



Audit in Banking Sector

(Chapter - 6 : DISSA Course)

CBS Audit - Practical Aspects

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CBS- recap

WHAT IS CBS ?

- Core banking solution refers to a common IT solution wherein a central shared database support the entire banking application.
- Branches function as delivery channels providing services to the customers of the bank.

PACKAGE	PROVIDER	USED IN BANKS
FINACLE	INFOSYS	UBI, BOI, BOB , IOB , PNB ICICI, AXIS BANK
FLEXCUBE	ORACLE (iFlex)	HDFC ,CANARA ,YES BANK
TCS BANCS	TCS	SBI , BOM , CBI , INDIAN BANK



Jilani committee reports (1995)

Objective of Jilani Committee Recommendations:- to review

- the efficacy and adequacy of internal control,
- inspection and audit system in a bank with a view to strengthening the supervisory system and reliability of data

There are 3 categories of recommendations

1. *EDP/ IS environment in banks*
2. *Inspection/Internal audit in the banks*
3. *Miscellaneous aspect of functioning of a bank*

Implementation of recommendations

- A format of 25 questions issued to indicate answers as either implemented or Not implemented.
- Information received from all branches, RO and ZO is to be consolidated at HO level and submission of a consolidated statement to RBI has to be done.
- Implementation of such recommendations has to be verified during concurrent audit/inspection & comment included in respective audit reports.

Ghosh committee report

Main objectives of Ghosh Committee

- Safety of assets *Compliance with laid down policies / procedures*
 - *Accuracy and completeness of accounting and other records*
 - Proper segregation of duties *and responsibilities of staff*
 - Timely prevention and detection of frauds and malpractices
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- The recommendations of Ghosh Committee divided into Groups A,B,C,D with 2 parts each, Group C having one part.
 - Out of 97 Recommendations 27 to be reported at Branch level, 43 at RO/ZO/HO level and 27 at both levels.
 - They are further categorized on implementation basis as follows: -
 - Group A –Recommendations to be implemented by banks immediately
 - Group B- Recommendations requiring RBI approval
 - Group C- Recommendations requiring approval of Government of India
 - Group D- Recommendations requiring examination in consultation with IBA

IS Audit Reporting

- independent reasonable assurance to the management on:
 - ✓ ▯ Robust IT security,
 - ✓ ▯ Mitigation of risks where there are significant control weaknesses
 - ✓ ▯ Safeguarding the information assets viz. hardware, network etc.,
 - ✓ ▯ Maintaining security, confidentiality, integrity and availability of data,
 - ✓ ▯ Efficient utilization of resources-IT.
 - ✓ ▯ Ensuring compliance of IT Security Policy & procedures defined by Bank.
 - ✓ ▯ Ensuring compliance of RBI IS Guidelines/recommendation and other applicable external regulations.

Provisioning Norms...

Doubtful Assets:

<u>Period Provision</u>	<u>(Secured</u>	+	<u>Unsecured)</u>
Up to 1 year	25%		+ 100%
1to 3 years	40%		+ 100%
More than 3 years	100%		+ 100%

Loss Asset:

100% should be provided for

Banks should have **Provisioning coverage ratio** of not less than 70%.

Net NPA = Gross NPA – (Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held).

IS Audit Check List (Branch)

1. Information security Policy
2. Access control procedures
3. Branch level server, if any
4. Physical & environmental control
5. Network security & control
6. Local parameters in application level
7. ATM operations
8. Business continuity plan

IS Audit = Access Control Policy

1. Password policy- Minimum length, composition, validity, type, change frequency, deactivation, password history.
2. Device access – USB, CD, any external drive
3. Data Leak/ Loss prevention
4. Classification of data
5. Multi-factor authentication:

IS Audit = Physical & Environmental Control

1. Temperature Control
2. Humidity Control
3. No inflammable material
4. Structured cabling
5. Fire extinguisher
6. Regular Fire drill
7. Alternate source of electricity
8. Communication sources
9. Guard, watchman, external service providers

IS Audit = Business Continuity Planning

1. Complete documentation of BCP/ DRP
2. User/ employee awareness
3. Periodic BCP drill- proactive control
4. Alternate connectivity & other resources
5. Alternate power supply
6. BCP for outsourced activities

FTI & AFI

- Financial Transaction Inquiry or FTI.
- Result of the inquiry generated = Financial Transaction Report or FTR.
- Inquiry into non-financial transaction = Audit File Inquiry or AFI.
- AFI = FTI & can be done on variety of criteria
- **Application Controls**
- **Risk . 1-** Interest may be incorrectly computed leading to incorrect recording of income/expenditure
- **Check : Control** - Interest is automatically correctly computed. Digits are rounded off appropriately. Interest is accurately accrued.
- **Risk 2** = Failure to levy appropriate charges resulting in loss of revenue. Inappropriate levy of charges, resulting in customer disputes.
- **Check : Control** = System does not permits to close an account having zero balance without recovering applicable account closure charges

1. ACLI (Account Ledger Inquiry):

- helps to verify the ledger of customers for a given period.

2. LAOPI (Loans & Advances Overdue Position Inquiry):

- With the help of LAOPI we can verify Principal as well as Interest Overdue a given account.

3. ACI (Account Inquiry):

helps in verifying master data of particular account e.g. in a particular loan account we can verify its Repayment schedule, EMIs, Rate of interest, Overdue Principals, Asset Classification, etc.

Important CBS Finacle Codes- 1

- AFI – Audit File Inquiry
- AVGBAL
- CUMI – Cust Master Inquiry
- DCQRY – Query on Doc Credit – Inland & foreign LC issued
- EXCPRPT – Exception Report – A/c due for review, Adv bal > Sanctioned limit, a/c opened without introduction
- GR – generate report – BS/ PLS on given date
- FTI – Fin Transaction Inquiry
- ACDREV – A/c due for review – where regular / adhoc credit limits not renewed/ reviewed within 180 days from sanction date/ due date – treat NPA
- POVDPC- Party wise o/d packing credit
- TODRP – Temporary OD Report
- NPARPT – NPA Report

PNB Scam – analysis

PNB – fraud :

Rs 14,000 Crore (Feb , 2018) & counting ?

- CBI report (March 14) – PNB filed for **additional Rs 942 Cr credit exposure** (NM-MC owned firms)
- **Fraud - MC** : Rs 7,080 Cr , **NM** : Rs 6,822 Cr (court filing : *March 13, 2018*)
- Diamond firms approach PNB for opening LC for import of rough stones.
- **Fake LoUs were Issued** – no credit limit – no cash margin – no entry in CBS
1,212 fake LoUs issued in favour of NiMO & MC firms- SWIFT message
- Transactions are equivalent of **8 times PNB's 2017 net income of about Rs 13.2 billion**
- **Alleged : Some PNB employees misused the SWIFT network**
- PNB has alleged “**clear criminal connivance**” of NiMO & MC
- GM Credit of PNB in CBI custody
- Audit & Consulting Firm **BDO** appointed to carry out **forensic audit**.
- **PNB new CRO appointed, CMD, CVO questioned by CBI**
- **NSE fined Gitanjali for non-filing of results for Dec 2017 quarter**

PNB – fraud :

- **WHAT REALLY HAPPENED?**

Diamond firms approach PNB for opening letters of credit for import of rough stones. LC or BG = Contingent Liability (AS 29)

- As per terms of LC, a common banking tool, PNB would pay overseas suppliers on behalf of Nirav Modi's firms within a certain period (typically 3 months) & recover the money from Modi.
- Market practice **to extend the LC if the client (i.e, NM) is unable** to pay up the money at end of LC tenure.
- **Fake LoUs were Issued**
LOU given by local bank (which in this case is PNB).
- The fraudulent transactions are equivalent of **8 times PNB's 2017 net income of about Rs 13.2 billion**

Fraud method

- Based on unauthorised Lo-Us, the **PNB employees misused the SWIFT network** to transmit messages to Allahabad Bank and Axis Bank on fund requirement.
- In using SWIFT, **one has to log into the network to fill up fields like the account number and SWIFT code**, following which it is endorsed by a supervisor.
- The process is completed when the bank receiving the message confirms and the details are validated.
- While all this was done using SWIFT passwords, the ***transactions were never recorded in the bank's CBS***.
- It could not be detected as **PNB had not integrated SWIFT with the banks' Core Banking System (CBS)**.

Key issue

- LoUs were opened for pearl import for which total time period allowed by RBI is 90 days.
- Some of the overseas branches of Indian banks overlooked the rule.
- PNB had alleged “clear criminal connivance” of group companies of Modi and Gitanjali with some officials of PNB and other banks.
- PNB had complained that some of the branches of other Indian banks have not shared key documents related to the credit with PNB.

RBI Response on PNB case

Fraud Alert



Banks asked to review NPAs of over ₹50 crore and put risk management systems in place



Cases under-going resolution through IBC may also come under scanner



Guilty promoters to be prosecuted, but resolution process will continue



Investigating agencies such as CBI, ED and DRI to be roped in if fraud found

Banks to incorporate best practices from across the sector

Boards to assign clear accountability to senior functionaries



Data Centre- ICICI Bank

- ICICI Bank DC = Hyderabad achieved the distinction of becoming country's first Platinum rated project under IGBC **Green DC Rating System**.
- **Tangible Benefits** include: 20 to 25 % reduction in Power Usage Effectiveness, 25 to 30 % reduction in water consumption.
- **Intangible benefits** = enhanced air quality, excellent daylighting, health & well-being of staff operating such facility.
- **Key green features incorporated in ICICI Bank's DC=**
 1. power saving,
 2. wheeling of 15 MW off-site renewable energy (9000 units to offset grid energy),
 3. photovoltaic installed at façade for on-site renewable energy generation
 4. LED based energy efficient lighting fixtures
 5. procurement of green certified products and materials

Janta Sahakari Bank

- Bank established on 18th October, 1949
- introduced CBS in 2004.
- Bank successfully implemented CBS across branches since 2005.
- A state-of-Art **Data Center** established at Pune
- Acquired **ISO 9001-2015 & ISO 27001-2013** certification
- As BCP , **Disaster Recovery Site** developed & implemented

CBS Functionality

- Techno based services - Any Branch Banking, ATMs.
- **Customers using delivery channels –**
 - ✓ SMS Banking,
 - ✓ Tele Banking,
 - ✓ RTGS/NEFT,IMPS (Mobile Banking)
 - ✓ Internet Banking, Online Transaction alerts
 - ✓ Statements of Accounts to customers on e-mail
- **CBS=** enabled bank to re-engineer processes, = helped to increase efficiency & optimize resources utilization..

Bank of Baroda

IS Transformation

- Bank's Technology initiatives - focused on the customer.
- BoB = Business Transformation Programme encompassing technology being implemented to provide its customer :
- **convenience banking on 24 X 7** basis in India & abroad through deployment of single CBS platform across globe with:
- **integrated delivery channels** = ATM, Internet, Phone, Mobile, Kiosk, Call Centre etc.
- One of the few PSB with Internet Payment gateway offering E-commerce services.
- BoB issues only EMV VISA, Master & Rupay Debit Cards
- **With 100% CBS** = BoB enabled its customer with state of the art technology; duly complemented with human interface.
- **McKinsey & Co.** = Business Process Re-engineering & IT Restructuring

Rapid Funds2India – an online money transfer service

- NRI's avail from **BoB's Overseas branches** in:
- UAE, Oman,
- UK, Mauritius, Seychelles, Botswana,
- Fiji, Kenya, Guyana, , Tanzania, Uganda, Trinidad & Tobago, US
- facilitates almost instant credit to beneficiary accounts with BoB in India.
- If NRI maintain accounts with other Banks, same day or next day credit is facilitated through RTGS/ NEFT.
- Internet Payment Gateway = safe, secure & trusted e-Commerce/online payment solution
- **Global Treasury**
- BoB = 1st PSB in India to implement Integrated Treasury & Risk Management solution at its Treasury Branch, Mumbai.
- **Integrated Global Treasury Solution** = in UK, UAE, Hong Kong, Singapore, Belgium, US, Mauritius, Gift City Ahmedabad and India.
- **Disaster Recovery Site (DRS)** for Treasury = also been operationalized.²⁴

RTGS & NEFT

- All branches are RTGS & NEFT enabled.
- RTGS & NEFT have been interfaced with BoB'S Internet banking portal.
- **SWIFT**
- SWIFT facility for worldwide inter-bank financial communication is provided at Foreign Exchange Authorised Branches in India & in overseas territories
- **Web-based Lending Process Automation for Corporate & Retail lending Operations – 1st PSB in India**
- **On-line Tax Accounting System (OLTAS)**
- collection of taxes on behalf of CBDT , Govt. of India at 581 branches.
- **International Operations**
- Operations at all Bank's overseas branches, Offshore Business Units, Joint Ventures & Subsidiaries are 100% computerized.
- CBS at territory level is implemented in 22 countries.

BoB = Information Security

- Robust ISMS to ensure CIA of its IT resources.
- Multi-layered security architecture has been implemented with:
 - ✓ firewalls, NIPS, HIPS,
 - ✓ regular patch updation,
 - ✓ anti-virus & anti-spyware, centralized domain controlling, application security,
 - ✓ database security, physical & logical access control measures etc.
 - ✓ Updated IT Security Policy, standards & guidelines, = to address evolving threat landscape & BoB endeavour to provide safe technology enabled services to customers.
- Internet banking: **128-bit Verisign SSL certificate** implemented to ensure = customers' data transmitted in encrypted form over internet.
- To prevent fraudulent fund transfers, mandatory beneficiary registration implemented for 3rd party fund transfers in internet banking
- IT assets subjected to periodical audits, VA & PT to assess risks & implement necessary risk mitigation measures

Thank You