs used for MIS

3. Work Plan - Audit Program

- Detailed workings and documentation:
 - Huge information to be gathered for reporting including quantification
 - Transaction Audit : Account operation transactions to be checked in detail
 - To check system and processes: Banking supervision on the account operations/ transactions
 - Systems audit

Remember:

Documentation is the backbone of Audit

3. Audit Program

- Loans and Advances:
 - Major as well as all types
- P& L account:
 - Variance analysis/ divergent trends
- NPA
- Balance-sheet Items:
 - Transactions, Interest payable
- Certificates:
 - Ghosh / Jilani certificates, Interest subvention

3. Audit Program- Sampling

- Loans: Threshold limit = 10% of Total Funded and Non Funded Loans to be covered or Rs. 10 Cr
- Details of sampling to be mentioned in LFAR
- Quantum of Business:
 - 20% to 25% advances covering around 70% of total (old + new) advances
 - Each type of advance to be covered
- Short coverage - RBI may comment
but Extra Coverage – Risk
- Top 5 standard borrowers – Adverse comments

Latest Circulars

1. RBI/2021-22/171-
DOR.CRE.REC.No.87/08.12.001/2021-22
dated 18.02.2022
About: Housing Finance framework – guidelines
Loans only against sanctioned plan
To be ensured by Bank's Architect
New products such as Upfront disbursement not
allowed
No loan for residential properties intended for
commercial use
No fund/ non-fund limit to Private builder for the
acquisition of land

Latest Circulars

2. RBI/2021-2022/158 DOR.STR.REC.85/
21.04.048/ 2021-22 dated 15.02.2022 –
Explanation to Circular dated 12.11.2021
IRAC Norms: NPA upgraded if and only if entire
overdues on all credit facilities recovered
3. RBI/2021-2022/124 CO.IDMD.GBD(P)
.No.S1242 /08.01.001/2021-22 dated
12.11.2021:
Flagging of SMA and NPA to be part of day end
process. NPA date to be calendar date on which
day end process actually run

Latest Circulars

4. RBI/2021-22/116
DOR.CRE.REC.63/21.04.048/2021-22RBI/2021-22/116
dated 29.10.2021
About: Opening of Current Account of credit facilities above Rs. 5 crores

5. RBI/2021-2022/86
DOR.LEG.REC/40/09.07.005/2021-22 - dated 18.08.2021
About: Locker and Safe custody of Article facility: Vacant locker/ Locker register in CBS

Latest Circulars

6. RBI/2021-22/32
DOR.STR.REC.12/21.04.048/2021-22
dated 05.05.2021
About: Restructuring MSME

7. RBI/2021-22/31
DOR.STR.REC.11/21.04.048/2021-22
dated 05.05.2021
About: Restructuring Individuals & Small
Businesses (Non-MSME)

Latest Circular: Restructuring

- MSME
- Definition of MSME
 - RBI/2020-21/10 FIDD.MSME& NFS.BC.No. 3/06.02.31/2020-21
 - Classification of enterprises:
 - Micro – P&M <Rs. 1 Crore, T/o < Rs. 5 Crore
 - Small – P&M <Rs. 10 Crore, T/o < Rs. 50 Crore
 - Medium- P&M <Rs. 50 Crore, T/o < Rs. 250 Crore
- Review of working capital cycle, reduction of margins
- Board Policy // Pandemic impact
- GST registered, if not to be registered... what if exempt from GST?
- Standard Asset as on 31st March 2021
- Same formula for invocation + implementation (30+90)
- Registration on Udyam portal

Latest Circulars – Restructuring

- **PART A**
- The following Loans given to **individuals**:
 - i. Housing Loans and other related loans
 - ii. Education Loans
 - iii. Auto loans (other than loans for commercial use)
 - iv. All variants of Personal Loan – excluding own personnel/ staff
- Loans for Business Purpose to individuals (with aggregate exposure by lending institutions of not more than Rs.50 crores as on 31.03.2021).
- Loans to **Small Business** including those engaged in retail and wholesale trade (**non-MSME**) (with aggregate exposure by lending institutions of not more than Rs.50 crores as on 31.03.2021).
- Accounts under above categories should be classified as Standard on 31.03.2021. Accounts classified as SMA -0, SMA1 and SMA2 as on March 31, 2021 are also eligible.

(Refer Proviso to Clause 5 on eligibility)

Latest Circulars – Restructuring

- **PART B**
- Small businesses where RP was implemented previously
- Review of working capital cycle, reduction of margins
- Board Policy // Pandemic impact

- **Part C**
- Disclosures

Latest Circulars – Restructuring

WHY?

- Asset classification – downgraded / if in NPA – no change
- **Exception** to the above rule: Will remain in Standard
Resolution Framework 2.0
- NPA in between Invocation and implementation --- Standard
- Asset to be Upgraded: certain conditions
‘Satisfactory performance’ by all outstanding loan/ facilities in the monitoring period
Loan with longest moratorium – 1st payment of interest / principal
- Provision can be reversed when account upgraded to Standard
As per Resolution framework 2.0
Original provision / 10 percent ::
50% Can be reversed when 20% loan repaid
and remaining 50% when another 10% repaid

Gray area:

Provision for diminution in value in case of above exception

Latest Circulars – Restructuring

- Audit Pointers
- Whether availed Loan resolutions framework /LRS 1.0 – Cross verify
- If availed in LRS 1.0 – earlier period whether less than 24 months
- Facility is to be extended only if Covid related issue
 - How the bank has ensured??
 - e.g. Pre-pandemic Salary/ Post facto?/ Bank account credits etc.
- Declaration from borrower that they are affected
- In case of MSME borrowers – Udyam Registration portal register before implementation of restructuring plan

THANKYOU