

PRACTICAL ASPECTS OF

STATUTORY BANK BRANCH AUDIT 2025

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PRACTICAL HANDBOOK FOR PERFORMING BANK BRANCH AUDIT – SECOND EDITION – 2025

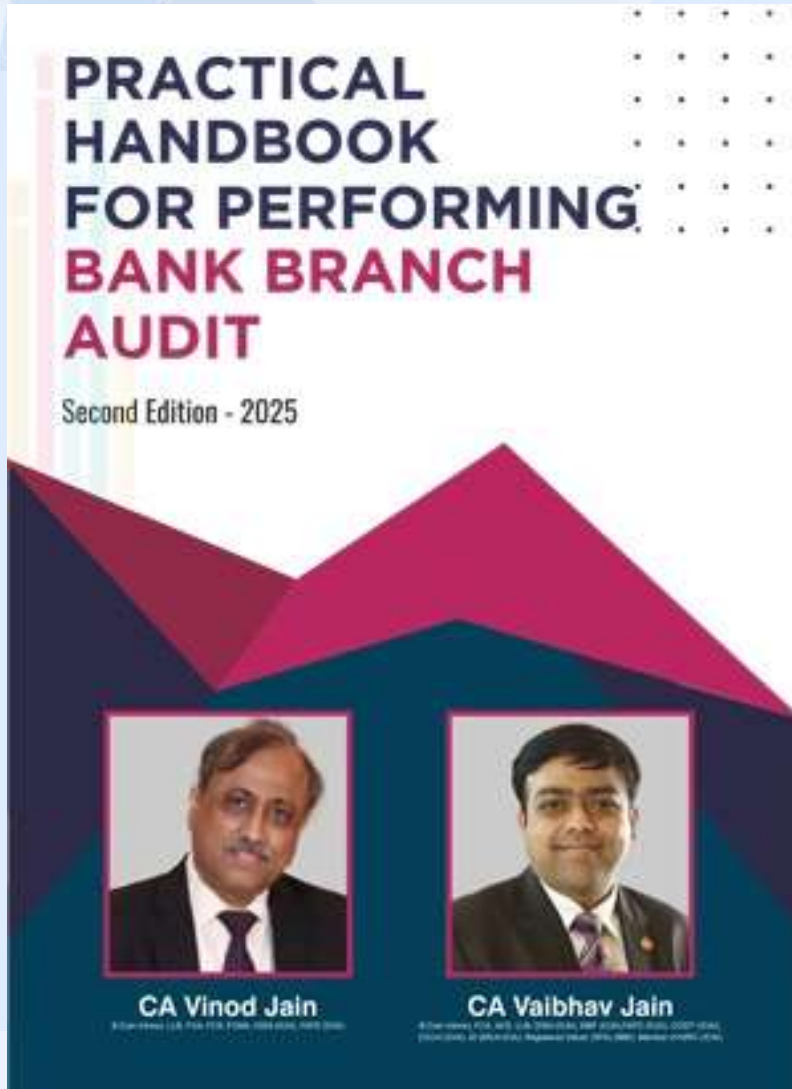
This comprehensive guide is a must-have resource for professionals involved in bank branch audits. Whether you're a seasoned auditor or just starting out, this book offers practical insights, updated regulations, and step-by-step procedures to help you navigate the audit process with confidence.

• Key Features:-

- Detailed audit methodologies
- Updated with the latest statutory requirements for 2025
- Practical tips and real-life examples
- Easy-to-follow framework for auditors at all levels

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AGENDA

- **Practical Aspects of Bank Branch Audit**
 - Critical Points
 - Pre-Audit Activities
 - Audit Planning
 - Audit Procedures
 - Income Recognition, Asset Classification (IRAC) Norms and Provisioning
 - Verification of Loans & Advances and Other Fund Based / Non-Fund Based Credit Facilities
- **IRAC Norms**
- **Analysis of Advances**
- **Other Items in Audit**
 - Audit of Investments
 - Determination of Fraud
 - Treasury Operations
 - Review of Stress Accounts
 - Forex Operations
- Provisions & Contingencies
- Information Technology Systems
- Suspense Account
- Audit of Off Balance Sheet Items
- Physical Verification of Cash
- Physical Verification of Securities & Valuation
- Fixed Assets
- LC (Letter of Credit) & BG (Bank Guarantee)
- Fixed Deposits
- Know Your Customer (KYC) Norms
- Agricultural Sector
- **Returns – An Understanding**
- **CCDP Application Software**
- **Long Form Audit Report (LFAR)**
- **Audit Findings**

NAVIGATE THE FUTURE

Practical Aspects of Bank Branch Audit





CRITICAL POINTS TO BE COVERED

1. **All frauds noted** in their branch, whether notified to RBI or not. This will include fraud by the borrowers as well as identified or unidentified officials. A latest status of all such cases in last 10 years including action taken, recovery undertaken, matters transferred to stress asset specialised branches, legal action taken and most importantly lessons learnt and remedial action initiated.
2. All cases of borrower being considered for being notified as **wilful defaulter** – it is important to list such cases along with level at which these are under consideration.
3. A list of cases of **early delinquency**, say within 3 months, 6 months and within 1 year.- This information will cover cases of 1st April 2022 till date of report.
4. **Cases where valuation of primary security or collateral security or stock or Debtors found short by more than 20% as estimated at the time of sanction of loan facility?** At the time of extending the facility when compared with valuation at the time of becoming NPA or doubtful or loss asset. – This is to be coupled with action taken against concerned borrower, valuers/Experts as well as the loan processing team at different levels. This internal confidential reporting will cover a period of last 10 years. The cases can also be categorised based on impact of variation amount wise. All such cases coming to light in last 2 years will require deeper analysis.



CRITICAL POINTS TO BE COVERED

5. All cases of borrowers referred by any person to law enforcing and investigating authorities within and outside bank including lodging of FIR, reference to CBI, commencement of investigation by ED, CBI, SFIO, NFRA, economic offence wing – This will cover all actions initiated or under examination. The exposure of our bank and risk contemplated thereon are to be identified.
6. A comprehensive list of change in client master data in respect of rate of interest (except due to change in MCLR) , margin on different transactions or security and similar changes impacting terms of the facility impacting revenue or security cover for the Bank. Cases which are arising out of specific sanction by an appropriate committee in terms of delegation of powers may be indicated separately so that appropriate cases of Exceptions can be verified at management level and by Auditors.
7. All cases where delegation of power is exceeded by any incumbent at any level by more than 10% (whether ratified post facto or not)
8. A summary of movement in inoperative accounts highlighting cases where the amount so varied in such accounts by more than 1 Lakh, More Than 5 Lakhs, More than 7.5 Lakh, More than INR 10 lakh as compared to last year opening balance as on 1st April 2022 till date.



CRITICAL POINTS TO BE COVERED

9. Reports of latest verification visit by branch team of borrower's main facility and plant including actual verification of physical stock vis a vis books of accounts, copy of inventory report drawn from books of accounts of dates in respect of which the inventory data is received from the borrower, also as on the date of visit by branch officials . Whether head of the branch or any officer of Chief Manager and above has also obtained Debtors details from the system of borrower during their visit as well as on the date for which DP statement was filed by borrower during the year- also whether stock data and Debtors data as submitted by the borrower is also certified by their Statutory Auditors. Whether a copy of such report is obtained by the bank branch and is available to Auditors for Verification.
10. All cases of swift messages for international transactions having financial implication of more than Rs 50 Lakhs. Whether all these were fully authorised.
11. All cases where complaint is received in respect of unauthorised or unrecorded opening of Letters of Credit , Bank Guarantees or Fixed Deposits from any borrower or third party and how was it dealt with.
12. All cases where loans or other credit facility have been extended for acquisition of land or acquisition of businesses , acquisition of shares or other securities, acquisition of securitised assets within India or outside India. This should cover all cases of such loans granted by the bank or by any other entity having direct or indirect ownership or control of Bank of 10 Percent or more. This will also cover cases where the loan / credit facility has been issued or disbursed by a third party in the knowledge of Bank and the third party is enjoying credit facilities from Bank.



CRITICAL POINTS TO BE COVERED

17. Transactions in Inter Branch / office Accounts.
18. Custody & Controls over Cash and Critical Stationary
19. Review of deposits including any suspicious transactions including funds transfers – with a view to check control on money laundering exercised by the bank.
20. Controls in respect of KYC updation including process – this is important to check chances of impersonation, misuse of KYC documents, opening of accounts in the names of the person having KYC but signatories could be different, in person verification of physical identity including photograph in aadhar/PAN and photo of actual operating person- There has been a number of cases of impersonation in certain branches and check is important.- SBI need to confidentially circulate to Branches persons already identified as suspicious by FATF, FIU, RBI , CBI, SFIO, NIA,EOW and centralised registry of Criminals and fraudsters recently created by central Government- This list can be handy with all Bank officials and auditors can also make sample checks of process followed and point out weaknesses.
21. Controls actually followed in respect of issuance of LC, Bank Guarantees – also process of confirmation to third parties about genuineness of LC or BG or FD issued by bank and/or charge created on FD if any.
22. Controls and process of operations of Swift messaging system



CRITICAL POINTS TO BE COVERED

23. Physical visit to borrowers and verification/ broad review of primary security, assets on the ground and inventory/Debtors status including stale or non moving
24. ODBC, IDBC, Suspense accounts (or similar names e.g. adjustment account, control accounts, clearance accounts- Pending for more than 30 days.
25. Cases of Contingent liabilities in respect of any demands /claims under litigation, arbitration or other disputes and having financial implications, guarantees or other obligations assumed like letter of comfort which require disclosures in Financial Statements
26. Actions on all errors, omissions, irregularities and defaults reported under various Inspection, Internal , Concurrent, Special, Credit and System audit report done during the Financial year.
27. All branches in 100% cases to be subject to statutory audit atleast once in three years.
28. Examination of major exception reports in cases where manual intervention done in system generated statement/ report.



CRITICAL POINTS TO BE COVERED

29. Verify security offered for agricultural loans is legally enforceable. Refer RBI Circular on “Credit Flow to Agriculture - Collateral free Agricultural Loans” for collateral free limit for agricultural loans (Rs.2 Lacs per farmer) and schemes implemented by State / Central Government for debt relief / waiver.
30. Ensure compliance of the Reserve Bank of India prohibiting banks from charging penal interest for loan defaults, instead allowing only penal charges, which cannot be capitalized or attract further interest.
 - a. No Penal Interest : Banks and finance companies are prohibited from charging penal interest.
 - b. Penal Charges Allowed: Banks can still levy penalties for non-compliance, but these must be treated as penal charges and not as a form of interest.
 - c. No Capitalization: Penal charges cannot be capitalized, meaning no further interest can be calculated on these charges.
 - d. Clear Communication: Banks must clearly disclose the quantum and reason for penal charges to customers
 - e. Non-Applicability: These guidelines do not apply to credit cards, external commercial borrowings, trade credits, and structured obligations.



PRE AUDIT ACTIVITIES

Review Previous Audit Reports

- Gather and review previous audit reports to identify areas of concern and potential risks.
- Analyse any outstanding issues and ensure they have been addressed.

Develop Audit Plan

- Define the scope and objectives of the audit.
- Identify key areas to focus on and determine the audit approach.

Schedule Audit

- Coordinate with branch management to schedule the audit.
- Ensure Availability of necessary resources and documentation.

Communicate with Branch Management

- Inform Branch management about the upcoming audit.
- Discuss the objectives, scope and expected timelines.

Conduct Preliminary Interviews

- Interview key personnel to gather information about branch operations.
- Identify potential areas of concern and gather relevant documentation.

Prepare Audit Documentation

- Create checklists, templates and other necessary documentation for the audit.
- Ensure all required forms and records are available.



AUDIT PLANNING

Understanding the scope

- The first step in planning a bank branch audit is to understand the scope of the audit, including the objectives, risks, and regulations applicable to the branch.

Assessing Risks

- The next step is to assess the risks associated with the branch's operations, such as credit risk, operational risk and compliance risk. This helps in determining the areas that require more attention during the audit.

Developing an Audit Plan

- Based on the understanding of the scope and the assessment of risks, an audit plan is developed. This plan outlines the objectives, procedures, and timelines for the audit.

Allocating Resources

- Once the audit plan is finalized, the resources are allocated to conduct the audit. This includes assigning auditors with the necessary skills and expertise to carry out the audit effectively.



AUDIT PROCEDURES

Pre-Audit Procedures

- Review Previous audit reports.
- Obtain an understanding of the branch operations, systems and controls.
- Develop an audit plan based on the assessed risks and objectives.

General Controls

- Evaluate the branch's compliance with internal policies and procedures.
- Assess the adequacy of the branch's control.
- Test the effectiveness of general controls such as access controls and segregation of duties.

Transaction Testing

- Select a sample of advances for review.
- Review supporting documentation and approvals for the advances.

Risk assessment

- Identify and assess risks specific to the branch's operations.
- Evaluate the adequacy of risk management processes and controls.
- Develop recommendation to mitigate identified risks.



INCOME RECOGNITION , ASSETS CLASSIFICATION NORMS AND PROVISIONING .

Review of Master Circular:

- Obtain and review the Master Circular issued by the regulatory authority regarding prudential norms on income recognition, asset classification, and provisioning for advances.

Assessment of Regulatory Compliance:

- Verify compliance with the prudential norms specified in the Master Circular, including criteria for income recognition, asset classification, and provisioning for advances.

Testing Income Recognition:

- Select a sample of advances and loans to verify the accuracy and timeliness of income recognition. Ensure adherence to regulatory guidelines and accounting standards.

Verification of Asset Classification:

- Test a sample of advances to ensure proper classification based on credit quality and repayment status. Verify compliance with regulatory definitions and norms for asset classification.

Evaluation of Provisioning Adequacy:

- Assess the adequacy of provisions for loan losses and impaired advances. Evaluate the methodology used for determining provisions and ensure compliance with regulatory requirements.



INCOME RECOGNITION , ASSETS CLASSIFICATION NORMS AND PROVISIONING . (CONTD .)

Validation of Provisioning Calculations:

- Verify the accuracy of provisioning calculations for advances. Assess the reasonableness of assumptions, inputs, and models used in provisioning assessments.

Review of Documentation:

- Examine documentation supporting income recognition, asset classification decisions, and provisioning calculations. Ensure completeness, accuracy, and compliance with regulatory requirements.

Compliance Check:

- Ensure compliance with the requirements outlined in the Master Circular, including prudential norms, disclosure requirements, and reporting obligations related to advances.

Assessment of Internal Controls:

- Evaluate the effectiveness of internal controls over income recognition, asset classification, and provisioning processes for advances. Test controls related to authorization, documentation, and review procedures.

Documentation and Reporting:

- Document audit findings, including any deficiencies or areas of non-compliance identified. Provide recommendations for strengthening internal controls and ensuring compliance with regulatory requirements.



INCOME RECOGNITION , ASSETS CLASSIFICATION NORMS AND PROVISIONING . (CONTD .)

Review of Stock statement:-

- Check latest stock statement and the accuracy of the data provided in the stock statement.

Debtors statement:-

- Check the debtors statement and assess the drawing power of the advance provided to the customer.

Security valuation:-

- Branch auditor should audit the valuation of the securities, Following points should also be checked for security valuation:-
 - What is the current valuation of the security?
 - If there is substantially increase in the security value then it should be enquired.
 - Security should be physically verified in case exposure is more than Rs 5 crores.
 - Whether security is in the name of borrower or not?



VERIFICATION OF LOANS, AND ADVANCES AND OTHER FUND BASED OR NON-FUND-BASED CREDIT FACILITIES.

Verification of loans, advances, and other credit facilities, as well as determining the rate of interest chargeable to different classes of borrowers, involves several key audit procedures by the branch auditors:

Understanding
 Regulation Norms and
 Procedures:

- Obtain and review policies and procedures regarding loans, advances, and credit facilities. Understand the criteria for granting loans, types of credit facilities offered, and the process for determining interest rates.

Risk Assessment:

- Assess the risk associated with loans and credit facilities. Consider factors such as industry risks, economic conditions, borrower creditworthiness, and regulatory requirements.

Verification of Loan
 Documentation:

- Select a sample of loan files and examine the documentation. Verify that all necessary documents, such as loan agreements, promissory notes, security agreements, and collateral documentation, are properly executed and maintained. LLMS documentation should be thoroughly reviewed of the advances selected for scrutiny.



VERIFICATION OF LOANS, AND ADVANCES AND OTHER FUND BASED OR NON-FUND-BASED CREDIT FACILITIES. (CONTD.)

Verification of Disbursements:

- Trace disbursements to ensure that funds are disbursed in accordance with the terms and conditions of the loan agreements.

Drawing Power:

- DP is required to be arrived at based on current stock statement. The drawing power calculated from stock statement older than 3 months has to be considered as irregular”(overdue). If such “irregular” account continues for 90 days, it has to be classified as NPA, even though the account is otherwise operated regularly. Stock statements, quarterly returns, annual audit report (CARO & Schedule III) and other statements submitted by the borrower to the bank should be scrutinized in detail.

Review of Collateral:

- Evaluate the adequacy and valuation of collateral securing loans and credit facilities. Inspect physical assets, obtain independent appraisals if necessary, and assess the sufficiency of collateral coverage.

Review of Interest Rate Determination:

- Examine the process for determining interest rates charged to different classes of borrowers. Evaluate factors considered in setting interest rates, such as market benchmarks i.e., MCLR and EBLR rates, credit risk assessments, and borrower relationships.



VERIFICATION OF LOANS, AND ADVANCES AND OTHER FUND BASED OR NON-FUND-BASED CREDIT FACILITIES. (CONTD.)

Testing Interest
Rate Accuracy:

- Test a sample of loans to ensure that the interest rates charged align with the terms specified in the loan agreements and comply with regulatory requirements.

Compliance
Review:

- Assess compliance with regulatory requirements governing interest rates, loan terms, disclosures, and lending practices. Ensure that the bank adheres to applicable laws and regulations.

Evaluation of
Interest Income:

- Evaluate the accuracy of interest income recognition. Ensure that interest income is recorded in accordance with accounting standards and the financial reporting framework.

Reporting:

- Document findings, including any identified deficiencies or areas of concern. Provide recommendations for improvements in internal controls and lending practices.



IRAC NORMS

Income Recognition and Asset Classification





RBI GUIDELINES ON INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS

NPA Definition

- An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank
- A **Non-performing asset (NPA)** is a loan or an advance where;
 - interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a **term loan**,
 - the account remains 'out of order' as indicated at paragraph 2.2 below, in respect of an **Overdraft/Cash Credit (OD/CC)**,
 - the **bill** remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- A **CC/OD account** shall be treated as '**out of order**' if:
 - The outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
 - The outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period



RBI GUIDELINES ON INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS (CONTD.) NPA Definition (Contd.)

- NPAs are classified into Sub-Standard, Doubtful and Loss Assets, based on the following criteria stipulated by RBI:
 - **Sub-standard:** A loan asset that has remained non-performing for a period less than or equal to 12 months.
 - **Doubtful:** A loan asset that has remained in the sub-standard category for a period of 12 months.
 - **Loss:** A loan asset where loss has been identified by the Bank or internal or external auditors or the RBI inspection but the amount has not been fully written



RBI GUIDELINES ON INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS (CONTD.) NPA Definition (Contd.)

- The classification of NPA into various categories i.e. Sub-standard, D-1, D-2, D-3 based on NPA dates and Loss Assets as defined by RBI the provision requirement for NPAs are as under

A. Substandard:

Classification		Provisioning Norms	
		Secured	Unsecured ab -initio
	Remained NPA for a period	15%	
Sub - standard	less than 12 months	(General Provision)	25%

- a. A general provision of 15% on total outstanding should be made without making any allowance for ECGC guarantee cover and **securities available**.
- b. The '**unsecured exposures**' which are identified as '**Sub-standard**' would attract **additional provision of 10 per cent, i.e., a total of 25 per cent on the outstanding balance**. However, infrastructure loan accounts which are classified as Sub-standard will attract a provisioning of 20 per cent instead of the aforesaid prescription of 25 per cent.
- Unsecured exposure is defined as an exposure where realisable value of security, as assessed by the bank/approved valuers / Reserve Bank's Inspecting officers, is not more than 10 percent, ab-initio, of the outstanding exposure which include all funded and non-funded exposures (including underwriting and similar commitments). Security will mean tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters etc.



RBI GUIDELINES ON INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS (CONTD.) NPA Definition (Contd.)

- A. Doubtful & Loss Assets:**

Classification		Provisioning Norms	
		Secured	Unsecured ab –initio
D-1	Up to 1 Year	25%	100%
D-2	1-3 Years	40%	100%
D-3	More than 3 years	100%	100%
Loss		100%	100%

A Summary of guidelines for classification of NPAs

In the following circumstances, the borrower's accounts should be classified as NPA:

- Stock statement not received as per the required validity (RBI Norms)
- Limits have not been reviewed / renewed within a period of 180 days from the due date.
- Ad-hoc credit limits have not been reviewed/ renewed within 180 days from date of ad-hoc sanction.



RBI GUIDELINES ON INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS (CONTD.)

Erosion in Value of Security

- Accounts where the realizable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection to be classified under **DOUBTFUL** category right away.
- If the realizable value of the security, as assessed by the bank / approved valuers / RBI is less than 10 per cent of the outstanding in the borrower accounts, the existence of security should be ignored, and the asset should be straightaway classified as **LOSS ASSET**.



RBI GUIDELINES ON INCOME RECOGNITION, ASSET CLASSIFICATION, PROVISIONING AND OTHER RELATED MATTERS (CONTD.) ACCOUNTS WITH TEMPORARY DEFICIENCIES:

- Classification of assets with deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc.
- In the matter of classification of accounts with such deficiencies the following guidelines may be followed:
 - A working capital borrower account will become NPA if such irregular drawings are permitted in the account for a **continuous period of 90 days** even though the unit may be working, or the borrower's financial position is satisfactory.
 - The outstanding in the account based on drawing power calculated from **stock statements older than three months**, would be deemed as irregular.
 - Regular and ad hoc credit limits need to be reviewed/ regularized not later than three months from the due date/date of ad hoc sanction. An account where the regular / ad-hoc credit limits have not been **reviewed / renewed within 180 days** from the due date / date of ad-hoc sanction, will be treated as NPA.



DETAILED REVIEW

Analysis of Advances





ANALYSIS OF SAMPLE ADVANCES ACCOUNTS

Requirements For Sample Checking:

1. Latest Loan sanction letter along with all terms and conditions of loan sanctioned
2. Final approval letter along with audit trail
3. Financial Statement as on date
4. Statement of Accounts
5. Latest Credit rating report
6. Latest Stock and Debtors Statement
7. Security Documents (Valuation Reports of assets mortgage, Revaluation Reports required at every three years, Personal Guarantees of Directors and Promoters, Mortgage papers and its registration)
8. Minutes of Consortium
9. Minutes of Various Approving Committees
10. ASM Reports
11. Analysis of Quarterly results as on for listed entites
12. Any Newspaper report or report on internet about borrower or promoter or related party
13. LLMS report (Proposal & Sanctioned)
14. Credit Audit report
15. Revised Security Valuation Report
16. Risk Grade History
17. Physical verification report of the security done by the bank.
18. Drawing Power Calculation Report
19. Stock Audit Report (If applicable)
20. End Use Certificate (EUC)



1. LOAN SANCTION LETTER

- **Sanction letter** is a formal document that confirms the approval of a loan application by a financial institution or lender. The Sanction Letter Format is a legally binding document that outlines the following:
 - Total Sanctioned limit Amount,
 - Interest Rate (Fixed or Floating),
 - Loan Tenure,
 - EMI details,
 - Validity Period of the sanction letter,
 - Special conditions (if any) to be fulfilled before disbursement &
 - Other terms and conditions.

Audit Procedure:-

1. Verify Sanctioned limit from Loan Sanction letter and CCDP given by Bank.
2. Check whether Interest rate as mentioned in Sanction letter is same in CCDP or not.
3. EBLR (External Benchmarking Lending Rate) and MCLR (Marginal Cost Lending Rate) rates shall be checked, and Interest rate shall be computed.
4. Check whether Validity period has been completed or not as mentioned in CCDP and Sanction letter.



2. FINAL APPROVAL LETTER

- An Approval Letter means validating a claim or giving a consult to an act before it happens. A letter of approval is provided by superior body or regulatory authority to proceed with an activity requested by someone else. Hence it serves as a Certificate of Registration.

Audit Procedure:-

1. Approval letters have been taken of that accounts which are exceeding the threshold limit and checked that regulatory authority has signed the approval letter.



3 . FINANCIALS STATEMENTS

Audit Procedure:-

1. Ensure that Signed Financial statements have been taken from the borrower.
2. Verifying that BGL and CGL mapping has been done correctly.
3. Ensuring that Interest calculation as shown in Financial Statements has been correctly given in CCDP.
4. Check Debtors ageing in the borrower's financial statements.
5. Check Creditors of the borrower's Financial Statements.
6. Check Stock Statement balance with CCDP.



4 . STATEMENTS OF ACCOUNTS

Borrowers shall provide Bank statements for following Audit Procedures:-

1. Ensure day end Balance from bank statement.
2. Verify that Reversal of Interest in NPA accounts has been done properly.
3. Ensure Interest rate has been correctly mentioned in CCDP as shown in Bank statements.
4. Verify whether Penal charges have been reversed in the NPA Accounts.
5. Check Outstanding balance shown in Bank statement has been correctly mentioned in CCDP.
6. Reconcile the Bank Statement with CCDP.
7. Verify Subsidy (if any) given to the Borrower that is not showing anywhere.



5. CREDIT RATING REPORT

Credit rating refers to an assessment of the creditworthiness of a borrower based on their ability to repay debt. It is provided by independent credit rating agencies, which evaluate the borrower's financial health, debt repayment history, and overall financial stability. It is generally of two types:- External Credit Rating (ECR) and Internal Credit Rating (ICR).

Credit Rating is provided on the basis of Facility and Borrower. Internal credit rating (SB-1 to SB-15) is given to accounts other than NPA accounts which is considered to be good and provided borrower wise. External credit rating is provided facility wise like term loan,

Audit Procedure:-

1. Check credit Rating of the borrower by both borrower wise and facility wise.
2. Verify credit rating as mentioned in Credit rating report is shown in CCDP.
3. Check interest rate as per credit rating.



6. STOCK & DEBTORS STATEMENT

Audit Procedure:-

1. Verify Stock statement date is correct as in CCDP.
2. Ensure that Stock statement should not be older than 3 months.
3. Check fluctuations of stock and debtors from statement.
4. Ensure that both the statements are provided every month.



7 . SECURITY DOCUMENTS

Mortgage papers are legal documents that establish a lien on an asset (typically real estate) as collateral for a loan.

Personal guarantees are legal agreements in which directors, promoters, or other individuals provide a personal promise to loan if the company defaults.

Audit Procedure:-

1. Revaluation reports are required periodically (usually every 3 years) to ensure that the value of Mortgaged asset is up to date.
2. Assess the current market value of an asset that is being mortgaged.
3. Ensure personal guarantees are taken when a company is perceived to have higher risk.
4. Ensure legality and priority of the lender's claim through Registration of the mortgage.



9. MINUTES OF THE MEETING OF VARIOUS APPROVING COMMITTEE :

The bank is required to provide the minutes of various approval committees, such as the ECCB (Executive Credit Committee Board) and CCCC (Credit and Compliance Committee), for the approval of loans and determination of interest rate spreads.

10. ASM REPORTS :

Agency for Specialized Monitoring (ASM) is a body that banks appoint to monitor the activities of borrowers and prevent fraud and diversion of funds. The Government of India introduced the ASM mechanism to keep a check on fraudulent activities and to prevent diversion of funds.

What to check in ASM Report:

1. In the ASM Report, we assess whether any Observations that have been occurred that have been identified so that the auditor can focus on that Observations Properly.
2. If Waived, Proper approval has been received from appropriate Committee (CCCC mostly).



11. ANALYSIS OF QUARTERLY RESULTS :

Bank has to take Quarterly Results of the all the Borrower(Compulsory for Listed Companies) to check the Financial Health of Borrower and position of Securities.

12. ANY NEWSPAPER REPORT OR REPORT ON INTERNET ABOUT BORROWER OR PROMOTER OR RELATED PARTY :

In the event of any fraud or discrepancies arising within the company, or if any news is published on the internet regarding suspicions of the company's directors being involved in fraudulent activities, it is crucial to investigate the matter promptly. The company must take appropriate measures to address the issue, ensure transparency, and assess the validity of the allegations to safeguard its reputation and maintain regulatory compliance.

13. SECURITY VALUATION REPORT :

- Valuation of security has been done by the Registered Valuer and appropriately recorded in the system(to be checked from CCDP)
- Insurance has been done on security provided by Borrower(to be checked from CCDP)
- In Case of Unsecured loan i.e., Waiver of security, has been approved by appropriate authority, specifically for high value Advances.
- Appropriate Security document shall be received from Bank i.e., Valuation Report, etc.



14. RISK GRADE HISTORY:

This report provides an analysis of the current status and historical trends of the IRAC classification of advances, detailing the changes in risk grades over time. It highlights the conditions under which advances are downgraded to Non-Performing Assets (NPA) or upgraded to Standard Accounts, along with the corresponding arrear codes and key dates.

PHYSICAL VERIFICATION REPORT OF THE SECURITY DONE BY THE BANK:

- Checking of Original Documents maintained by the borrower.

16. DRAWING POWER CALCULATION REPORT:

- Cash credit facility has been given to the customer on the basis of Drawing Power or Sanction Limit, Whichever is Lower.
- Calculation of Drawing Power for cash credit facility has been done on every 3 month and not later than that based on the latest Stock and Receivable audit(SRA).



17. STOCK AND RECEIVABLE AUDIT REPORT (SRA) :

SRA (Stock and Receivables Agreement) is a document or arrangement that a **bank** requires from a **borrower** to ensure the accuracy of the closing amounts of the **stock** (inventory) and **debtors** (accounts receivable). This is important for calculating the **drawing power** (the amount of money a borrower can draw from the bank based on their stock and receivables).

SRA IS EXEMPTED FOR :

- a) All Central and State Public Sector Undertakings.
- b) Loans granted against “Specified Securities”.
- c) Loans granted under LRD, ABL and ABL (CRE) and e-VFS schemes.
- d) All loans under “P” segment.
- e) SRA shall not be applicable for stand-alone Term Loan facilities.
- f) SRA can be waived in cases other than exemptions given under point no. (a) to (e) above, by the Sanctioning Authority.
- g) In case of ECCB sanctions, waiver can be approved by CCCC.
- h) Any relaxation / exemption / waiver must be highly selective, and whenever such relaxation etc. is recommended to the appropriate authority for consideration, it must necessarily be justified by adequate and acceptable alternate mitigants.
- i) In case of borrowers where the services of ASMs is availed, in such specific cases, engagement of Stock & Receivables is not required. No separate approval is required to be obtained. However, in event of non-availability of such expertise with ASMs, the branches / operating units can assign the task of SRA and B&A Audit independently. However, it should be ensured that there is no “overlapping / duplication” of task.



17. STOCK AND RECEIVABLE AUDIT REPORT (SRA) : (CONTD.)

In cases where waiver for engagement of services of ASMs have been approved, the guidelines for conduct of SRA shall continue until and unless specific approval for waiver is in place

What to Check in SRA Report:

1. In the Stock and Receivables Agreement (SRA), the closing balances of debtors (accounts receivable) and stock (inventory) are verified to ensure that the drawing power calculated by the bank aligns with the actual values reported in the SRA.
2. This process ensures the accuracy and correctness of the drawing power based on the confirmed figures of stock and receivables, as stipulated in the agreement.

18. END USE CERTIFICATE :

An End Use Certificate (EUC) is a formal document issued by a borrower to confirm the intended use of funds. It serves as a declaration that the funds will be used for the specific purpose agreed upon, ensuring compliance with regulatory requirements or loan conditions.



EACH ASPECT OF FINANCIALS NEEDS ATTENTION

Other Items in Audit





AUDIT OF INVESTMENT

1. Understanding Investment Policies:

- Review investments including objectives, risk tolerance, and guidelines for investment selection and management.

2. Verification of Existence and Ownership:

- Obtain investment statements and confirm the existence and ownership of investments directly with custodians or counterparties.

3. Assessment of Impairment:

- Evaluate the need for impairment of investments, considering factors such as declines in market value, credit quality deterioration, and other impairment indicators.

4. Review of Investment Documentation:

- Examine documentation supporting investment transactions, such as purchase agreements, investment contracts, and valuation reports. Ensure completeness and compliance with internal policies.

5. Other Investments:-

- Check investment in subsidiaries, joint ventures, associates, venture capital / Private Equity funds, investment in Public limited and Private limited Companies and other entities.
- Check effectiveness and efficacy of risk management in Investment including identification of cases requiring impairment.



DETERMINATION OF FRAUD

Risk Assessment:	Conduct a risk assessment to identify areas of higher fraud risk within the bank branch. Factors such as transaction volumes, complexity of transactions, internal controls, and previous instances of fraud should be considered.
Review Internal Controls:	Evaluate the effectiveness of internal controls in place to prevent and detect fraud. This includes controls related to authorization, segregation of duties, access controls, and monitoring KYC norms of the customers.
Analytical Procedures:	Perform analytical procedures to identify unusual trends or anomalies in financial data. This may involve comparing current financial data to historical data, industry benchmarks, or expectations based on the bank's business activities.
Transaction Testing:	Select a sample of transactions and perform detailed testing to verify their accuracy and authenticity. This may include reviewing loan agreements, deposit slips, withdrawal records, and other relevant documents.
Physical Inspection:	Conduct physical inspections of assets such as cash, securities, and other valuables held by the bank branch. This helps to ensure that these assets exist and are properly safeguarded.



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TREASURY OPERATIONS

Treasury operations in banks encompass a range of activities aimed at managing the bank's financial resources effectively to maximize returns while mitigating risks. These operations are crucial for maintaining liquidity, managing interest rate and foreign exchange risks, and generating revenue. Here are some key components of treasury operations in banks to be reviewed.

Check efficiency and efficacy considering large cost being incurred thereon.



REVIEW OF STRESS ACCOUNTS

Accounts that generally have overdue beyond 60 days or likely to slip to NPA at the quarter end are termed as stressed accounts. Review the list of stressed accounts for its completeness and accuracy. Perform analytical procedure to identify trend of slippage in stressed accounts at quarter and month ends and actions taken (tracking defaults and reporting) for resolution of stressed accounts.

Obtain the list of accounts identified in **EWS (Early Warning Signals)** reports at the branch to analyse the possible indication of stress and accordingly factor-in for LFAR reporting purpose.



FOREX OPERATIONS

Auditing forex operations for a bank requires careful examination of various aspects to ensure compliance with regulations, accuracy, and integrity of financial reporting.

Regulatory Compliance Review

- Ensure compliance with regulatory requirements set forth by governing bodies like the central bank and other relevant financial authorities.
- Review adherence to regulatory limits on forex exposure, capital adequacy, and risk management practices.

Transaction Testing

- Select a sample of forex transactions and review supporting documentation such as trade confirmations, contracts, and payment instructions.
- Verify the accuracy of transaction details including exchange rates, amounts, dates, and counterparties.
- Check for proper authorization and approval of transactions.

Confirmation of Balances:

- Confirm forex balances with counterparties and correspondent banks to validate the accuracy of recorded balances.
- Confirm outstanding transactions and commitments to ensure completeness of the forex exposure.



FOREX OPERATIONS (CONTD.)

Valuation Verification:

- Verify the valuation methods used for forex instruments (e.g., spot, forward, options) to ensure compliance with accounting standards.
- Assess the reasonableness of valuation inputs such as exchange rates, interest rates, and implied volatilities.

Risk Management Assessment:

- Evaluate the effectiveness of the bank's risk management policies and procedures related to forex operations.
- Review the adequacy of controls in place to mitigate risks such as credit risk, market risk, liquidity risk, and operational risk.

Review of Hedging Activities:

- Examine the bank's hedging strategies and derivatives usage to manage forex risk.
- Assess the appropriateness of hedge designations, documentation, and effectiveness testing.

Counterparty Credit Risk Evaluation:

- Assess the creditworthiness of counterparties involved in forex transactions.
- Review the collateralization and credit enhancement arrangements for mitigating counterparty credit risk.

Others

- Also, emphasis on Forex operations including operations of NOSTRO, VOSTRO accounts, swift messaging, monitoring of IDPMS, EDPMS, International transfer and receipt of funds, payment gateways, FDI, ODI, ECB syndication, Processes to monitoring Money Laundering and misuse of banking system.



PROVISIONS AND CONTINGENCIES

In banking, provisions and contingencies are crucial aspects of financial reporting and risk management. During a bank branch audit, auditors need to thoroughly examine these provisions and contingencies to ensure compliance with regulatory requirements and accurate financial reporting. Here are some key audit procedures related to provisions and contingencies in a bank branch audit:

Review of Accounting Policies:

- Auditors should start by reviewing the bank's accounting policies related to provisions and contingencies. This includes understanding how the bank identifies, measures, and accounts for various types of provisions and contingencies as per applicable accounting standards (e.g., International Financial Reporting Standards or Generally Accepted Accounting Principles).

Assessment of Provisioning Policies:

- Auditors need to evaluate the adequacy and appropriateness of the bank's provisioning policies for different types of assets, such as loans and advances, investments, and other financial instruments. This involves examining the methodology used for estimating provisions, including factors like historical loss experience, current economic conditions, and specific risk characteristics of the bank's loan portfolio.

Testing of Provision Calculations:

- Auditors should perform detailed testing of provision calculations to verify their accuracy and completeness. This may involve selecting a sample of loans or other assets and independently recalculating provisions based on the bank's methodology. Any differences should be investigated and reconciled.



PROVISIONS AND CONTINGENCIES (CONTD.)

Assessment of Impairment:

- Auditors need to assess the adequacy of impairment recognition for assets such as loans and advances. This involves reviewing the bank's procedures for identifying impaired assets, determining the extent of impairment, and recording appropriate provisions or write-offs in accordance with accounting standards.

Evaluation of Contingent Liabilities:

- Auditors should review the bank's contingent liabilities, which include guarantees, letters of credit, and other off-balance sheet commitments. This involves assessing the likelihood of these liabilities crystallizing and the potential impact on the bank's financial position.

Review of Litigation and Legal Contingencies:

- Auditors should inquire with management and legal counsel regarding any pending litigation, claims, or legal contingencies that could have a material impact on the bank's financial statements. They should evaluate the adequacy of provisions made for such contingencies and assess the disclosures in the financial statements.

Assessment of Regulatory Compliance:

- Auditors need to ensure that the bank's provisions and contingencies comply with relevant regulatory requirements, such as those set forth by banking regulators and accounting standard-setting bodies. This involves comparing the bank's practices with regulatory guidelines and assessing any deviations or non-compliance issues.



PROVISIONS AND CONTINGENCIES (CONTD.)

Documentation and Reporting:

- Throughout the audit process, auditors should maintain comprehensive documentation of their procedures, findings, and conclusions related to provisions and contingencies. This documentation should support the auditor's opinion on the fairness of the bank's financial statements and compliance with applicable regulations.

By performing these audit procedures diligently, auditors can provide assurance to stakeholders regarding the accuracy and reliability of the bank's provisions and contingencies disclosures in its financial statements.



INFORMATION TECHNOLOGY SYSTEMS



- Access controls
- Ensure all the Access controls are adequate and effective



- Backup of data
- Ensure the measures for backup of data



- Cyber security
- Ensure the risk of cyber attacks and measure to prevent these risks



- System audit procedures
- Ensure the system audit procedure's effectiveness, risk and flaws in processes



- RISK MANAGEMENT OF DATA INVASION
- Ensure the data invasion measures



- Usage of software
- Ensure time limit for system usage and controls regarding usage



SUSPENSE ACCOUNT

- The Suspense account is often used temporarily to record transactions for which there is uncertainty or incomplete information.
- Entries in the Suspense account may arise due to errors in recording, incomplete information, or transactions that cannot be immediately classified into specific accounts.
- A detailed analysis of entries outstanding in the Suspense account involves investigating each entry to identify the reason for its inclusion and rectify any errors or omissions.

Reviewing Suspense Account Entries:-

1. Identify each entry in the Suspense account.
2. Determine the reason for inclusion (e.g., error in recording, incomplete information).
3. Investigate and rectify errors or misclassifications.
4. Reclassify transactions to their appropriate accounts.
5. Audit of borrowing in and outside India including charges created on assets of bank.
6. Audit of interbank borrowings including from/to RBI, call money, overnight and MIBOR Market.
7. Audit of Bills, acceptances and other obligations or liabilities of the bank.
8. Detailed checking of branch parking account. ODBC, IDBC, Suspense accounts or similar names e.g. adjustment account, control accounts, clearance accounts- Pending for more than 30 days.
9. Charge of interest and recovery for each quarter or as applicable to be verified.
10. Examination of major exception reports in cases where manual intervention done in system generated statement/reports.
11. Detailed Analysis of entries outstanding in Suspense account, sundry Debtors and Sundry creditors.



AUDIT OF OFF-BALANCE SHEET ITEMS

- Deep observations of off-Balance Sheet assets, rights, contingent assets, commitments, liabilities, options, obligations, letter of comfort and similar other transactions is necessary.
- Identifying Off-Balance-Sheet Items-Work with management to identify off-balance-sheet items, such as:
 - Lease commitments (Operating leases)
 - Contingent liabilities (e.g., warranties, legal claims)
 - Rights and options (e.g., call or put options, purchase rights)
 - Commitments (e.g., loan commitments, purchase commitments)
 - Contingent assets (e.g., potential tax refunds, insurance claims)
 - Letters of comfort or similar assurances provided by third parties
 - Complex financial instruments (e.g., derivatives)
- Obtain and review relevant documentation, including contracts, agreements, legal documents, and correspondence related to off-balance-sheet transactions. Ensure that the documentation is complete and accurate.



AUDIT OF OFF-BALANCE SHEET ITEMS (CONTD.)

- Evaluate the risks associated with off-balance-sheet items and assess their materiality to the financial statements. Focus on items that could have a significant impact on the company's financial position, performance, or cash flows.
- Perform testing procedures to verify the existence, valuation, and disclosure of off-balance-sheet items. This may involve:
 - Confirming the accuracy of recorded amounts with third parties (e.g., lessors, counterparties)
 - Assessing the adequacy of provisions for contingent liabilities
 - Reviewing the valuation methodologies used for complex financial instruments
 - Analysing the terms and conditions of contractual agreements
- Evaluate the adequacy of disclosure related to off-balance-sheet items in the financial statements and footnotes. Ensure compliance with accounting standards and regulatory requirements regarding transparency and disclosure.



PHYSICAL VERIFICATION OF CASH

The verification of cash is a crucial aspect of bank auditing, primarily focusing on physical verification and reconciliation with the cash register or CBS balance. Key points include:

Physical Verification of Cash:

- Auditors should ideally conduct physical verification at the branch on the last working day of the year or the following day.
- If not feasible, verification should be done as close to the balance sheet date as possible, reconciling with the cash register/balance in CBS.
- The process involves verifying cash on hand, at ATMs, and Cash Deposit Machines (CDMs), reconciling them with the respective General Ledger (GL) balances.

Evidence and Documentation:

- Verification should be evidenced through detailed working papers specifying currency denominations and note counts.
- Counting sheets should be signed by both the Cashier and Branch Manager to validate the process.



PHYSICAL VERIFICATION OF CASH (CONTD.)

Deposit of Cash with External Entities:

- In cases where branches deposit a significant portion of their cash with external entities like RBI or other banks, auditors must obtain appropriate evidence and ensure proper reflection in the books of accounts.

Compliance and Specific Instructions:

- Auditors must comply with any specific instructions or certifications pertaining to cash management issued by the bank.
- Questions related to cash handling in the LFAR should be addressed, including adherence to joint custody requirements, periodic checking of cash balances, adherence to cash retention limits, and reconciliation of ATM balances.
- Auditors are required to verify compliance with these instructions and report any discrepancies or non-compliance accordingly.



PHYSICAL INSPECTION OF SECURITIES & VALUATION

Examination of Stock Audit Report:	The auditor should thoroughly review the stock audit report to identify any adverse comments and ensure they have been appropriately rectified.
Focus on Non-Moving Stock and Obsolete Machinery:	Special attention should be given to non-moving stock and obsolete machinery included in the stock statements, as they can impact the determination of the Drawing Power (DP) limit.
Verification of Demat Papers, Physical Shares, and Other Securities:	Auditors can physically verify assets such as Demat papers, physical shares, Term Deposit Receipts (TDRs), National Savings Certificates (NSCs), etc., which are typically held by the bank.
Periodical Valuation of Shares for Loan Against Shares:	For loans secured against shares, banks must periodically obtain statements of the valuation of pledged shares to ensure the maintenance of the required margin.
Valuation Reports for NPA Accounts:	In the case of Non-Performing Asset (NPA) accounts, banks are mandated to obtain valuation reports for immovable properties and machinery mortgaged/hypothecated to the bank at least once in three years.
Physically Verify Security	Auditor should Physically verify Securities for advances granted for more than Rs.5 crores.
Branch Auditor's Authority and Criteria for Borrower Unit Visits:	The branch auditor can request the branch to arrange for a visit to the borrowers unit availing Cash Credit limit when the account operations are under stress or is potential NPA and the auditor has doubts regarding its asset classification/going concern status, level of operations etc. or to reconfirm whether or not DCCO has been achieved.



FIXED ASSETS

For branch auditors conducting the audit of fixed assets, the following key points are relevant:

Timing of Audit:

- Auditors should conduct the audit of fixed assets as close to the balance sheet date as possible.
- It's essential to ensure that the physical verification of fixed assets is timely and

Documentation and Verification:

- Auditors need to maintain proper documentation of the audit process, including working papers and verification records.
- Physical verification of fixed assets should be conducted meticulously, verifying the existence and condition of each asset.
- Verification of additions, deductions, and transfers of fixed assets by the auditor should be conducted in accordance with relevant supporting documentation.



FIXED ASSETS (CONTD.)

Reconciliation and Reporting:

- Auditors should reconcile the physical verification results with the fixed asset register and financial records.
- Any discrepancies or variances identified during the audit process should be thoroughly investigated and reported.

Compliance with Policies and Procedures:

- Auditors must ensure that the audit of fixed assets adheres to the policies and procedures established by the bank.
- This includes compliance with accounting standards, regulatory requirements, and internal control measures.

Reporting in LFAR:

- Relevant questions regarding fixed assets should be addressed in the LFAR, providing detailed information on the audit findings and compliance status.



LC (LETTER OF CREDIT)

- A letter of credit, or a credit letter, is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. If the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. It may be offered as a facility by the bank. (financial assistance that is essentially a loan).
- Reports required for LC working:
 - IOL (Foreign LC Outstanding as at the last day of quarter)
 - OIL (Foreign LC issued during the quarter)
 - OOL (Inland LC outstanding as at the last day of quarter)
 - IIL (Inland LC during the quarter)

Procedure for audit of LC:-

1. Take samples from the reports obtained from Core Banking System(CBS) as mentioned above.
2. Sample should be taken on following basis:
 - a) On the basis of issue dates & expiry dates.
 - b) On the basis of amount of guarantee.
 - c) Discrepancy (if any) in the commission charged by the bank.
 - d) Transaction containing zero margin.
3. After the samples have been obtained, the following procedure should be applied:
 - a) Calculating the no. of days between the due date and claim date.
 - b) Add the usance period other than the no. of days as calculated above.
 - c) Add the extension (if any), if any single day falls under the next month.
 - d) Check the rate at which bank charged commission.
 - e) Calculate the commission charged by bank to provide guarantee to the seller on behalf of buyer
 - f) Check whether there is any difference between auditor's calculation of commission and commission showed by bank in their documents of LC.
 - g) Check any other charges has been provided to this facility.



BG (BANK GUARANTEE)

- A bank guarantee is a financial backstop offered by a financial institution promising to cover a financial obligation if one party in a transaction fails to hold up their end of a contract. Generally used outside the United States, a bank guarantee enables the bank's client to acquire goods, buy equipment, or perform international trade. If the client fails to settle a debt or deliver promised goods, the bank will cover it.
- Reports required for bank guarantee:
 - OIB (Inland bank guarantee during the quarter)
 - OOB (Inland BG outstanding as at the last day of quarter)
 - FOB (Foreign BG as at the last day of quarter)
 - FIB (Foreign BG during the quarter)

Procedure for audit of BG:-

1. Take samples from the reports obtained from Core Banking System(CBS) as mentioned above.
2. Sample should be taken on following basis:
 - a) On the basis of issue dates & expiry dates.
 - b) On the basis of amount of guarantee.
 - c) Discrepancy (if any) in the commission charged by the bank.
 - d) Transaction containing zero margin.
3. After the samples have been obtained, the following procedure should be applied:
 - a) Calculating the no. of days between the due date and claim date.
 - b) Calculate the period in months from the no. of days calculated above.
 - c) Add the extension (if any), if any single day falls under the next month.
 - d) Check the rate at which bank charged commission.
 - e) Check the method used for calculation of commission.
 - f) Calculate the commission charged by bank to provide guarantee to the seller on behalf of buyer.
 - g) Check whether there is any difference between auditor's calculation of commission and commission showed by bank in their documents of LC.



FIXED DEPOSITS - PROCEDURE TO CHECK DEPOSITS

- A fixed deposit of up to Rs 3 crore is considered a retail deposit and will not be subject to a differential interest rate, meaning banks cannot offer a different interest rate on deposits below this amount compared to larger "bulk" deposits which are defined as deposits exceeding Rs 3 crore; banks have the discretion to offer different rates only on bulk deposits exceeding this limit for asset-liability management purposes.

Key points about the RBI guidelines on differential interest rates for fixed deposits:-

- 1. Bulk deposit threshold:** The RBI has set the threshold for a "bulk deposit" at Rs 3 crore, meaning any single deposit above this amount can be considered for a different interest rate compared to smaller retail deposits.
- 2. Retail deposit definition:** Any fixed deposit below Rs 3 crore is now classified as a retail deposit and should be offered the standard interest rate applicable to smaller deposits.
- 3. Bank discretion:** Banks can still decide to offer different interest rates on bulk deposits based on their asset-liability management needs.



KNOW YOUR CUSTOMER NORMS

- Verify the compliance of KYC norms at the time of opening of CASA or Term Deposit accounts. This should synchronize with the bank's policy on customer acceptance.
- Ensure if an existing KYC-compliant customer opens another account with the same financial entity, no fresh CDD is required.
- Banks/financial institutions must upload/update KYC data incrementally on CKYCR.
- 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.
- Verify controls for KYC updating process, crucial to prevent impersonation, misuse of KYC documents, and account openings with different signatories.
- Ensure in-person verification of physical identity, including photographs in Aadhar/PAN, matches with the actual operating person to prevent impersonation cases observed in certain branches.
- SBI should circulate confidentially to branches individuals flagged as suspicious by FATF, FIU, RBI, CBI, SFIO, NIA, EOW, and the centralized registry of criminals and fraudsters recently established by the central government.
- This list can be accessible to all bank officials and auditors for sample checks to identify process weaknesses and ensure compliance.



AGRICULTURAL SECTOR

- A non-performing asset (NPA) is a loan or an advance where-
 - the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
 - the instalment of principal or interest thereon remains overdue for one crop season for long duration crops.
- Agricultural advances primarily consists of loans under schemes like Kisan Credit Card (KCC) and National Rural Livelihood Mission (NRLM) accounts:
 - **Kisan Credit Card (KCC)**
 - KCC is a short-term credit facility for farmers to meet crop production and working capital needs.
 - Covers expenses for seeds, fertilizers, pesticides, and other farm-related requirements.
 - Also includes working capital for allied agricultural activities like dairy, poultry, and fisheries.
 - Limits are generally renewable annually with periodic enhancements based on cropping



AGRICULTURAL SECTOR (CONTD.)

- Kisan Credit Card (KCC)**

Sanctioned Limit (Rs. in lakhs)	Interest Rate
Upto 3.00 Lakhs	7%(Where interest Subvention is available)
> 3.00 Lakhs	As applicable from time to time as per Bank card rate (MCLR + Spread)

 - Interest Rate
- Reserve Bank of India (RBI) requires banks to submit periodic returns for interest subvention claims on these Kisan Credit Card (KCC) loans. These returns help monitor the implementation of government interest subsidy schemes and ensure compliance with regulatory norms. Details are mentioned below:-
 - Interest Subvention:** The Government of India provides 2% interest subvention on KCC loans up to ₹3 lakh for farmers who repay on time to the banks.
 - Prompt Repayment Benefit (PRB):** Additional 3% interest subvention will be paid to the farmer, making the effective interest rate 4% per annum(7% less 3% for prompt repay) for timely repayments.
 - Return Submission:** Banks submit quarterly and annual statements to RBI/NABARD regarding:
 - Total KCC disbursements and outstanding balances.
 - Amount eligible for interest subvention.
 - Details of NPA accounts to exclude from the benefit.



AGRICULTURAL SECTOR (CONTD.)

- **Kisan Credit Card (KCC)**
- In the **Union Budget 2025-26**, the loan limit under the Modified Interest Subvention Scheme for **Kisan Credit Cards (KCC)** has been increased from ₹3 lakh to ₹5 lakh, benefiting 7.7 crore farmers, dairy and fishermen.
- Here's a more detailed breakdown:
 - **Increased Loan Limit:** The loan limit under the Modified Interest Subvention Scheme for KCCs has been raised from ₹3 lakh to ₹5 lakh.
 - **Interest Subvention:** The Government of India provides an interest subvention of 2% and a prompt repayment incentive of 3%, making the credit available at a subsidized rate of 4% per annum.



AGRICULTURAL SECTOR (CONTD.)

- **National Rural Livelihood Mission (NRLM)**
 - NRLM provides credit support to Self Help Groups (SHGs) for income-generating activities.
 - SHGs under NRLM get collateral-free loans with interest subvention benefits (subject to eligibility).
 - Loans are used for small-scale businesses, agriculture, livestock, handicrafts, etc.
 - Banks also need to submit periodic return for interest subvention claims on NRLM SHG loans. Details are as follows:-
 - **Interest Subvention:** SHG loans under NRLM are eligible for subsidized interest rates:
 - **Category I (Intensive Blocks):** SHGs get 7% interest rate and can claim a further subsidy to make it 4% if they repay on time.
 - **Category II (Non-Intensive Blocks):** SHGs get a direct interest subvention on loans up to ₹3 lakh.
 - **Return Submission:** Banks provide:
 - Details of SHG loans disbursed, outstanding, and repaid.

Returns Understanding



INTRODUCTION

1. Returns are classified in **Centralised Reporting System** (CRS) as **RA** (Return-Automated) series, **RW** (Return-Web based) series & Returns from Circle to Corporate Centre are **RC** (Return- Circle). These RC Returns are not available in CRS.
2. All RW returns are being prepared through web-based system under Centralised Reporting System (CRS) platform.
3. All RA and RW returns of the Branches/Units except RW-24 (Auditor's Certificate) will be **digitally signed by the Branch Manager**.
4. In case of Branches/Units identified for review, Statutory Auditors will digitally sign all RA and RW returns except RW-23 (Branch Manager's /Unit head's certificate).
5. After the reports are digitally signed by respective signatories and accepted by RO Manager in the Centralised Reporting Systems, the reports will automatically flow to the Circles.



RW RETURNS

- **RW-3A** :- RW 3 Part A is the disclosure of movement of Provisions on all the Contingent liabilities(as per AS-29) covering claims against Bank not acknowledged as debts, guarantees, acceptances, endorsements, and other contingent liabilities.
- **RW-3B** :- RW 3 Part B discloses the case wise amounts and provisions thereon contingent liabilities in nature of “the claims against Bank not acknowledged as debts”.
- **RW-5** :- All the liabilities including contingent liabilities are provided in the return RW-5. It is to be ensured that the total of items under each column of contingent liabilities & Provisions (RW-3A) are carried over in the first row of RW-5. The sum of the total under Column “Amounts used during the period” and “Unused amounts reversed during the period” are carried over to “Reversal During the Period” in RW-5.
- **RW-4** :- The document outlines the provision requirements for non-advance-related recalled assets. It includes fraud-related provisions, other losses, and specific items like revenue suspense and outstanding entries. Calculations involve opening balances, additions, reductions, and final provision amounts, with 100% provisioning applied to most categories, ensuring compliance with financial standards.
- **RW-07** :- The RW-07 report confirms no changes in the yearly abstract, profit and loss statement, CCDP, fixed assets return, or CAR B-II, ensuring compliance with regulatory standards.



RW RETURNS (CONTD.)

- **RW-23** :- The RW-23 report certifies the effectiveness of internal financial controls. It confirms compliance with regulatory standards in areas like loan classification, non-fund transactions, forex, and operational controls. The branch manager validates accurate financial reporting with no material misstatements identified.
- **RW-24** :- The RW-24 report certifies a six-month review of unaudited financial statements. Conducted as per auditing standards, it confirms compliance with accounting norms and regulatory requirements, with no material misstatements identified. Observations and detailed reviews were submitted separately by auditors.
- **RW-32** :- The RW-32 return has provision to record the individual outstanding entries relating to Sundry Creditors for purchased of fixed assets for more than/ equal to 5 Years and for less only and reasons thereof.
- **SA 5** :- It is a classification summary focused on advances as per IRAC (Income Recognition and Asset Classification) norms, including RA accounts. It includes segment-wise, sector-wise, facility-wise, and security-wise classifications of standard and non-performing assets (NPAs). It highlights metrics like outstanding balances, NPAs, provisions, and asset performance within a circle.
- **SA 6** :- It builds on SA-5 but emphasizes the provisions required for advances, aligning with statutory requirements. It categorizes provisions based on asset classifications (e.g., sub-standard, doubtful, loss) and sectors (public, priority, bank). It aims to ensure compliance with regulatory capital adequacy and risk coverage norms.



RW RETURNS (CONTD.)

- **RW-46:-** The RW-46 report details SBI's rented and leased premises, such as branches, ATMs, and staff quarters. It includes contract terms, rent amounts, escalation clauses, renewal options, and security deposits. The report ensures transparency and compliance with rental agreements excluding leases under 12 months .
- **RW-49:-** The RW-49 report confirms no transactions or data related to the passing of eligible adjusting accounts, ensuring compliance with financial reporting standards .
- **RW-50 :-** The RW-50 report certifies that details of all repossessed assets sold were accurately captured in the IFAMS application. It confirms compliance with GST regulations, as per the bank's guidelines .



RELATED PARTY RETURNS

- **RP-1** :- This discloses about related party disclosures of balance sheet items like Deposits, Borrowing, Balances with banks, Advances etc. which are outstanding as at date and which are maximum outstanding during the year.
- **RP-2** :- This discloses about related party disclosures of profit and losses items like interest income, Income earned by way of dividends, Interest Expenditure etc.
- **RP-3** :- This discloses management contracts entered into with related party for the period.
- **RC-05** :- Circles are required to list down all capital contracts execution of which is not yet started, or execution is in progress. The total of the data under of Column “Portion of the Capital Contract completed” should tally with Post MOC YSA Comp Code 20243 (Premises under Construction).
- **RC-06** :- This return covers branches under review as on the date.
- **CFS Returns RC (9 -14):** - It discloses reports between the bank and its subsidiaries, associates, or joint ventures about intra group assets, intra group liabilities, intra group income, intra group expense, intra group contingent liabilities and entries remain unreconciled. These returns ensure transparency, monitor inter-entity transactions, and help in the consolidation of financial statements while complying with regulatory and reporting standards.



RA RETURNS

- **RA-02** :- It assesses loans, guarantees, and liabilities, assigning risk weights to calculate capital requirements. It ensures compliance with regulations by computing risk-weighted assets and the capital adequacy ratio, proving the bank's ability to manage financial risks safely.(these are system generated).
- **RA-03** :- The RA-03 report details financial obligations of the bank . It categorizes liabilities like deposits (savings, term, and demand), borrowings (secured and unsecured), and other accounts related to the bank's operations, ensuring compliance with financial reporting standards.(these are system generated).
- **RA-04** :- The RA-04 report outlines SBI's profit and loss statement as of September 30, 2024(half yearly), detailing revenue sources (interest, fees, commission) and expenses (interest paid, operational costs). It calculates a net profit ensuring compliance with financial standards and providing transparency on the bank's half-year financial performance.(these are system generated).



RA-2 (CAR RETURN)

- RA -2 i.e .CAR B III return is automated and are generated from OFSAA (CARR portal).
- Ensure data accuracy in CBS so that CAR BASEL-III return generated from the system is accurate. In case modifications, which either cannot be carried out in the system, or which are consequential to MOC suggested by Statutory Auditors, are required to be made in the system, the same should be done through MOCs. The MOCs in respect of CAR BASEL-III should be dealt in the same manner as the other MOCs.
- It should also be ensured that Accounts, which are showing “**NIL collaterals**” or “**insufficient collaterals**” or “**significantly HIGH collaterals**”, are checked with care as the value of collateral has an impact on the Capital Adequacy Ratio (CAR).
- Filter on ratings in the CARR report and check whether any borrowers listed as "unrated" are truly unrated and if those Borrowers who are not supposed to be unrated than Put this observations in front of client and ask why this is showing as unrated in CAR Report.
- Match CAR Report(Excel) Generated from OFSAA(CARR Portal) with Signed PDF of CAR Report.

CCDP Understandin g





UNDERSTANDING ABOUT CCDP APPLICATION SOFTWARE OF BANK

1. **CCDP** stands for **Centralised Credit Data Processing**.
2. **CCDP** is an application software used by SBI Bank that provides comprehensive details of the bank's **fund-based and non-fund-based facilities**. It also tracks the **Non-Performing Asset (NPA)** status of advances and facilitates **provisioning** related to these advances.
3. **The details** of these facilities are provided in the **Field Descriptions** within the CCDP application. Major field descriptions are explained as follows :-)
 - a. **Branch Name (BRNM)** : This field describes the Name of the Branch from which Loan is Sanctioned.
 - b. **Customer Id (CUSTID)** : It is unique to each customer, ensuring no two customers have the same ID. So, even if a borrower takes multiple loans or has several accounts with the bank, their **Customer ID** remains the same.



UNDERSTANDING ABOUT CCDP APPLICATION SOFTWARE OF BANK (CONTD.)

- c. **Name of the borrower (NAME1):** This field specifies the name of the borrower to whom loan is granted by the bank.
- d. **Staff Code (STAFFCD) :** This field describes about the level (rank) of staff i.e. subordinate, clerical or officer level to which Advance is granted.
- e. **Account Id (ACCOUNTID):** Each loan account in a bank has a unique accounting ID to differentiate it from other accounts and track its specific transactions. So, a borrower will have unique account ID for every loan taken with the bank.
- f. **Product Code (PRODCODE):** It refers to a unique identifier assigned to a specific type of loan product offered by a bank. It helps to categorize and define the product under which a loan is sanctioned, such as a home loan, personal loan, or car loan.
- g. **Facility Code (FACCD):** This field describes about the credit facilities offered by bank to the borrower. E.g. Term Loan, Cash Credit, Demand Loan, Bills etc.



UNDERSTANDING ABOUT CCDP APPLICATION SOFTWARE OF BANK (CONTD.)

- h. Priority Flag (PRIFLG):** This field indicates whether the loan granted by the bank falls under the **Priority Sector Lending (PSL)** category or not. It is crucial for the bank as it helps to verify compliance with PSL requirements set by RBI.
- i. Asset Classification Code (IRAC) (calc_asset/DEVCD):** This field explains the **classification of advances** as per IRAC norms prescribed by the RBI. The classification categorizes loans and advances based on their repayment status and risk, helping banks assess the quality of their loan portfolios. The five categories are:

Code	Description
10	Standard Assets
20	Sub-Standard Assets
31	Doubtful Below 1 Year
32	Doubtful 1 To 3 Year
33	Doubtful Above 3 Year
40	Loss Assets



UNDERSTANDING ABOUT CCDP APPLICATION SOFTWARE OF BANK (CONTD.)

- j. **Amount Outstanding (OUTAMT):** This field indicates the total outstanding balance on the account as on the reporting date.
- k. **Primary Security Amount (PRISECAMT):** This field indicates the value of Primary Security amount available on the account as of the reporting date.
- l. **Secondary/Collateral Security Amount (SPLCSAMT):** This field indicates the value of Collateral Security amount available on the account as of the reporting date.
 - **For Example:** If a corporate takes a loan of ₹10,00,000 to buy a machinery, then the machinery in itself is the **Primary security** & let's say that if the borrower also pledges a fixed deposit or another property as security, then it will be treated as **Collateral security**.
- m. **Account Irregular Date (IRRDT):** This field indicates about the date when the account become irregular signaling that borrower fails to meet repayment terms, such as missing installments or having overdue payments.
- n. **Interest Rate (INTRATE):** This field specifies the rate of interest that a bank charges on each individual loan or advance provided to its customers
- o. **Drawing Power Amount (DPAMT):** This field indicates the amount available for **withdrawal or utilization** in a **Cash Credit (CC) account**, based on the collateral and other parameters set by the bank. The amount is prescribed using the **Drawing Power Calculation Sheet**.



CALCULATION OF DRAWING POWER IS PRESCRIBED AS FOLLOWS : –

Particulars	Amount	Amount
Insured Inventory	XXX	
(-) Creditors	(XX)	
Paid Stock	XXX	
(-) Margin @25% on Paid Stock	(XX)	XXX(A)
Debtors	XXX	
(-) Debtors > 90 Days	(XX)	
Debtors allowed for DP	XXX	
(-) Margin @40% on Above	(XX)	XXX(B)
Drawing Power (A+B)		XXX(C)



UNDERSTANDING ABOUT CCDP APPLICATION SOFTWARE OF BANK (CONTD.)

- p. **Current Provision Amount (PROV_TOTAL):** This field describes the provision amount that a bank sets aside for each individual loan or advance as required by the RBI in its Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances. Provisioning Norms are

Assets Classification	Period as NPA	Provision
Standard	-	• Agriculture and SME : 0.25 % • Commercial Real Estate(CRE): 1 % • Commercial Real Estate-Residential Housing Sector(CRE-RH): 0.75 % • Housing laon: 2 % after 1 year : 0.40 % • All other : 0.40 %
Substandard (Secured Loan)	Up to 1 Year	15 %
Substandard (Unsecured Loan)	Up to 1 Year	25 % 20 % (Infrastructure Loan)
Doubtful 1	2nd year	25 % (Secured Loan) 100 % (Unsecured Laon)
Doubtful 2	3rd & 4th year	40 % (Secured Loan) 100 % (Unsecured Laon)
Doubtful 3	5th year onword	100 %





UNDERSTANDING ABOUT CCDP APPLICATION SOFTWARE OF BANK (CONTD.)

- q. **Last Credit Date (LASCREDIT):** This field indicates the most recent date on which an amount was credited to the account. It reflects the last transaction where funds were deposited or added to the account balance.
- r. **Security valuation date (secvaldate):** This field indicates the most recent date on which the bank valued or revalued the security provided by the borrower. This date is important for ensuring compliance with RBI regulations, which require banks to verify the value of borrower securities at least once every three years.
- s. **NPA Date (npadt):** This field indicates the **date** on which an account is classified as a Non-Performing Asset (NPA). According to RBI's Master Circular on IRAC (Income Recognition and Asset Classification), the classification of an advance as NPA is governed by specific norms. So, This field remains blank for the accounts classified as Standard Assets.

Long Form Audit Report (LFAR)





LONG FORM AUDIT REPORTS (LFARS) IN INDIAN BANKING

- **Long Form Audit Reports (LFARs)** are detailed management reports required by the Reserve Bank of India (RBI).
- These reports are submitted by bank auditors at the branch level.
- An LFAR contains specific questions and findings related to bank operations.
- It provides a comprehensive overview of a bank's operations, going beyond the scope of a typical statutory audit report.
- LFARs are vital for ensuring compliance, identifying risks, and improving operational efficiency within banks across India.



LONG FORM AUDIT REPORTS (LFARS) IN INDIAN BANKING

LFAR 1

- LFAR 1 is the standard format for branch audits. It covers various aspects of branch operations, including assets, liabilities, and profit and loss. The objective is to ensure that all financial and operational facets are thoroughly reviewed. This process identifies discrepancies, inefficiencies, or areas that need improvement.

LFAR 2

- LFAR 2 focuses on advances exceeding a certain threshold (i.e., 2 Crores). It examines the creditworthiness of borrowers and the adequacy of security. This report assesses the bank's risk exposure. The assessment includes analyzing borrowers' repayment capacity, documentation quality, loan sanctioning processes, and adherence to banking norms and regulations.



LONG FORM AUDIT REPORTS (LFARS) IN INDIAN BANKING

LFAR 3

- LFAR 3 is used for codifying irregularities identified during the audit. It systematically records deviations from regulatory compliance and internal policies. It also notes deviations from best practices. This format ensures that necessary corrective actions are taken to mitigate risks and improve operational efficiency within the bank.

LFAR 4

- LFAR 4 is specific to branches dealing in foreign exchange transactions. It focuses on compliance with regulations and risk management practices. The report includes an assessment of adherence to FEMA guidelines, AML measures, and KYC norms. The overall effectiveness of the branch's foreign exchange operations in minimizing fraud and unauthorized transactions is evaluated.



LONG FORM AUDIT REPORTS (LFARS) IN INDIAN BANKING

LFAR 5

- LFAR 5 focuses on asset recovery branches. It examines the effectiveness of recovery efforts and the management of NPAs. The report evaluates loan recovery strategies and legal actions initiated against defaulters. It also assesses restructuring measures and overall efficiency in reducing bad debts and improving the asset quality of the bank.

LFAR 6

- LFAR 6 is specific to service branches. It focuses on the efficiency and effectiveness of customer service operations. It assesses the quality of banking services and turnaround time for transactions. The report also evaluates grievance redressal mechanisms, compliance with service standards, and the adoption of technology to enhance service delivery.



AUDIT FINDINGS

Regulatory Compliance

- Several instances of non-compliance with regulatory requirements were observed during the audit.
- Lack of proper documentation and adherence to prescribed procedures were major findings.
- Immediate action is required to rectify these issues and ensure compliance with all applicable regulations

Operational Inefficiencies

- Inefficiencies in branch operations were observed, leading to delays in customer service and increased operational costs.
- Streamlining processes, improving staff training, and implementing technology solutions can help address these inefficiencies and enhance overall operational performance.

Internal Control Weaknesses

- Weak Internal Controls were identified in various areas, including loan approvals, and customer identification processes.
- These weaknesses pose a significant risk to the bank's operations and must be addressed promptly to prevent fraud and financial losses.

Risk Management

- Inadequate Risk Management practices were identified, particularly in the areas of credit risk and operational risk.

For this Presentation and Other Presentations & Handbooks by CA. Vaibhav Jain

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