

CERTIFICATE COURSE ON CONCURRENT AUDIT OF BANKS

STUDY MATERIAL



Banking, Financial Services & Insurance Committee

**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**

Statutory Body under an Act of Parliament

Headquarters: CMA Bhawan, 12 Sudder Street, Kolkata - 700016

Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003

Behind every successful business decision, there is always a CMA

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VISION STATEMENT

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

ABOUT THE INSTITUTE

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute as a part of its obligation, regulates the profession of Cost and Management Accountancy, enrolls students for its courses, provides coaching facilities to the students, organises professional development programmes for the members and undertakes research programmes in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing toward the management of scarce resources and apply strategic decisions. This has opened up further scope and tremendous opportunities for cost accountants in India and abroad.

After an amendment passed by Parliament of India, the Institute is now renamed as "The Institute of Cost Accountants of India" from "The Institute of Cost and Works Accountants of India". This step is aimed towards synergising with the global management accounting bodies, sharing the best practices which will be useful to large number of trans-national Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources, the specialized knowledge of evaluating operating efficiency and strategic management the professionals are known as "Cost and Management Accountants (CMAs)". The Institute is the 2nd largest Cost & Management Accounting body in the world and the largest in Asia, having approximately 5,00,000 students and 85,000 members all over the globe. The Institution headquartered at Kolkata operates through four regional councils at Kolkata, Delhi, Mumbai and Chennai and 107 Chapters situated at important cities in the country as well as 10 Overseas Centres. It is under the administrative control of Ministry of Corporate Affairs, Government of India.

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The Views expressed in this Manual are those of the Author(s) only. The Institute of Cost Accountants of India may not necessarily subscribe to the views expressed by the author(s).

All Bank Systems and Procedures mentioned in this Book are General in nature. For authentic information of Systems & Procedures, Guidelines of various Public Sector Banks / Private Sector Banks / Foreign Banks / Co-operative Banks / Regional Rural Banks / Payment Banks / Small Finance Banks / Non-Banking Finance Companies etc. please refer the concerned Banks Credit Policy Guidelines, Operational Guidelines, Treasury Operations Guidelines, web-site, policy guidelines of respective Banks / Financial Institutions. For Regulator Guidelines also please visit to the web-sites of like RBI, FIMMDA etc. The terminology / terms used in this book may not be exactly used by all banks, it will differ from bank to bank. This book is a base to understand the Concurrent Audit System of Banks.

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The Institute of Cost Accountants of India

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Foreword

With the advent of globalization and the financial sector reforms growing integration of domestic markets with external markets has become inevitable and banks in India are now naturally exposed to several major risks in the course of their business. Especially in view of proposed introduction of the new Basle Capital Accord - III, the capital maintained by the banks will be more aligned to the risks undertaken. It is therefore important that banks introduce effective Risk Management System. The adoption of Risk based Internal Audit will help the banks to provide an aid to the ongoing Risk Management by providing necessary checks and balances in the system.

The Cost and Management Accountants having expertise in Risk Management, Strategic Decision-Making technique coupled with Logistic and Management Information System can contribute significantly for such Risk Based Internal Audit in Banks.

Concurrent Audit was introduced in the Banking Industry as mandatory as per recommendation of Jilani committee. Since then in Commercial Banks the Concurrent Audit is being conducted.

The members of the Institute of Cost Accountants of India (ICWAI) felt that since Concurrent Audit is not statutory and the appointment of auditors are not guided by any law of the land, the Cost Accountants having proficiency and expertise in Internal Control and Management Information System can also contribute to this emerging area.

The present monograph brings out the essentials of the Risk Management and Risk Audit in commercial Banks and also the approach to concurrent audit in banks. I am sure it will be very useful to the banking professionals and also practicing professionals.

The Institute acknowledges the Assistance and Co-operation rendered by CMA Chittaranjan Chattopadhyay, Chairman, Banking, Financial Services and Insurance Committee who gave the guidance during the course of preparation of this Hand Book.

At this juncture, I am grateful to **CMA Dr. P. Siva Rama Prasad** for sharing his experiences and knowledge with us and preparing the study material.



CMA Balwinder Singh

President

The Institute of Cost Accountants of India

1st August, 2020

Kolkata

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CHAPTER - I

Indian Banking System - Financial Products

Banks form the back bone of a country's financial system. Modern Banking system in India is more than two centuries old. The Indian banking system consists of various constituent banks which mobilize savings from several sources for lending to productive activities.

These banks are regulated by Reserve Bank of India (RBI) which came in to existence in 1935. RBI controls credit, issues currencies and regulates banks and other nonbanking financial companies. Besides these, the services offered by banks also have expanded over the years in the light of various national and international developments.

State Bank of India

State Bank of India as we know today originated from the three Presidency banks namely Bank of Bengal, Bank of Bombay and Bank of Madras and the successor to these Presidency banks viz. Imperial Bank of India. These banks were basically created by European masters and served mostly to the common needs of local European commerce in India. Though Imperial Bank of India was recognized for its services and integrity, its contribution was mainly confined to urban populace of India. And it was "not equipped to respond to the emergent needs of economic regeneration of rural areas." As this was an area of concern for the Government of India, the All-India Rural Credit Survey Committee recommended creation of a Government partnered and sponsored bank by taking over the Imperial Bank of India along with those princely-states owned banks. Through State Bank of India Act, in 1955 the Government of India constituted State Bank of India that had a 25% share of Indian banking resources at that time.

Subsequently through another enactment viz. State Bank of India (Subsidiary Banks) Act in 1959, all the princely state banks were taken over by State Bank of India. Thus, the focus of State Bank of India was concentrated towards social purpose. It had a network of 480 offices, sub-offices, Local Head Offices to service the planned economic development of the country to start with. Thus, State Bank of India was destined to be the prime mover of national development in the banking sphere.

State Bank of Bikaner, State Bank of Jaipur, State Bank of Hyderabad, State Bank of Saurashtra, State Bank of Indore, State Bank of Mysore and State Bank of Travancore. In 1963 State Bank of Bikaner and State Bank of Jaipur were merged to form State Bank of Bikaner and Jaipur. Subsequently on 13 August 2008 State Bank of Indore and State Bank of Saurashtra were merged with State Bank of India as a part of Government of India's plan for creating a "mega bank" by merging all associate banks with State Bank of India.

On 15 February 2017, the Union Cabinet approved the merger of five associate banks with SBI. Pursuant to this, from 1st April 2017 the remaining associate banks were merged with State Bank of India. Also, along with its former Associate Banks, the erstwhile Bharatiya Mahila Bank, an all-women bank established by the Government of India in 2013 for "empowering women and instilling confidence among them to avail bank financing" was also merged. Bharatiya Mahila Bank was set up to provide credit exclusively to women.

Apart from India only two countries viz, Pakistan and Tanzania have a bank especially for women. Immediately before the merger, Bharatiya Mahila Bank had 103 branches and business volume was Rs. 1600 crores. The merger of Bharatiya Mahila Bank was made considering the large outreach of SBI and its record of establishing all-women branches and providing loan to women borrowers.

Apart from the above, SBI has 190 overseas offices spread over 32 countries having the largest presence in foreign markets among Indian banks.

Nationalized Banks

In view of stringent capital adequacy norms as well as mounting NPAs, especially among the Public Sector Banks and also to arrest sliding performance in their contribution to the economic development of the country, the Government of India took a decision in late 2018 to consolidate the PSU Banks. In pursuance of this objective in

April of 2019, Vijaya Bank and Dena Bank were amalgamated with Bank of Baroda. In effect, the operations of Vijaya Bank and Dena Bank have been combined with Bank of Baroda. Ultimately the merged banks will be functioning under the umbrella of Bank of Baroda brand. Their consolidated operations have already commenced from 1st April 2019.

With this process of consolidation, the total number of PSU Banks will stand reduced to 12 as indicated below: They are as follows:

1. Bank of Baroda
2. Bank of India
3. Bank of Maharashtra
4. Central Bank of India
5. Indian Overseas Bank
6. Punjab & Sind Bank
7. State Bank of India
8. United Commercial Bank
9. Canara Bank
10. Indian Bank
11. Punjab National Bank
12. Union Bank of India.

Private Sector Banks

The private sector banks which were operating in India prior to the liberalization year of 1991 are known as Old generation private Sector banks. The banks that came into existence subsequent to Narasimham Committee Report I and revised RBI guidelines in 1993 are known as new generation private sector banks. The Narasimham Committee-I, recommended to allow private and foreign banks into the industry as a part of economic liberalization policy of Government of India. In deference to the recommendations of the committee, the RBI formulated guidelines for the establishment of the private sector banks on January 1993. These guidelines prescribed that the private banks should be established as public limited companies under the then Indian Companies Act 1956. The paid-up capital shall not be less than Rs. 100 Crore. The new guidelines issued in 2001 raised the minimum paid-up capital to Rs. 200 Crore, which should be enhanced to Rs. 300 Crore within three years after the commencement of business. The promoters' share shall not be less than 40 per cent and the voting right of a shareholder shall not exceed 10 per cent.

Housing Development Finance Corporation Limited ("HDFC") was the first private bank in India to receive license from RBI, to set up a bank in the private-sector in India. Accordingly, nine banks were set-up in private sector including some by development financial institutions. Prominent among them are ICICI Bank, Global Trust Bank, HDFC and IDBI bank. Another interesting development was the merger of some banks. Bareilly Corporation Ltd. merged with Bank of Baroda in 1999, Times Bank merged with HDFC Bank in 1996, Bank of Madura Ltd. merged with ICICI bank in 2001 and Nedungadi Bank Ltd. merged with Punjab National Bank in 2003.

Presently the following new generation private Banks operate in India:

1. Axis Bank 1993
2. Development Credit Bank 1995 (See note 2 below)
3. HDFC Bank 1994
4. ICICI Bank 1990
5. Indus-Ind Bank 1994
6. Yes Bank 2004
7. Kotak Mahindra Bank 2001
8. IDFC First Bank** 2015
9. Bandhan Bank 2015

Note:

1. The new generation banks namely Times Bank, Centurion Bank, Global Trust Bank, Bank of Punjab have merged with other banks and hence cease to exist.
2. Erstwhile Development Cooperative Bank renamed into Development Credit Bank in 1995 after it got Schedule Bank License. Again, it is changed its name into DCB in 2014.

** Consequent upon merging a NBFC named Capital First with itself in December 2018, IDFC Bank has changed its name to IDFC First Bank.

As the name itself implies the majority of the equity is held by private promoters including permitted foreign entities and other investing public in these institutions.

Non-Banking Financial Companies (NBFC)

Financing of business by unorganized sector had been a long-time practice in India. It dates back to 1930s till 1965. In 1965 need was felt to bring in separate regulatory mechanism. As a consequence, Chapter III-B was inserted in the RBI Act. This was basically brought in to regulate the fiercely competitive car segment. Thus, began the regulation of the unorganized players in the financial market. In 1975 the RBI accepted the recommendations of James Raj committee which went in to the working and regulation of finance companies in the market. Certain recommendations made relating to the quantum of accepting deposits from public and also regarding net-owned funds. In spite of this, there was quantum jump in the establishment of NBFCs in India. The number of NBFCs went up from 7000 in 1980 to 30,000 in 1992. The sudden growth brought in its own set of problems as well as certain unhealthy practices in these finance companies.

To address these issues RBI set up a committee under the Chairmanship of Mr. A.C. Shah, which recommended compulsory registration and prudential norms. Subsequently, regulatory norms were put in place in 1997 incorporating the above norms. In the light of continuous changes in operating environment, further amendments to NBFC regulations were made in subsequent years too on an ongoing basis.

According to RBI, the current definition of NBFC is “a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares / stocks / bonds / debentures / securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale / purchase / construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in instalments by way of contributions or in any other manner, is also a non-banking financial company called Residuary non-banking company.”

Technically a NBFC has also been defined by RBI as “.... when a company’s financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income. A company which fulfils both these criteria will be registered as NBFC by RBI”.

NBFCs differ from Banks on following grounds:

- a. NBFC cannot accept demand deposits; whereas banks can accept the same.
- b. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself, whereas banks can do so;
- c. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.
- d. An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.)
- e. An NBFC cannot indulge Primarily in Agricultural, Industrial Activity, Sale-Purchase and Construction of Immovable Property.

NBFCs play an important role in the Indian financial system by complementing and competing with banks and by bringing in efficiency and diversity into financial intermediation. The Reserve Bank’s regulatory perimeter is applicable to companies conducting non-banking financial activity, such as lending, investment or deposit acceptance as their principal business. The regulatory and supervisory architecture is, however, focused more on systemically important non-deposit taking NBFCs (with asset size Rs. 5 billion and above) and deposit accepting NBFCs with light touch regulation for other non-deposit taking NBFCs.

Foreign Banks

Foreign banks too started setting up their branches in India during late 19th century. The Chartered Bank of India which later became Standard Chartered Bank, opened an office in Calcutta in 1858 after getting a Royal Charter from the Queen of England. In Kolkata, Grindlays Bank commenced its operations by opening its first

branch in 1864. The arrival of the Hong Kong and Shanghai Banking Corporation (HSBC) was in 1859 after it acquired a bank known as Mercantile Bank in India. The Comptoir d'Escompte de Paris, started operations in Kolkata in 1860 which later was one of the constituents of BNP Paris which represented the French. American banking companies entered India in 1902 through Citibank's predecessor, The National City Bank of New York and JP Morgan, a noted name in American banking entered India in 1922 through its affiliation with Andrew Yule and Co. Ltd of Kolkata. The post-liberalization era saw several foreign banks enter India for business opportunities.

Regional Rural Banks

Close on the heels after Nationalization of Private banks, Regional Rural Banks (RRBs) were established in 1975 under the provisions of an ordinance promulgated on September 26, 1975 which was followed by Regional Rural Banks Act, 1976. This was done due to a perceived feeling "that even after nationalization, there were cultural issues which made it difficult for commercial banks, even under government ownership, to lend to farmers." The main objective for establishing these banks were "to develop the rural economy and to create a supplementary channel to the 'Cooperative Credit Structure'" so as to expand the scope of institutional credit for rural and agriculture sector. The share capital of these banks was contributed in the proportion of 50%, 15% and 35% respectively by Government of India, the concerned State Government and the Sponsoring bank, of a RRB. RRBs were permitted to engage in all permitted Banking activities with their area of operation restricted to a few notified districts in a State. RRBs came in to existence in 1975 and as on date only 56 exist out of 196 established at different points in time from 1975.

Co-Operative Banks

The beginnings of Indian Co-operative credit institutions can be traced back to the great Bengal famine of 1840s. Problems of rural poverty and indebtedness and matters associated with such conditions of rural farmers forced the then British government to set up a commission to suggest a holistic remedial measure. The Woodhead Commission which enquired in to the famine, suggested many remedial measures to the British Government. One such remedial measure suggested was to make available credit at low rate of interest to the needy people (more so to farmers). The farmers found this proposition very attractive as their experience with private money lenders not to their liking in view of exorbitant interest rates. Subsequently, the Rayat Commission which was set up to look in to the matters including credit availability, suggested creation of Co-operatives as an organizational means to extend credit to farmers in the year 1872. As a sequel to these developments, the first Co-operative Land Mortgage Bank was started.

In order to strengthen the credit availability to agriculturists, in the year 1904 the Co-operative credit societies Act was passed enabling establishment of co-operative credit societies for making available agricultural credit through such societies. Further in 1912 a comprehensive Cooperative Societies Act was passed to facilitate starting of non-credit related societies too, since the 1904 Act was oriented only towards "Credit" to the exclusion of other activities.

With the passing of 1904 and 1912 Acts "a large number of Cooperative Credit societies, Central banks. Provincial Cooperative Banks came into existence." The reforms Act of 1919 made 'Co-operation' a provincial (a State) subject. The Bombay Co-operative Societies Act, 1925 brought in the concept of one-man- one-vote. In the year 1929 Land Mortgage Banks were also started for providing long term loans to agriculturists.

Since the subject of 'Co-operation' came under the purview of provinces, several thousand co-operative banks had been set up in various provinces. In 1942, the British Government enacted the Multi-Unit Cooperative Societies Act, 1942 with an object to cover societies whose operations extended to more than one state. After independence in 1966 Co-operative Banks were brought under the supervision of RBI through The Banking Regulation (Co-operative Societies) Rules, 1966. The co-operative banks were also brought under the provision of Banking Regulation Act, 1949. From the year 2012 (through a Banking Law Amendment Act, 2012) a primary Cooperative Society can carry on the business of banking only after obtaining a license from RBI. These banks thus face dual control from State Governments/Central Government (in the case of multi-state co-operative societies) and RBI which exercises control over their banking operations. Co-operative banks are owned by members who subscribe to their shares.

DIFFERENTIATED BANKS

Small Finance Banks and Payment Banks

To deepen and to develop a comprehensive monitoring frame work to track the financial inclusion, a Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (commonly known as the Nachiket Mor Committee) was appointed in September 2013 by RBI. The committee submitted its final report on 7 January 2014. One of the recommendations made by the committee was to establish Small Banks and Payment banks – a new class of banks with an exclusive focus on small businesses and low-income households.

Payment Banks

In July 2014, the RBI released the draft guidelines for payment banks, seeking comments from interested entities and public at large. After taking in to account suggestions from respondents in November 2014, RBI released the final guidelines for payment banks and invited applications for opening such banks from interested parties, subject to the guidelines enunciated. There were 41 applications from various applicants including some corporate houses. After a due process of vetting these applications through an External Advisory Committee headed by Mr. Nachiket Mor, in August 2015, the RBI accorded 'in-principle' licences to the following eleven entities to launch payments banks within a period of 18 months.

1. Aditya Birla Nuvo Limited
2. Airtel M Commerce Services Limited
3. Cholamandalam Distribution Services Limited
4. India Post Limited.
5. FinoPayTech Limited.
6. National Securities Depository Limited.
7. Reliance Industries Limited.
8. Vodafone M-Pesa Limited.
9. Paytm Limited.
10. Tech Mahindra Limited.
11. Sun Pharmaceuticals Limited.

Within this period of 18 months, these entities were to comply with requirements regarding capital funds of Rs. 100 crores. The "in-principle" license was valid for 18 months within which the entities must fulfil the requirements and they were not allowed to engage in banking activities within the period. The RBI will grant full licenses under Section 22 of the Banking Regulation Act, 1949 after it is satisfied that requirements /conditions have been fulfilled.

The other terms and conditions are as follows:

- To be registered as a public limited company under the Companies Act, 2013.
- Payment Banks cannot form subsidiaries.
- For the first five years, the promoter's stake to remain at 40% at minimum.
- Foreign shareholding will be allowed in these banks as per extant FDI norms.
- The voting rights will be regulated as per provisions of The Banking Regulation Act 1949. [Voting rights are restricted at 10% for any one share holder. RBI has the discretion to raise this to 26% on merits.].
- If there is any acquisition of more than 5% shares this will require prior RBI approval.
- The majority of the bank's board of directors should consist of independent directors, appointed according to RBI guidelines.
- The bank should be fully networked from the beginning.
- Initially, the deposits will be capped at Rs. 1,00,000 per customer, but later it may be raised on the basis of performance of the bank.
- No lending activity is permitted. Bank can accept utility bills.
- A quarter of its branches should be in unbanked rural areas.
- The list of Payment Banks operating in India are:

1. The Airtel Payments Bank Limited.
2. Paytm Payments Bank Limited.

3. India Post Payments Bank Limited.
4. Fino Payments Bank Limited.
5. Aditya Birla Idea Payments Bank Limited *
6. Jio Payments Bank Limited.
7. NSDL Payments Bank Limited.

*Note: As of November 2019, Aditya Birla Idea Payments Bank Limited is put under liquidation.

Small Finance Banks

These banks also have been established with an aim of financial inclusion “to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganized sector entities.” These banks were expected to provide an institutional mechanism for promoting rural and semi urban savings and extending credit for viable economic activities in the local areas.

In July 2014, draft guidelines for small finance banks, seeking comments from interested entities and the general public was released by RBI. After receiving comments and submissions from public, the final guidelines were released in November 2014 with the instructions that interested parties were to submit applications before 16 January 2015.

Thereafter, in February 2015, RBI released the list of 72 entities which had applied for a small finance bank license. After a due screening of these applications by an External Advisory Committee headed by Mrs. Usha Thorat, in September 2015, RBI had issued 10 provisional licences to entities, which were required to convert themselves in Small Finance Banks within one year.

Small Finance Banks are:

1. Ujjivan Small Finance Bank Limited.
2. Jana Small Finance Bank Limited.
3. Equitas Small Finance Bank Limited.
4. AU Small Finance Bank Limited.
5. Capital Small Finance Bank Limited.
6. Fincare Small Finance Bank Limited.
7. ESAF Small Finance Bank Limited.
8. North East Small Finance Bank Limited.
9. Suryoday Small Finance Bank Limited.
10. Utkarsh Small Finance Bank Limited.

Salient Regulatory features of Small Finance Banks

- These banks can be promoted by individuals, corporate houses, trusts or societies.
- Promoters should have 10 years’ experience in banking and finance and they should have a capital stake of 40% of equity which must be brought down to 26% over a period of 12 years.
- Joint ventures are not permitted. Foreign shareholding will be allowed in these banks as per the Foreign Direct Investment rules in private banks in India.
- Existing Non-banking Financial Companies (NBFCs), Micro Finance Institutions (MFI) and Local Area Banks (LAB) may convert themselves to become small finance banks by making applications to RBI.
- These Small Finance Banks need to be registered as Public Limited Companies under The Companies Act, 2013 and Reserve Bank of India Act, 1934, Banking Regulation Act, 1949 and other relevant statutes, are applicable to them.
- The banks will not be restricted to any region. 75% of its Net Credit should be lent to Priority Sector and 50% of its loans should be in the range of up to Rs. 25 lakhs.
- The Small Payment Banks should have capital of at least Rs. 100 crore.
- At net worth of Rs. 500 crore, listing will be mandatory within three years.
- Those Small finance banks having net worth of below Rs. 500 crore could also get their shares listed voluntarily.

The scope of business of a small finance bank, include “basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro

and small industries and unorganized sector entities". With prior approval of RBI, it can undertake risk less activities such as distribution of mutual fund units, insurance products, pension products, etc. after complying with the requirements of the sectoral regulator for such products. The small finance bank can also become a Category II Authorized Dealer in foreign exchange business for its clients' requirements. It cannot set up subsidiaries to undertake non-banking financial services activities.

Initially the RBI had issued detailed guidelines for Licensing of "Small Finance Banks" in the Private Sector on November 27, 2014. The process resulted in licensing and granting in-principle approval to ten applicants and they have since then successfully established the banks. It was also notified by RBI that result of gaining experience in dealing with these banks, RBI will consider 'on tap' licensing of these banks. After a review of the performance of the existing small finance banks and to encourage competition, it was announced in the Second Bi-monthly Monetary Policy Statement, 2019-20 dated June 06, 2019 that the Reserve Bank would put out draft guidelines for 'on tap' licensing of such banks. Accordingly, the RBI has circulated guidelines for licensing of small finance banks in the private sector have been formulated for continuous authorization (i.e. "On Tap licensing").

These guidelines consist of the following:

1. Registration, licensing and regulations
2. Objectives
3. Eligible promoters
4. Scope of activities
5. Capital requirement
6. Promoters' contribution
7. Foreign shareholding
8. Voting rights and transfer / acquisition of shares
9. Prudential norms
10. Additional conditions for NBFCs/MFIs/LABs converting into a bank
11. Business plan
12. Corporate governance
13. Other conditions
14. Transition path
15. Procedure for application
16. Procedure for RBI decisions.

IMPORTANT STATUTORY ACTS

Reserve Bank of India Act, 1934

The RBI Act was enacted with an objective of constituting Reserve Bank of India to regulate issue of bank notes, to keep reserves to ensure monetary stability, to operate currency and credit system. This Act is the basis for constitution, powers, and functions of RBI.

This act does not regulate banking directly though section 18 and 42 of RBI Act are used in regulating credit. In broad sense, RBI Act deals with Incorporation, Capital, Management, Business of RBI itself, Central Banking Functions, Collection and furnishing of information, Regulating Non-Banking Institutions receiving deposits and financial institutions, Prohibition of Acceptance of deposits by unincorporated bodies, Regulation of transactions in derivatives, money market instruments, securities etc., Joint mechanism, Monetary Policy, General Provisions, Penalties along with Schedule I and II.

The RBI Act was amended several times in the past to expand the powers of RBI. The last amendment to RBI Act was done in February, 2016 to provide for a Monetary Policy Committee ('MPC'), to maintain price stability under an overall objective of growth. The task of the MPC would be fixing the benchmark policy rate (repo rate) to control and contain inflation within the specified target level. The Committee-based structure is expected to bring in value addition and transparency in this area of policy decisions. MPC will hold meetings at least four times a year and publish the decisions after each such meeting.

The original objectives for which RBI was established were:

- To regulate the issue of Bank notes.
- To keep reserves with a view to securing monetary stability in India.
- To operate the currency and credit system of the country to its advantage.
- Addition to the above, due to an amendment in 2016, the following objective was also added viz.

To operate the monetary policy for maintaining price stability while keeping in mind objective of growth.

Powers of RBI

Reserve Bank derives extensive powers under RBI Act as well as Banking Regulation Act, to regulate and supervise various banks in India. An over view of important powers of RBI are given as under:

Under Banking Regulation Act the RBI enjoys the following powers:

Section 10 BB - Power of Reserve Bank to appoint Chairman of the Board of Directors appointed on a whole-time basis or a Managing Director of a banking company.

Where the office of the Chairman of the Board of Directors appointed on a whole-time basis or a Managing Director of a banking company is vacant, the Reserve Bank may, if in its opinion that the continuation of such vacancy is likely to adversely affect the interests of the banking company, appoint a person as Chairman of the Board of Directors or a Managing Director of the banking company.

Section 21 - Power of Reserve Bank to control advances by banking companies: Reserve Bank has the powers to determine policies and direct banking companies to follow the same.

Section 22 - Licensing of banking companies: All Banking companies need to get a licence from RBI and it issues licence only after 'tests of entry' are fulfilled. Section

24A- Power to exempt a Co-operative bank: Without prejudice to the provisions of section 53, the RBI by notification in the Official Gazette, declare that, the whole or any part of the provisions of section 18 or section 24, as may be specified therein, shall not apply to any co-operative bank.

Section 27 - Monthly returns and power to call for other returns and information: At any time, the RBI may direct a banking company to furnish it with such statements and information relating to the business or affairs of the banking company (including any business or affairs with which such banking company is concerned) as RBI may consider necessary or expedient to obtain for the purposes of this Act, apart from calling for information every half-year regarding the investments of a banking company and the classification of its advances in respect of industry, commerce and agriculture.

Section 29A - Power in respect of associate enterprises: The RBI may direct a banking company to annex to its financial statements or furnish to it separately, within such time or intervals, necessary statements and information relating to the business or affairs of any associate enterprise of the banking company. It can also conduct an inspection of any associate enterprise of a banking company and its books of account jointly by one or more of its officers or employees or other persons along with the Board or authority regulating such associate enterprise.

Section 30 – Power to order Special audit: In the public interest or in the interest of the banking company or its depositors, the RBI may at any time by order direct that a special audit of the banking company's accounts.

Section 35 - Inspection of Banking Companies: Reserve Bank on its own or being directed so to do by the Central Government, inspect any banking company and its books and accounts and supply to the banking company a copy of its report on such inspection.

Section 35A - Power of the Reserve Bank to give directions: In the public interest or in the interest of Banking policy RBI has powers to issue, modify or cancel as it deems fit, and the banking companies or the banking company, are bound to comply with such directions.

New Sections w.e.f May 2017

Section 35AA: Power to Central Government: To, authorize RBI to issue directions to any banking company or banking companies to initiate insolvency resolution process in respect of a default, under the provisions of the Insolvency and Bankruptcy Code, 2016.

Section 35AB. (1) Power to RBI: To issue directions to any banking company or banking companies for resolution of stressed assets. (2) Power to RBI to specify one or more authorities or committees with such members as the Reserve Bank may appoint or approve for appointment to advise any banking company or banking companies on resolution of stressed assets.’.

Section 36 - Further powers and functions of Reserve Bank: RBI may caution or prohibit banking companies or any banking company in particular against entering into any particular transaction or class of transactions.

- On a request by the companies concerned and subject to the provision of section 44A, assist, in the amalgamation of such banking companies.
- Give assistance to any banking company by means of a loan or advance in terms of under section 18 of the RBI Act.
- Direct the banking company to
 - o Call for a meeting of Directors or
 - o Discuss such matters with Officers of RBI,
 - o Depute an officer to such meeting, appoint observers to such meetings
 - o Furnish information of such meetings
 - make changes in management.

In addition to the above the RBI has also been vested with powers to remove managerial and other persons from office(section 36AA), to appoint additional Directors (section 36AB), to issue directions in respect of stressed assets (Section 35AB), Supersede Board of Directors in certain cases(Section 36ACA),Supersede Board of Directors of a multi-State Co-operative bank (Section 36AAA) and also to impose penalty (Section 47).

The Banking Regulation Act, 1949

The Banking Regulation Act, 1949 applies to the whole of India including Jammu and Kashmir. The Act was initially brought in to force as the Banking Companies Act, 1949, and later renamed as Banking Regulations Act, 1949 w.e.f. 01.03.1966. The Banking Regulation Act does not apply to primary agricultural credit societies, non-agricultural primary credit societies and cooperative land mortgage banks as per section 3. Till 1965 the coverage of this Act was limited to Banking Companies and later in 1966 Co-operative banks were also brought under its jurisdiction. The Banking Regulation Act is applicable along other statutory laws applicable, unless specifically exempted. Therefore, provisions of Companies Act are also applicable unless there is an express special provision in the Banking Regulation Act.

Broadly speaking, the Act regulates the entire activities of banking right from licensing, restrictions on shareholding, directors, voting rights etc. In addition to these, by an amendment in August 2017, RBI has also been empowered to issue directions to banks to initiate insolvency resolution to recover bad loans. The Banking Regulation Act further specifies restriction on loans and advances, interest rates to be charged, maintenance of SLR reserves, Audit, inspection, submission of balance sheet and accounts. There are also provisions regarding control over managements, apart from liquidation and winding up as well as penalties. Thus, the Banking Regulation Act tries to regulate the entire gamut of banking business.

Acceptance of Deposits

This is a fundamental function of banks. However, this is regulated by RBI under the provisions of Section 35 A including the types of deposits that can be accepted, period up to which deposits can be accepted, rates of interest in case of specific deposits such as non-resident deposits, FCNR accounts etc. RBI has given freedom to banks to decide the interest rates to be offered on deposits based on their Asset Liability Management policies. It has also issued deposit policy to be followed by banks for providing uniform customer service across all banks.

Unclaimed Deposits

Under section 26A of RBI Act (as per announcement made on May 2014), with effect from June 2014, any unclaimed deposits or unclaimed balances remaining with the banks for 10 years and above should be transferred to Depositor Education and Awareness Fund (DEAF) and such accounts becoming due in each calendar month (i.e. proceeds of the inoperative accounts and balances remaining unclaimed for ten years or more) on the last working day of the subsequent month. Subsequently when a claim is made by depositors or legal heirs it should be re-credited with interest applicable for Savings Bank accounts and a claim to be lodged with RBI for retransferring such balances. Prescribed returns are to be submitted by banks at different periodicities to RBI.

Nomination Facility

Under Section 45 ZA the facility of nomination is provided to depositors of banks including Cooperative banks. The nominee is entitled to claim the deposits in the event of death of depositor/s. In case of a minor too this facility is available in favour of a person who is legally entitled to be a guardian. Payment made by banks in terms of the nomination rules, discharges a bank. The rules framed outline the procedure to be followed and forms to be submitted for nomination, cancellation and variation of nomination. Similar facility of nomination is available to customers who hire Safe deposit lockers, avail Safe custody service from banks as per Section 45 ZC and Section 45 ZE.

Regulation of Payment Systems and Internet banking

Till the year 2007, payments system in India was unregulated. Since the introduction of Payment and Settlement Systems Act, 2007 ('PSS Act') as well as the Payment and Settlement System Regulations, 2008 framed thereunder, came into effect from August 12, 2008. In terms of Section 4 of the PSS Act, only the Reserve Bank of India (RBI) can commence or operate a payment system in India unless authorized by RBI. Coupled with powers conferred under Section 58 and PSS Act provisions, RBI has the power to make clearing houses rules for banks as well as post office savings bank. Also, to bring in electronic payment within the ambit of RBI regulation, The Information Technology Act of 2000 was amended to provide powers for RBI through insertion Section 58(2) that enables RBI to frame regulations in respect of electronic payment systems of banks and financial institutions.

Reserve Bank has since authorized payment system operators of pre-paid payment instruments, card schemes, cross-border in-bound money transfers, Automated Teller Machine (ATM) networks and centralized clearing arrangements.

In addition to these, RBI has issued detailed internet banking guidelines to all banks in respect of internet banking in the year 2001. All banks are expected to follow these guidelines which concern the

- (i) Security and technology issues
- (ii) Legal issues
- (iii) Regulatory and supervisory issues.

Additionally, RBI has issued detailed guidelines regarding issuance of Card products such as Credit Card, Debit Card and Rupee Denominated Co-Branded Pre-Paid Card operations of Banks and Credit Card issuing NBFCs. Banks can undertake Credit card business either departmentally or through a subsidiary company set up for the purpose. They can also undertake domestic credit card business by entering into tie-up arrangement with one of the banks already having arrangements for issue of credit cards. No prior approval of the RBI is necessary for banks to issue credit cards independently or in tie-up with other banks. They need their Board of Directors approval. Banks with net worth of Rs. 100 crore and above should undertake credit card business, other Banks would require prior approval of the Reserve Bank. Each bank must have a well-documented policy and a Fair Practices Code for credit card operations. RBI guidelines inter alia provide detailed rules regarding issuance of cards, interest rate or other charges, wrongful billing, issue of unsolicited card, fair practices in debt collection, redressal of grievances etc.

Debit cards were issued by banks since 1999. In the light of Payment and Settlement Systems Act, 2007 RBI also issued instructions on some aspects of debit cards such as security and risk mitigation, transfer of funds between domestic debit, prepaid and credit cards, and merchant discount rates. Debit card issuing banks have to adhere

to RBI guidelines on Board approved policy, Compliance with Prevention Money Laundering Act, 2000, Payment of interest on balances, Terms and conditions for issue of cards to customers, Security and other aspects, compliance with RBI directives, etc. Similar set of guidelines have also been issued covering Rupee Denominated Co-Branded Pre-Paid Cards.

Reserve Bank of India has the right to impose any penalty on a bank/NBFC under the provisions of the BR Act, 1949/the RBI Act, 1934, respectively for violation of any of these guidelines.

Scheme of Banking Ombudsman

In exercise of powers vested with RBI under Section 35A of the Banking Regulation Act, RBI had established an Authority of Banking Ombudsman in 1995 for resolving customer complaints on various grounds against commercial banks excluding RRBs. The scheme was expanded in 2002 covering RRBs too. Additionally, the scope, authority and functions of Banking Ombudsman were expanded with a provision of empowering Banking Ombudsman as an Arbitrator. All scheduled banks, RRBs and Co-operative banks are now covered under the revised scheme. The Scheme was further amended in 2006/2007/2009/2017 to encompass deficiencies arising out of sale of insurance/ mutual fund/ other third-party investment products by banks mis-selling of Mobile Banking/ Electronic Banking services in India.

Under the latest amendment in the Banking Ombudsman Scheme the pecuniary jurisdiction of the Banking Ombudsman to pass an Award has been increased from existing rupees one million to rupees two million. Compensation not exceeding Rs.1 lakh also be awarded by the Banking Ombudsman to a complainant for loss of time, expenses incurred as also, harassment and mental anguish suffered by the complainant.

The procedure for complaints settled by agreement under the Scheme has also been revised. Appeal has now been allowed for the complaints closed under Clause 13 (c) of the existing Scheme relating to rejection which was not available earlier. Presently the Banking Ombudsman Scheme 2006 (As amended up to July 1, 2017) is in operation.

On January 31, 2019 RBI has launched the Ombudsman Scheme for Digital Transactions (OSDT) for redressal of complaints against System Participants as defined in the said Scheme. The scheme also includes an appellate mechanism for appeal against decisions of OSDT.

Know Your Customer (KYC) / Anti money laundering (ALM)

Banks and financial institutions (FIs) have been advised to follow certain customer identification procedure for opening of accounts and monitor transactions of suspicious nature for the purpose of reporting the same to appropriate authority. These 'Know Your Customer' (KYC) guidelines have been revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Detailed guidelines based on the recommendations of FATF and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision (BCBS), with suggestions wherever considered necessary, have been issued. Banks / FIs have been advised to ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures is formulated and put in place with the approval of their Boards.

KYC and Authenticity of Documents

The verification of authenticity of a document submitted by a prospective customer/existing customer at a branch level, must base on the original documents submitted by such customers; however, there are few additional verification methods available, such as given below:

- i. Income Tax Department has made available PAN verification facility to a few reputed agencies in India. Therefore, if a customer submits a PAN Card it can be verified from the verification facility through the accredited agencies. All banks have a link with such agencies and through such arrangements PAN verification can be done.
- ii. Authentication, of Aadhar Number already available with the Bank can also be done with explicit consent of the customer in applicable cases through the Aadhar data base and biometric data available with Central Identification Registry (CIDR).

- iii. In the case of Electricity bills/Telephone bills these can also be verified through the service providers by mentioning the consumer number/telephone number as well as through verification software available on online.
- iv. In case of Companies and Directors, the data submitted by such customers can be verified through the website data of Department of Corporate Affairs.
- v. In case of certain banks, they employ field personnel who make a visit to the address provided by the prospective customer and physically verify the details provided by such customers.
- vi. Also, at the time opening a new account/establishing a new relationship, the customer will be checked against watch lists provided by International/National/Local authorities including Central Banks and Anti-terrorist Organizations. If the names of such customers match with any of such names in the list, a thorough screening will take place to ensure such accounts are not opened. If such names are detected it must be reported to concerned agencies including RBI.

Verification of KYC Documents

Verification of customers' KYC data will also be carried out in case of borrowers too. If third party agencies are involved in, verification of KYC data such agencies will also be evaluated keeping in mind the norms prescribed by RBI. In case identification information available with Aadhar does not contain current address an OVD containing current address may be obtained. Certified copy of Officially Valid Documents (OVD) containing identity and address shall be obtained at the time of periodic updation from individuals not eligible to obtain Aadhar, except from individuals who are categorized as 'low risk'. In case of low risk customers when there is no change in status with respect to their identities and addresses, a self-certification to that effect shall be obtained. In case of Legal entities, banks shall review the documents sought at the time of opening of account and obtain fresh certified copies wherever it is required.

Monitoring Transactions

Banks have to undertake on-going due diligence to ensure that their customers transactions match with their knowledge of customers, their business and risk profile; and also, importantly the source of funds.

The following types of transactions need proper monitoring:

- i. Large and complex transactions including RTGS transactions and those with unusual patterns, inconsistent with the normal and expected activity of the customer.
- ii. Transactions which exceed the thresholds prescribed for specific categories of accounts. [Depending upon the profile of customers, banks can fix threshold levels of transactions for every individual customer.]
- iii. High account turnover inconsistent with the size of the balance maintained.
- iv. Deposit of third-party cheques, drafts, etc. in the existing and newly opened accounts followed by cash withdrawals for large amounts.
- v. Monitoring should match the risk category of customer. That is to say high risk customer would receive a close and intense monitoring. In short, higher the risk category higher will be the level of monitoring.
- vi. Banks must institute a system of periodic review of risk categorization of accounts, with such periodicity being at least once in six months, and the need for applying enhanced due diligence measures shall be put in place.
- vii. In the case of accounts of Multi-level Marketing (MLM) Companies, close monitoring must be done.

Accounts in which many cheque books are sought by a company and/or multiple small deposits (generally in cash) are made across the country in one bank account and/or where a large number of cheques are issued bearing similar amounts/dates, are to be immediately reported to RBI and other appropriate authorities such as Financial Intelligence Unit (India).

FAQs on KYC

What is KYC? Why is it required?

KYC means "Know Your Customer". It is a process by which banks obtain information about the identity and address of the customers. This process helps to ensure that banks' services are not misused. The KYC procedure is to be completed by the banks while opening accounts. Banks are also required to periodically update their customers' KYC details.

What are the KYC requirements for opening a bank account?

To open a bank account, one needs to submit a 'proof of identity and proof of address' together with a recent photograph.

What are the documents to be given as 'proof of identity' and 'proof of address'?

The Government of India has notified six documents as 'Officially Valid Documents' (OVDs) for the purpose of producing proof of identity. These six documents are Passport, Driving Licence, Voters' Identity Card, PAN Card, Aadhaar Card issued by UIDAI and NREGA Job Card. You need to submit any one of these documents as proof of identity. If these documents also contain your address details, then it would also be accepted as 'proof of address'. If the document submitted by you for proof of identity does not contain address details, then you will have to submit another officially valid document which contains address details.

If I do not have any of the documents listed above to show my 'proof of identity', can I still open a bank account?

Yes. You can still open a bank account known as 'Small Account' by submitting your recent photograph and putting your signature or thumb impression in the presence of the bank official.

Is there any difference between such 'small accounts' and other accounts?

Yes. The 'Small Accounts' have certain limitations such as:

- Balance in such accounts at any point of time should not exceed Rs. 50,000
- Total credits in one year should not exceed Rs. 1,00,000
- Total withdrawal and transfers in a month should not exceed Rs. 10,000
- Foreign remittances cannot be credited to such accounts.

Such accounts remain operational initially for a period of twelve months and thereafter, for a further period of twelve months if the holder of such an account provides evidence to the bank of having applied for any of the officially valid documents within twelve months of the opening of such account.

Would it be possible, if I do not have any of the officially valid documents, to have a bank account, which is not subjected to any limitations as in the case of 'small accounts'?

A normal account can be opened by submitting a copy of any one of the following documents as Proof of Identity (PoI):

(i) Identity card with person's photograph issued by Central/State Government Departments, Statutory / Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions;

or

(ii) letter issued by a gazetted officer, with a duly attested photograph of the person.

For Proof of Address (PoA), you may submit the following documents:

- ✓ Utility bill, which is not more than two months old, of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
- ✓ Property or Municipal Tax receipt;
- ✓ Bank account or Post Office savings bank account statement;
- ✓ Pension or family Pension Payment Orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
- ✓ Letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and

- ✓ Documents issued by Government departments of foreign jurisdictions or letter issued by Foreign Embassy or Mission in India.

This, however, is not a general rule and it is left to the judgement of the banks to decide whether this simplified procedure can be adopted in respect of any customer.

If my name has been changed and I do not have any OVD in the new name, how can I open an account?

A copy of the marriage certificate issued by the State Government or Gazette notification indicating change in name together with a certified copy of the 'Officially Valid Documents' in the prior name of the person is to be furnished for opening of account in cases of persons who change their names on account of marriage or otherwise.

Are banks required to categorize their customers based on risk assessment?

Yes, banks are required to classify their customers into 'low', 'medium' and 'high' risk categories depending on their AML risk assessment.

Do banks inform customers about this risk categorization?

No

If I refuse to provide requested documents for KYC to my bank for opening an account, what may be the result?

If you do not provide the required documents for KYC, the bank will not be able to open your account.

Can I open a bank account with only an Aadhaar card?

Yes, Aadhaar card is accepted as a proof of both identity and address.

Is it compulsory to furnish Aadhaar Card for opening an account?

No, you may furnish Aadhaar card or any of the other five OVDs for opening an account.

What is e-KYC? How does e-KYC work?

e-KYC refers to electronic KYC.

e-KYC is possible only for those who have Aadhaar numbers. While using e-KYC service, you have to authorize the Unique Identification Authority of India (UIDAI), by explicit consent, to release your identity/address through biometric authentication to the bank branches/business correspondent (BC). The UIDAI then transfers your data comprising your name, age, gender, and photograph electronically to the bank. Information thus provided through e-KYC process is permitted to be treated as an 'Officially Valid Document' under PML Rules and is a valid process for KYC verification.

Is introduction necessary while opening a bank account?

No, introduction is not required.

If I am staying in Chennai but if my proof of address shows my address of New Delhi, can I still open an account in Chennai?

Yes. You can open a bank account in Chennai even if the address in the "Officially Valid Document" is that of New Delhi and you do not have a proof of address for your Chennai address. In such case, you can submit the officially valid document having your New Delhi address, together with a declaration about your Chennai address for communication purposes.

Can I transfer my existing bank account from one place to another? Do I need to undergo full KYC again?

It is possible to transfer an account from one branch to another branch of the same bank. There is no need to undergo KYC exercise again for such transfer. However, if there is a change of address, then you will have to submit a declaration about the current address. If the address appearing in the 'Officially Valid Documents' (OVDs) submitted for proof of address is no longer your valid address (i.e. neither your permanent address nor your current address), you need to get an Officially Valid Document for Proof of Address containing the current or the permanent address and furnish the same within six months. In case of opening an account in another bank, however, you will have to undergo KYC exercise afresh.

Do I have to furnish KYC documents for each account I open in a bank even though I have furnished the documents of proof of identity and address?

No, if you have opened a KYC compliant account with a bank, other than a 'small account', then for opening another account with the same bank, furnishing of documents is not necessary.

For which banking transactions do I need to quote my PAN number?

PAN number needs to be quoted for transactions such as account opening, transactions above Rs. 50,000 (whether in cash or non-cash), etc.

Whether KYC is applicable for Credit/Debit cards?

Yes. KYC exercise is necessary for Credit/ Smart Cards and also in respect of add-on/ supplementary cards. Since debit cards are issued only to account holders and accounts are opened only after the KYC procedure is completed, there is no need for separate KYC for issuing debit card.

I do not have a bank account. But I need to make a remittance. Is KYC applicable to me?

Yes. KYC exercise needs to be done for all those who want to make domestic remittances of Rs. 50,000 and above and all foreign remittances.

Can I purchase a Demand Draft / Payment Order / Travelers' Cheque against cash?

Yes, Demand Draft/Payment Order / Travellers Cheques for below Rs. 50,000/- can be purchased against cash and such instruments for Rs. 50000/- and above can be issued only by way of debiting the customer's account or against cheques.

Do I need to submit KYC documents to the bank while purchasing third party products (like insurance or mutual fund products) from banks?

Yes, all customers who do not have accounts with the bank (known as walk-in customers) have to produce proof of identity and address while purchasing third party products from banks if the transaction is for Rs. 50,000 and above. KYC exercise will not be necessary for bank's own customers for purchasing third party products. However, instructions to make payment by debit to customers' accounts or against cheques for remittance of funds/issue of travelers' cheques, sale of gold/silver/platinum and the requirement of quoting PAN number for transactions of Rs. 50,000 and above will be applicable to purchase of third-party products from bank by its customers as also to walk-in customers.

My KYC was completed when I opened the account. Why does my bank insist on doing KYC again?

Banks are required to periodically update KYC records. This is a part of their ongoing due diligence on bank accounts. The periodicity of such up-dation varies from account to account depending on its risk categorization by the bank. Periodic up-dation of records also helps prevent frauds in customer accounts.

What are the rules regarding periodic up-dation of KYC?

Different periodicities have been prescribed for up-dation of KYC records depending on the risk perception of the bank. KYC is required to be done at least once in two years for high risk customers, once in eight years for

medium risk customers and once in ten years for low risk customers. This exercise would involve all formalities for KYC normally taken at the time of opening the account.

While periodic up-dation of KYC has to be carried out in respect of customer categorized as 'low risk' also, if there is no change in status with respect to the identity (change in name, etc.) and/or address of such customers the banks may ask such customers to submit only a self-certification about 'no-change in status' at the time of periodic up-dation. Banks may not ask such customers to submit copies of 'Officially Valid Documents' for periodic up-dation.

In case of change of address of such 'low risk' customers, they could merely forward a certified copy of the document (proof of address) by mail/post, etc. Physical presence of such low risk customer is not required at the time of periodic up-dation.

Customers who are minors have to submit fresh photograph on becoming major.

What if I do not provide the KYC documents at the time of periodic up-dation?

If you do not provide your KYC documents at the time of periodic up-dation, bank has the option to close your account. Before closing the account, the bank may, however, impose 'partial freezing' (i.e. initially allowing all credits and disallowing all debits while giving an option to you to close the account and take your money back). Later, even credits also would not be allowed. The 'partial freezing' however, would be exercised by the bank after giving you due notice.

How is partial freezing imposed?

Partial freezing is imposed in the following ways:

- ✓ Banks have to give due notice of three months initially to the customers before exercising the option of 'partial freezing'.
- ✓ After that a reminder for further period of three months will be issued.
- ✓ Thereafter, banks shall impose 'partial freezing' by allowing all credits and disallowing all debits with the freedom to close the accounts.
- ✓ If the accounts are still KYC non-compliant after six months of imposing initial 'partial freezing' banks shall disallow all debits and credits from/to the accounts, classifying them inoperative.

Meanwhile, the account holders can revive accounts by submitting the KYC documents.

Financial Intelligence Unit – India (FIU-IND)

Financial Intelligence Unit – India (FIU-IND) was set by the Government of India vide O.M. dated 18th November 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and financing of terrorism. FIU-IND is an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

Regional Economic (RE) Intelligence Committee shall furnish to the Director, Financial Intelligence Unit-India (FIU-IND) the following information as per Rule 3 of the PML (Maintenance of Records) Rules, 2005. Director, FIU-IND shall have powers to issue guidelines to the REs for detecting transactions referred to in various clauses of sub-rule (1) of rule 3, to direct them about the form of furnishing information and to specify the procedure and the manner of furnishing information.

The reporting formats and comprehensive reporting format guide, prescribed/ released by FIU-IND and Report Generation Utility and Report Validation Utility developed to assist reporting entities in the preparation of prescribed reports shall be taken note of. The editable electronic utilities to file electronic Cash Transaction Reports (CTR) / Suspicious Transaction Reports (STR) which FIU-IND has placed on its website shall be made use of by REs which are yet to install/adopt suitable technological tools for extracting CTR/STR from their live transaction data.

The Principal Officers of those REs, whose all branches are not fully computerized, shall have suitable arrangement to cull out the transaction details from branches which are not yet computerized and to feed the data into an electronic file with the help of the editable electronic utilities of CTR / STR as have been made available by FIU-IND on its website.

While furnishing information to the Director, FIU-IND, delay of each day in not reporting a transaction or delay of each day in rectifying a mis-represented transaction beyond the time limit as specified in the Rule shall be constituted as a separate violation. REs shall not put any restriction on operations in the accounts where an STR has been filed. REs shall keep the fact of furnishing of STR strictly confidential. It shall be ensured that there is no tipping off to the customer at any level.

Sharing KYC information with Central KYC Records Registry (CKYCR)

Effective from July 2015 Banks are required to share KYC information with the CKYCR in the manner mentioned in the Rules, as required by the revised KYC guidelines in formats prepared for 'individuals' and 'Legal Entities' as the case may be. Government of India has authorized the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR vide Gazette Notification No. S.O. 3183(E) dated November 26, 2015.

- i. Banks must upload the KYC data pertaining to all new individual accounts opened on or after January 1, 2017 with CERSAI in terms of the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
- ii. Banks other than Scheduled Commercial Banks are to upload KYC data pertaining to all new individual accounts opened on or after from April 1, 2017 with CERSAI in terms of PMLA Rules, 2005.

BANKING OPERATIONS

Deposits

According to Indian Banks' Association, deposits are classified under different types as below:

1. Demand deposits: It means a deposit received by a Bank which is withdrawable on demand.
2. Savings deposits: It means a form of demand deposit which is subject to restrictions as to the number of withdrawals as also the amounts of withdrawals permitted by a Bank during any specified period.
3. Term deposit: means a deposit received by a Bank for a fixed period withdrawable only after the expiry of the fixed period and include deposits such as Recurring / Double benefit Deposits / Short Deposits / Fixed Deposits where Monthly /Quarterly Interest are paid etc.
4. Notice Deposit: It means term deposit for specific period but withdrawable on giving at least one complete banking days' notice.
5. Current Account: It means a form of demand deposit wherefrom withdrawals are allowed any number of times depending upon the balance in the account or up to an agreed amount and will also include other deposit accounts which are neither Savings Deposit nor Term Deposit.

The joint account holders can give any of the following mandates for operation as well as the disposal of balance in the above accounts:

- i) Former or Survivor: If the account is held by two individuals say D & E, under this mandate D only will have the authority to operate the account. After, the death of D the balance in the account will be paid to E.
- ii) Either or Survivor: If the account is held by two individuals say, A & B, it can be operated by anyone. Also, it implies that the final balance along with interest, if applicable, will be paid to survivor on death of anyone of the account holders.
- iii) Anyone or Survivor/s: If the account is held by more than two individuals say, A, B and C, the final balance along with interest, if applicable, will be paid to the survivor on death of any two account holders. This mandate can be modified by the express consent of all the account holders.

Inoperative / Dormant Account

A Savings Bank account or a Current account will be treated as an inoperative/dormant account if there are no customer induced transactions for a period of two years and above. Normally in practice if there are no

operations in the account for of one year the customer is contacted with a request to operate the account. If the customer does not operate the account even after reminders the account will be classified as inoperative account. Subsequently if there are operations, the same needs to be scrutinized by a higher official and if found genuine, after a proper due diligence, operations may be allowed.

If the customer wants to revive the account a letter needs to be obtained from the account holder regarding the same and the accounts would be transferred from inoperative account to operative accounts.

Inoperative accounts need to be segregated and a strict control should be exercised as it is a fraud prone area. Inoperative SB accounts continue to earn interest on their balances till they are transferred to DEAF of RBI as described below.

If any of such accounts remain inoperative beyond a period of ten years and above the balances are to be transferred to Depositors Education and Awareness Fund (DEAF) of RBI. Subsequently when a claim arises later the same should be claimed from RBI as per directions of RBI in this regard. RBI will pay interest on these accounts from the date of their transfer to RBI. A detailed procedure has been enumerated by RBI in respect of DEAF which needs to be followed by banks.

Preparation of Vouchers

Whenever banks do any transaction for a customer, it results in accounting entries which are to be properly done as per the internal accounting procedures of the bank. To facilitate accounting entries vouchers are passed. Banks being commercial organizations follow double entry system of accounting. Double entry system consists of a debit and an equivalent credit to the respective of heads of accounts.

For certain transactions customers themselves prepare the vouchers as given in the following example.

A & B are having an account in the same branch. A gives a cheque for transferring says an amount of Rs. 10,000 from his account to B; B will fill up a pay-in-slip (credit voucher) with particulars, like date, branch name and place, account number, name of the account holder, amount in figures and words, particulars of cheque and sign the same at the indicated place in the pay-in-place. B will hand over the pay-in-slip along with the cheque to the branch. The branch official who accepts the cheque, will verify the particulars of the cheque whether it is in order, whether there is sufficient balance in the account of A and get it authorized from in-charge of the department (if he does not have powers to pass the cheque) and credit the same to the account of Mr. B.

Vouchers are prepared by banks themselves for transactions like debiting of charges towards interest due on loan accounts, locker rent, service charges, insurance charges, standing instructions etc. For this purpose, they would use a debit voucher of the bank, fill up all the required details, get it authorized and debit to the concerned account head and pass on the credit voucher which would have also been filled up by the same department, duly signed by the department-in-charge where debit entry originates.

CBS Environment

CBS stands for Core Banking Solutions. It signifies, a banking process where a customer's transactions are done in a centralized manner through the data stored in a central computer server in a bank. The centralized data is made use by branches which are net worked together for handling customer's transactions across various geographical locations. CBS is one of the shining examples of Technology and Communication coming together in one platform.

CBS is the advanced stage of computerization of banks, which commenced during late 1980s in India. The Narasimham Committee also recommended computerization of banks in its report for efficient customer service and proper housekeeping of banks. CBS operations are carried out through tailor made software provided by specialized software companies. Depending upon the size and uses by banks, the software varies.

The need for CBS arose in view of several adverse factors noticed in customer service provided by banks due to manual processing of transactions. Inordinate delays in processing transactions, pass book updation, poor housekeeping, revenue leaks, delays in MIS generation etc. were responsible for introduction of CBS.

The following are the essential frame work needed for CBS namely Central Data Centre, Disaster recovery sites, Business process re-engineering, Software, Networking and trained personnel.

1. Central Data Centre ('CDC'): This houses the Central server for the entire bank that facilitates online transactions. All delivery channels are linked to this centre which provides 24x7 availability of data for processing. It should be operational throughout the year for a smooth functioning of the bank. Powerful equipment of enough storage capacity forms the main hardware in these sites.
2. Disaster Recovery Sites: Every computer site is prone to failure due to technical reasons. To avoid any such disruptions in centralized data centre, as a risk management measure, most of the banks maintain a back-up system of servers which will ensure non-stop availability of data for processing transactions as well as managing various delivery channels.
3. Business process re-engineering: This is to realign the existing business process in an organization in the light of introduction of new technologies. In the banking sector most of the banking transactions were done manually/partly through computers before the introduction of CBS. Therefore, to reap the full benefit of the introduction of CBS, existing business practices were modified through business process re-engineering. Several leading companies specialized in business process re-engineering were involved in bringing about the desired changes in banks in this regard.
4. Software: CBS software consists of branch modules in respect of various functions, modules for various associated delivery channels such as ATM, tele-banking, internet banking and other inter-face software for connecting to RTGS, NEFT, CTS and other payment gateways.
5. Networking: Networking of branches to the central server as per standard specifications through Wider Area Network is required with backup network such as Integrated Services Digital Network (ISDN). "ISDN is an internationally accepted communication standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network."
6. Trained personnel: Skilled and trained manpower is a pre-requisite for implementation and maintenance of uninterrupted CBS.
7. Reserve Bank of India has been encouraging all banks to switch over to CBS in the interests of Customer service, proper housekeeping, timely reconciliation and balancing and tallying of books of account, preparation of MIS, submission of returns etc. Due to variety of benefits accruing to the banks, large number of banks in India have successfully implemented CBS.

CBS is useful to banks in the following functional activities:

- i. Opening of accounts
- ii. Recording / handling of routine Transactions even from remote branches
- iii. Interest calculations on all products
- iv. Pass book updation / Statements of Accounts generation
- v. Cash deposits and withdrawals
- vi. Clearing and Money transfers
- vii. Managing accounts of various types
- viii. Generation of Statements for Reporting and Management Information System
- ix. Customer Relationship Management

CBS is seamlessly linked to both onsite and offsite ATMs facilitating cash withdrawals, Fund transfers, Cheque book requisitions, mobile banking / internet banking. This feature enables customer convenience of doing transaction at their will. As CBS is also linked to CTS, clearing of cheques is also speeded up. CBS helps better housekeeping and plugs income leaks. Similarly, execution of standing instructions is done promptly. Intra-bank operations on behalf of customers also become easy. Payments like Utility bill payments, tax payments etc. can be conveniently done by customers. Thus, there are several advantages flow to customers and banks.

Cheque Truncation System (CTS)

The salient features of the Cheque Truncation System (CTS) are as under:

- ✓ Truncation is the process of stopping the flow of the physical cheque issued by a drawer to the drawee branch. The physical instrument will be truncated at some point en-route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with relevant information like the MICR fields, date of presentation, presenting banks etc. thus the physical movement of cheques across branches would not be required, except in exceptional circumstances. This would effectively reduce the time

required for payment of cheques, the associated cost of transit and delay in processing, etc., thus speeding up the process of collection.

- ✓ The system thus enhances customer service, reduces reconciliation problems, eliminates logistic problems etc. Cheque truncation is also a more secure system than the current exchange of physical documents in which the cheques move from one point to another, thus not only creating delays but inconvenience to the customer in case the instrument is lost in transit or manipulated during the clearing cycle. It is thus an important efficiency enhancement initiative in the payment system area, undertaken by RBI.
- ✓ The images captured at the presenting bank level would be transmitted to the Clearing House and then to the drawee branches with digital signatures of the presenting bank. Thus, each image would carry the digital signature, apart from the physical endorsement of the presenting bank, in a prescribed manner. In order to ensure only images of requisite quality reach the drawee branches, there will be a quality check process at the level of the Capture Systems and Clearing House Interface. In addition, drawers could consider using holograms, bar-coding, or such other features, which would add to the uniqueness of images.
- ✓ To ensure security, safety and non-repudiation the PKI (Public Key Infrastructure) is being implemented across the system. The banks will send the captured images and data to the central clearing house for onward transmission to the payee/drawee banks. For the purpose RBI will be providing the banks software called the Clearing House Interface (CHI). The clearing house will process the data and arrive at the settlement figure for the banks and send the required data to payee/drawee banks for processing at their end. It will be the responsibility of the drawee bank Capture System to process the inward data and images and generate the return file for unpaid instruments.
- ✓ The criteria for banks participating in the cheque truncation system are:
 - (i) Membership of the clearing house in the NCR and
 - (ii) Membership of the Indian Financial Network (INFINET).

In respect of banks who are not members of INFINET, they may become the sub-members of the direct members or may use the infrastructure of the other banks having INFINET membership.

- ✓ Imaging of cheques can be based on various technology options. The cheque images can be black and white, Grey Scale or Coloured. Black and White images do not reveal all the subtle features that are there in the cheques. Coloured images increase storage and network bandwidth requirements, so it was decided that the electronic images of truncated cheques will be in grey scale technology.
- ✓ As all the payments will be made on the basis of images, it is essential to ensure the quality of the images. RBI will be specifying the image standards to the member banks. The presenting bank is required to perform the quality audit during the capture itself. Further quality audit will be done at the gateway before onward transmission to clearing house. The drawee bank can ask for the physical instrument if it is not satisfied about the image quality for payment processing.
- ✓ All the local cheques can be presented in the CTS. Cheques on banks situated outside the NCR, provided such banks have branches in the NCR region can also be presented. CTS also supports intercity clearing and high value clearing. The on-us instruments (where the presenting and drawee branches are of the same bank) are not allowed.
- ✓ Customers should use dark coloured ink while writing cheques. The use of rubber stamps should not overshadow the clear appearance of basic features of the cheques (date, payee's name, amount and drawer's signature).
- ✓ Under CTS, after the capture of image, the physical cheque will be warehoused with the presenting bank. In case the beneficiary or any other connected persons require the instrument, the payee bank could issue a copy of image, under its authentication, which is called Image Replacement Document (IRD). NI Act section 81(3) permits the usage of such IRDs.

- ✓ It would be obligatory for presenting bank to warehouse the physical instruments for the prescribed statutory period. In case a customer desires to get a paper instrument back, the instrument can be sourced from the presenting bank through the drawee bank.

LOANS AND ADVANCES

Lending has been core of banking business in terms of the definition of banking under Section 5 (b) of the Banking Regulation Act. Loans and advances of banking companies can be for short term, medium or long term. In terms of securities, loans given for different purposes can also be fully secured or partly secured or unsecured.

The RBI regulates loans and advances through powers conferred by Section 21 of the Banking Regulation Act. It has powers to issue directions in general or in respect of a particular bank. It has also policy making powers in the public interest or in the interest of depositors or in the interest of banking policy. From the point of regulation, RBI may issue directions in respect of purposes for which loan or advance can be made, margins in respect of secured advances, maximum amount of advance that can be extended in respect of a borrower or a group (exposure norm) in relation to, capital, reserves and deposits of banks concerned, maximum amount of non-fund based limits that can be granted i.e. guarantees, letter of credit etc., rate of interest and other terms under which credit / guarantees can be extended.

Depending upon the macro economic scenario the RBI also issues appropriate directions from time to time. Some of the tools of credit control which RBI exercises include Selective credit control which also involves indirectly price control, restrictions on loans and advances under Section 20 of the Banking Regulation Act, such as:

- Advances against its own shares,
- Commitment for granting loans on behalf of its directors,
- Granting loans to companies in which any director is interested or has substantial interest,
- Where a director is a partner or a guarantor.

Principles of Lending

Following are some of the basic principles that banks follow while lending:

- a. **Safety of funds:** It is the most important principle of lending because the money that banks lend comes from public, so the safety is the first concern. Bank must ensure that money is in safe hands and will come back as agreed with interest and without any default. Safety mainly comes from the character of the borrower, capacity of borrower to do the business and his stake involved in the business. Besides this, the nature of security offered by borrower to the bank is of utmost importance.
- b. **Liquidity:** It is also as important as safety. This is because major portion of bank deposits is repayable on demand or at a short notice. Bank grants loans on the security of assets which are easily marketable without much loss of time and value.
- c. **Profitability:** It is important because banking is a business and any business survives and grows only on profits. Bank incurs expenses to maintain deposits such as interest, rent, stationary, infra structure etc. Such expenditure also must be recovered. The sound principle of lending is not to sacrifice safety or liquidity for the sake of higher profitability.
- d. **Purpose:** Purpose of the loan should be productive. This ensures increase in sales and realization of sales proceeds generate additional income from which repayment of loan instalment with interest is made. Banks also lend money for consumption purpose e.g. for purchasing consumer durables, where repayment comes from fixed income of the borrower. Loans are not advanced for speculative and unproductive purposes.
- e. **Spread or Diversification:** Diversification avoids the risk of concentration. Banks lend money under different facilities like: term loan, cash credit, overdraft, bills, etc., for different purposes like business, housing, education, etc., to different industries like cement, pharmaceutical, agriculture, steel, IT, trade etc., in different geographical areas and so on to spread the risk. In short, banks should follow the principle of "Not putting all the eggs in one basket."

Security: Securities against which banks lend must be marketable, ascertainable, stable and transferable. Borrower should have clear and transferable title over the security given to the bank, so that if required can be effectively sold in the market by the bank.

MARGINS

When bank lends money to borrowers against securities, it stipulates certain percentage of the value of security (Market price or book value, whichever is less) as a contribution from the borrower, which is called a Margin. If borrower offers his machinery of Rs. 1,00,000.00 as security, bank generally lends Rs. 70,000.00 (70% of value of security) and asks borrower to bring Rs. 30,000.00 (30%) of his own contribution (margin). The percentage of margin varies depending on the nature of the security and risk profile of the borrower. Margin is necessary for following reasons:

1. Compulsion by regulatory authority. RBI makes it obligatory upon bankers to insist some minimum margin while lending.
2. Margin ensures involvement of borrower in the activity as his stake (own money) is in the asset purchased.
3. Margin acts as a buffer in deterioration in the quality and depreciation in the value of asset.
4. It also acts as a cushion against price fluctuations, non- payment of interest, charges debited to borrower's account and to some extent non-payment of loan instalments.

The right of a lender (bank) to be paid from a debtor's (borrower) asset if the debt is not paid is called Charge on asset. Borrower creates charge on the securities offered to the bank for availing loan. This gives the bank, right to get payment out of the charged security, however the ownership of asset is not transferred to the creditor (bank).

TYPES OF CHARGES

Assignment

It is transfer of ownership of a property, or of benefits, interests, liabilities, rights under a contract (such as an insurance policy), by one party (the assignor) to another (assignee) by signing a document called deed of assignment. It is transfer of an actionable claim, which may be existing or in future, as a security for loan.

Legal assignment is an absolute transfer of actionable claim. It must be in writing. Signed by the assignor (in case of LIC policy, by the policy holder), and should be informed to the debtor (LIC). In Equitable assignment the possession of document representing actionable claim is handed over but no other formalities are observed. However, debtor (LIC) has to be informed.

Assignment must be in writing and signed by the assignor or his legal representative and must be witnessed. To make the assignment valid, consideration is not must, however notice to the debtor and his acknowledgement is necessary to make debtor liable to assignee. A borrower can assign the book debts, money due from Government Departments, LIC policies to bank as security for an advance.

Lien

Lien is defined in Indian Contract Act. It is a right of a creditor to retain the possession of goods and securities owned by the debtor, till the debts are fully paid off. However, creditor does not get right to sell the securities. The lien can be Particular lien or General lien. In case of particular lien only those goods and securities in respect of which debts are incurred, can be retained by the creditor (if a wrist-watch is given to watch repairer for repairing, till the repairing charges are paid, the watch repairer has right to retain the wrist watch in his possession). He cannot sell the watch for the recovery of service charges or also cannot retain any other security of the debtor for these repairing charges. In case of general lien, for the general balance due, the creditor can retain the goods and securities of the debtor. Banks in India enjoy not only right of general lien, they can even sell the goods and securities of the debtor in case of need to recover debts. Banker's lien is therefore called as an Implied Pledge. Since Limitation Act is not applicable to right of lien, banks can recover time barred debts also.

Pledge

Pledge is defined in Indian Contract Act. It is bailment of goods as security for payment of a debt or performance of promise. The person who delivers goods (borrower) is Pledger or Pawnor and the person to whom the goods are delivered (bank) is Pledgee or Pawnee. The owner of the goods, the joint owner with the consent of other

owner(s), the agent of the owner can pledge the goods. Here the possession of goods is with the creditor (bank) and ownership remains with the debtor (borrower). The possession can be actual or constructive (by handing over the key of godown where the goods are stored, acknowledgement from the warehouseman, handing over document of title to the goods like railway receipt, bill of lading). The possession is till the repayment of loan. The creditor (bank) has to take proper care of the goods pledged. It is a legal charge and fixed one. The charge is not affected by law of limitation and does not require any registration. The creditor (bank) has right to sale the goods after giving notice.

Hypothecation

It is defined under SARFAESI Act as “Charge on movable property (stock, machinery, vehicle etc.) in favour of secured creditor without delivery of possession of the assets. It is an equitable charge where the possession and the ownership of the assets remain with the borrower. The borrower is called Hypothecator and the bank (creditor) is called Hypothecatee. The right of sale is available to creditor only through a court. Under SARFAESI Act, sale is possible after possession. Creditor cannot take possession without the consent of borrower, however on getting possession, a creditor can sell the security as in case of pledge. Hypothecation is thus a charge against property for an amount of debt, where neither the ownership nor the possession, is passed to the creditor. The document (letter of hypothecation) signed by the borrower provides for an agreement, whereby the borrower agrees to give possession of goods when called upon to do so by the creditor. The charge is required to be registered with the Registrar of Companies (ROC) under section 77 of Companies Act, 2013 (earlier Under Section 125 of Companies Act, 1956). Limitation period of 3 years is applicable under Limitation Act. It differs from Mortgage as mortgage relates to immovable properties.

Mortgage

It is defined in Transfer of Property Act as, transfer of interest in specific immovable property (land, benefits arising out of land, things attached and permanently fastened to earth) to secure an advanced loan, or an existing debt or a future debt or performance of an obligation. Once the amount due is paid to the lender, the interest in the property is restored back to the borrower. Lender gets right to recover the dues in case of default but does not become owner of the property. Mortgagor is the transferor of interest in the property and Mortgagee is the transferee. The principal money and the interest of which payment is secured is called the mortgage money and the instrument by which the transfer is affected is called the mortgage deed.

The mortgagor has right to redeem the document relating to mortgage property, where possession has been given, to get back the possession and where title has been transferred, to get retransferred, on liquidation of money borrowed. This right of redemption can be exercised before the decree for sale or foreclosure is passed by a court.

On default by the mortgagor, the mortgagee has right to obtain a decree from a court to the effect that the mortgagor be debarred for ever to redeem the mortgage. This is called right of foreclosure. The right of foreclosure describes a lender's ability to take possession of a property through a legal process called foreclosure. Lenders must abide by specific procedures in order for a foreclosure to be legal.

CREATION OF CHARGE

Charge creation is required to be registered when charge created on by way of Hypothecation of stocks, book debts, mortgage of immovable properties, ship, goodwill, uncalled share capital of the company. Charge registration is not required in case of Pledge of goods or securities or against Fixed Deposits. As per section 125 of Companies Act, Charges created on a company's assets (except pledge) have to be registered with Registrar of Companies within 30 days of creation of the charge. When charge in favour of two banks is registered, priority of charge is in favour of bank, in whose favour it is created first i.e. date of documents.

When charge is created on Fixed Assets like plant and machinery, land and building etc. whose identity do not change during the period of loan is called Fixed Charge. Charge created on Current Assets like stocks, debtors which undergo changes (from raw material to work in process to finished goods to debtors) is called Floating Charge. It is an equitable charge on the assets of a going concern. The charge becomes fixed when the going concern ceases to be a going concern (winding up, appointment of receiver). This is called Crystallization of the charge. *Pari Passu* (is a Latin word which means “with an equal step” or “on equal footing”). Charge is created in favour of several creditors each having proportionate right on the asset on the basis of the ratio of their loans.

This generally happens when several banks jointly finance a single borrower (consortium advance). In case of Exclusive Charge only one creditor has charge in his favour without intervention of any other creditor. When a charge is created on the assets already charged to another creditor, the second creditor has a charge which is called as Second Charge. The right of second charge holder is subject to first charge holder.

INDEMNITIES AND GUARANTEES

Guarantees and Indemnities are a common way in which creditors protect themselves from the risk of debt default. Lenders will often seek a guarantee or indemnity if they have doubts about borrower's ability to fulfill his obligations under a loan agreement.

Contract of Guarantee and contract of Indemnity are defined in Indian Contract Act.

"A contract of Guarantee is a contract to perform the promise or discharge the liability of a third person in case of his default."

"A contract of Indemnity is a contract by which one party promises to save other from loss caused to him by the conduct of promisor himself or by the conduct of any other person."

In a simple way it can be explained as under:

If A says to B, you lend money to C. If he doesn't pay, I will pay; is a guarantee. If A says to B, you lend money to C and I will see to it that you get your money back; is an Indemnity

Contract of Guarantee has following three parties:

1. Guarantor, also called as Surety, who gives guarantee.
2. Creditor, the person to whom guarantee is given.
3. Principal Debtor, the person in respect of who's default the guarantee is given.

Thus, there are three contracts involved. One between the debtor and the creditor, where the debtor agrees to pay the debts. Second between the creditor and guarantor, who agrees to pay in case the debtor makes default and third between the debtor and the guarantor, who accepts the request of debtor and gives guarantee to the creditor. Guarantee is thus a secondary contract, the primary being between the debtor and the creditor. As such if the primary contract is invalid the secondary contract is not enforceable in the court of law. Example-If loan is sanctioned to a minor, it becomes invalid contract as contract with a minor is void ab initio. Such loan cannot be recovered even if a third-party guarantee is obtained at the time of lending. Guarantor's liability arises only after the default committed by the principal debtor.

DOCUMENTATION

One of the important areas in Bank credit, is documentation. The purpose of a bank taking documents is multifold. Documents help banks to identify:

- The borrower and the capacity in which money is borrowed (Individual, partnership firm, company, trustee etc.);
- Type of security (land, building, plant, machinery, stock, debtors, Life Insurance Policy etc.);
- The charge created on it (Pledge, hypothecation, mortgage, assignment etc.) and
- To count the limitation period, as the documents have expiry date and also
- Present in a court of law the evidence for the recovery of money from the defaulting borrower.

As per the General Clauses Act, the word document means "any matter written, expressed or described upon any substance by means of letters, figures or marks or by more than one of these means, which is intended to be used for the purpose of recording that matter" and as per Indian Stamp Act, "document include everything by which any right or liability is or proposed to be recorded". It means not only the contents printed on legal papers in legal language and stamped as per the Stamp Act constitute documents but even the account opening forms, the

letters of correspondence between the customer and the bank are documents as they also can help in establishing written evidences of transactions.

Documentation includes execution of documents properly selected, appropriately stamped by concerned person(s). Execution means signing a document after having read and understood it. It is not necessary for a bank to explain each and every document to the executants; however, if specifically asked by the executants, then the bank should give correct information and should not misguide or hide any information. Documents requiring witnessing / attestation, if not witnessed or attested are not considered documents and cannot be enforceable in the court of law. Similar will be the effect in case, where the documents after execution require registration, but are not registered and documents requiring stamping are either unstamped or under stamped. Each executant must put date and place below the signature.

Scrutiny Applications / Documents

This is known as pre-sanction procedure which is followed in all banks. There are various stages in the same and they are as follows:

Receipt of Loan applications & other formalities

In terms of BCSBI guidelines standardized loan applications are collected in respect of different borrowers. Most of the banks also provide check lists to help borrowers regarding documents to be submitted along with application in support of their loan proposals. The staff members of the bank also brief customers regarding requirements. Now-a-days these details are also provided in the website of respective banks along details of various schemes and down loadable application forms.

It has to be ensured that application forms submitted by borrowers are properly filled with the required details such as Name, age, father's / husband's name, present address, telephone/mobile contact numbers, email id, employer's name and id, salary details/business income / annual profit, details of existing bank borrowings etc., details of security offered, guarantors details, etc. These details are to be obtained at the initial stage itself, so that these will be useful later, at the time of recovery. Signatures of the applicant along with those of guarantors are also to be obtained. These are to be verified with reference to documents submitted by the applicant. As KYC norms are also applicable to loan applications, required checks in that regard is also to be done. In the case industrial/business borrowers their business address, factory address / go down address / Administrative office address/Head office etc. are to be obtained.

Thirdly it must be ensured that the borrower submits all applicable information such as Salary particulars of borrower and Guarantors, Income Tax returns / Assessment order, quotation for assets to be purchased in case of consumer loans / car / estimates for house/demand letter for fees to be paid in case of education etc. In case of industrial / business borrowers financial statements/cash flow/projected balance sheet / quotations for machinery purchase / stock purchase etc. are required to be submitted. In short it should be ensured that documents as specified by internal guidelines are required to be obtained.

Fourthly it must be ensured that the particulars entered in the loan application match with the data contained in the enclosures which are submitted along with the application form.

Verification / Scrutiny of application helps a bank to advise a customer to rectify any omission or commission. Also, it can help a bank to reject if it doesn't conform to the norms. Proper scrutiny of a loan application will reveal the eligibility of a borrower to avail the loan in terms of internal guidelines.

Also, a proper scrutiny will lead to proper evaluation of the proposal in terms of various directions of RBI including prudential exposure and risk management aspects. The required degree of scrutiny may vary depending upon the amount of loan applied for.

The following aspects will be considered for evaluating a proposal in terms technical feasibility, economic viability as well as commercial prudence.

1. Whether the activity proposed included under banned list or negative list as per policies of Government /RBI /banks (e.g. Financing Commercial real estate/oil extraction unit/Steel units etc.)
2. Will the quantum of finance exceed the exposure norms as prescribed by RBI?

3. Whether the borrower has relevant experience in managing similar activity? If not, what other arrangements are made by him?
4. Back ground of promoters.
5. Performance of existing units/ Projected performance of the unit in comparison to peer units.
6. Technical feasibility aspects.
7. Inputs availability for sustained viability of the unit.
8. Financial analysis of the unit including promoters' stake in the unit.
9. Capacity of the unit to break even and generate profitability.
10. Guarantees, main and collateral securities offered.
11. Borrowers status in terms of credit report from credit rating agencies / other banks
12. History of conduct of the accounts with other banks.

Thus, a detailed scrutiny of a proposal will help a bank to arrive at a prudent credit decision. It will also enable the processing / sanctioning of proposal less time consuming.

Allowing drawals and accounting entries involved at various stages.

While sanctioning loans / advances for working capital to trading, manufacturing and other activities against stocks, book debts / receivables etc. banks fix the quantum of finance based on drawing powers fixed for the borrowers in cash credit accounts. Banks also fix up drawing powers in respect of certain securities like shares, selective credit control items. The drawing power fixed for a borrower indicates the maximum quantum of finance a borrower can avail during a stipulated period. In respect of trading concerns and manufacturing concerns the drawing power fixed for a customer may vary on a month to month basis due to the value of stocks held by the borrower. Also, in the case of shares too due to fluctuating market prices, the drawing power will undergo changes.

Execution of Documents

Documents must be executed in the presence of bank officials. Each and every page of the document should be signed by each and every executant. The signatures on the documents must agree with the signatures on the loan application form. All alterations, insertions, deletions, additions must be authenticated under full signature of the executant. If a single document is signed by more than one executant on different dates and at different places, each executant on the last page of each document must put the date and place below the signature.

If the executant does not understand the language of the document, a separate declaration from him, in the language known to him must be taken stating that the contents of documents are explained to him and he has signed the document after having understood the same. The declaration letter should be witnessed by another person and the same should be attached to the document. If the person who executes the documents is illiterate, he/she will affix the thumb impression instead of signature. The bank official in whose presence such documents are executed should give separate declaration that the contents of the documents are explained to the executant in language known to him and thumb impression is affixed after having understood the same. The declaration has to be witnessed by third person and the same should be attached to the document.

APPLICABLE ACTS

Stamp Act

Stamp duty paid is revenue for the Government – State or Central.

Documents attracting stamp duty, should be stamped before or at the time of execution (not later), by paying appropriate amount of stamp duty.

There are documents like Demand Promissory Note, Share Transfer Form, Insurance Policy etc. where the stamp duty is decided by the Central Government, hence it is same throughout the country.

Documents like Letter of Hypothecation, Pledge, guarantee etc., the stamp duty is decided by the State Government, hence it may differ from state to state. There are certain transactions where the stamp duty is not fixed but is ad-valorem that means depends on the value of the transaction represented in the document.

CERSAI

A Central Registry has come into effect from 31st March 2011. Government of India has made it compulsory that Equitable mortgages created by way of deposit of title deeds are registered with the Central Registry. As per provision of SARFAESI Act, a company has been formed named 'Central Registry of Securitization Asset Reconstruction and Security Interest of India' (CERSAI) with 51% paid up capital held by Central Government and the remaining 49% of the paid-up capital shared amongst the top 10 PSBs and National Housing Bank. CERSAI has been established as a company under section 8 of the Companies Act, 2013 by the Government of India. The object of the company is to maintain and operate a Registration System for the purpose of registration of transactions of securitization, asset reconstruction of financial assets and creation of security interest over property, as contemplated under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act). CERSAI is providing the platform for filing registrations of transactions of securitization, asset reconstruction and security interest by the banks and financial institutions.

CERSAI is a risk mitigation tool for the Banks / Housing Finance companies, FIs and public at large to prevent multiple financing against the same property. Any bank, financial institution or an individual can access the registration platform of CERSAI for a certain fee. By registering themselves with CERSAI, the lenders can pull up the information on an asset or property to validate that whether any previous security interest has been created by a different lender ((banks, financial institutions etc.) in the past. Usually, this is done before the sanction of a loan to a borrower.

Agricultural property is excluded from the purview of SARFAESI Act. Hence bank need not register with Central Registry mortgage/security interest created on agricultural land.

The Government of India has subsequently issued a Gazette Notification dated January 22, 2016 for filing of the following types of security interest on the CERSAI portal:

- a. Particulars of creation, modification or satisfaction of security interest in immovable property by mortgage other than mortgage by deposit of title deeds.
- b. Particulars of creation, modification or satisfaction of security interest in hypothecation of plant and machinery, stocks, debts including book debts or receivables, whether existing or future.
- c. Particulars of creation, modification or satisfaction of security interest in intangible assets, being know how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature.
- d. Particulars of creation, modification or satisfaction of security interest in any 'under construction' residential or commercial or a part thereof by an agreement or instrument other than mortgage.

In order to proceed under SARFAESI Act, it is now mandatory to register charge under CERSAI. After registration of security interest with Central Registry, Banks will have priority over all other debts, revenues, taxes, cesses and other rates payable to the central government or state government or local authority. Satisfaction of SI (Security Interest) has to be done on the CERSAI portal when all the loans on the asset have been repaid.

Limitation Act

The documents taken by banks for a credit facility, do not have perpetual life. The provisions of Limitation Act apply to them. The act prescribes the period of limitation for different types of documents. Limitation period is the time limit within which the parties to a legal agreement, can take action in a court of law to enforce their legal rights. A suit cannot be filed for recovery on the strength of a time barred document. Hence, if the documents are time barred, the bank's right of legal remedy is lost. There are certain rights like lien, set-off, selling the securities which are pledged where remedy through court is not required. As such there is no limitation period for these rights.

NON-FUND BASED LIMITS

Non-Fund Based facilities are those, which do not involve outflow of bank's funds at the time of sanction. Non fund-based limits may turn into fund-based facility on due date / occurrence of the specified event like devolvement of bills under LC, invocation of Bank Guarantee, etc.

Bank Guarantees

It is a non-fund-based facility required by the borrowers. Banks are often required to issue guarantees on behalf of their customers. A bank guarantee ensures that the liabilities of the debtor will be met in the event he fails to fulfil his contractual obligations. It is an agreement between three parties – the bank, the beneficiary and the applicant who seeks the guarantee from the bank. This agreement acts as an undertaking assuring the beneficiary that the bank would pay the specified amount, in the case of applicant's default in delivering the "financial" or "performance" obligation as mentioned in the guarantee.

While issuing guarantee bank should carefully note the following:

- ✓ The guarantee period is specific and clearly mentioned.
 - ✓ The amount stated is specific.
 - ✓ The purpose is clearly mentioned and is consistent with applicant's business.
 - ✓ The grace period allowed to enforce guarantee rights is mentioned.
 - ✓ The 'default' should be clearly mentioned.
 - ✓ In a bank guarantee, the extent of monetary liability and the period of validity should be specific. For this reason, the limitation clause is included.
1. Financial Guarantee: Under this, bank guarantees that the applicant will meet the financial obligation and in case he fails, the bank as a guarantor is bound to pay (e.g. guarantees towards revenue dues, taxes, duties and for disputed liabilities for litigations pending at courts; credit enhancement; repayment of financial securities etc.).
 2. Performance Guarantee: Under this, guarantee issued is for honoring a particular task and completion of the same in the prescribed / agreed upon manner as stated in the guarantee document. (e.g. bid bonds, retention money guarantee etc.).
 3. Deferred payment guarantee: Here, the bank guarantees the payment of instalments payable by the buyer of capital goods such as machinery, on term credit by the supplier.

Here normally 15 to 20% of the invoice price of the capital goods is paid by the borrower and the remaining amount along with the interest at the agreed rate is payable in instalments spread over agreed period – 3 to 5 years or more. The seller draws usance bills which are accepted by the buyer and are either co-accepted by the banker or a guarantee is issued. Seller in turn can get these bills discounted from his banker. On due dates of the instalments buyer's bank arranges the remittance of instalments. Guarantee issuing bank creates charge on assets so purchased and also obtains counter-guarantee from the said applicant buyer.

Invocation of bank guarantee: Amount claimed should be paid to the beneficiary immediately if invocation is in accordance with the terms and conditions of the guarantee contract.

Expiry of guarantee: On the expiry of guarantee period the beneficiary should be intimated by letter with registered acknowledgement, indicating that the liability of the bank under the said guarantee stands discharge and the original guarantee be returned for cancellation. If no reply is received from the beneficiary in a reasonable time, the guarantee is treated as expired and cancelled.

Limitation period: Although the limitation clause is specified in the guarantee contract, the beneficiary can enforce his rights till the limitation period is alive. It is 30 years in case of Government and 3 years in other cases from the stipulated expiry date / invocation whichever is earlier.

RBI guidelines to banks for issuing guarantees on behalf of their customers:

- ✓ As a general rule, banks may provide only financial guarantees. However, scheduled banks may issue performance guarantees subject to exercising due caution in the matter.
- ✓ Guarantees should not be issued for periods exceeding ten years. Guarantees beyond ten years are allowed under a policy approved by the Boards of respective banks.
- ✓ Total volume of guarantee obligations outstanding at any time may not exceed 10% of the total owned resources of the bank comprising paid-up capital, reserves and deposits. Within the overall ceiling, proportion of unsecured guarantees outstanding at any time may be limited to an amount equivalent to 25% of the owned funds (paid up capital and reserves) of the bank or 25% of the total amount of guarantees, whichever is less.

- ✓ Banks should preferably issue secured guarantees. A secured guarantee means a guarantee made on security of assets (including cash margin), the market value of which will not at any time be less than the amount of the contingent liability on guarantee, or a guarantee fully covered by counter guarantee(s) of the Central or state governments, public sector financial institutions and / or insurance companies. Banks should generally provide deferred payment guarantees backed by adequate tangible securities or by counter guarantees of the Central or state governments, public sector financial institutions and / or insurance companies and other banks.
- ✓ Banks should avoid undue concentration of unsecured guarantee commitments to particular group of customers and / or traders.
- ✓ In case of deferred payment guarantees bank should ensure that the total credit facilities including the proposed deferred payment guarantees does not exceed the prescribed exposure ceilings.
- ✓ The proposals for deferred payment guarantees should be examined having regard to profitability / cash flows of the project to ensure that sufficient surpluses are generated by the borrowing unit to meet the commitments, as a bank has to meet the liability at regular intervals, in respect of due instalments.
- ✓ The bank guarantee is a commitment made by the issuing bank to make payment to beneficiary. Failure on the part of the bank to honour the invocation claims legitimately made on it projects a distorted picture of its functioning.
- ✓ While co-accepting bills of customers, banks should ensure that they are out of genuine trade transactions and not accommodation bills. Before co-accepting bills, financial position and capacity of the parties to honour the bills, in the event of need should be assessed.
- ✓ Banks should adopt the Model Form of Bank Guarantee Bond and ensure that alterations / additions to the clauses whenever considered necessary are not one-sided and are made in agreement with the guaranteeing bank.

Letter of Credit (LC)

Letter of Credit ('LC'), also known as a documentary credit is a payment mechanism used specially in international trade. In an LC, buyer's bank undertakes to make payment to seller on production of documents stipulated in the document of LC.

LC play an important role in the trade of a country, especially in its international trade. In most of the cases, the exporters (sellers) are personally not acquainted with the importers (buyers) in foreign countries. In such cases the exporters bear great risk, if they draw bills on importers, after having dispatched the goods as per their orders, because if the latter default in accepting the bills or making the payment, the exporter will suffer heavy losses. To avoid such risks, the exporters ask the importers to arrange a letter of credit from their banker in favour of themselves, on the basis of which goods may be exported to the foreign importers.

Uniform Customs and Practices for Documentary Credits - 600 (UCPDC-600) apply to any LC when its text expressly indicates that it is subject to these rules. The rules are binding to all parties unless expressly modified or excluded. The Uniform Customs & Practice for Documentary Credits (UCP 600) is a set of rules agreed by the International Chamber of Commerce, which apply to finance institutions which issue Letters of Credit – financial instruments helping companies finance trade. Many banks and lenders are subject to this regulation, which aims to standardize international trade, reduce the risks of trading goods and services, and govern trade.

Parties to Letter of Credit (LC)

There are following four main parties to LC transaction:

1. Applicant or he is also called as Opener of LC. The bank opens LC on behalf of the applicant customer who is buyer / importer of goods.
2. Issuing bank is a bank which opens LC and undertakes to make payment to the beneficiary (seller/ exporter) on submission of document as per the terms of LC.
3. Beneficiary is the seller / exporter of goods in whose favour LC is opened.
4. Advising Bank is the bank through whom LC is advised to the beneficiary. Normally it is located in seller's location / country.

In addition to above four parties, following parties may also be involved in LC transaction.

- Confirming Bank is the bank which in addition to LC issuing bank, undertakes the responsibility of payment under LC. This is required since the LC issuing bank may not be known to the exporter and he therefore needs reputed bank from his country to add confirmation to the LC.
- Negotiating Bank negotiates the documents under LC.
- Paying Bank or Nominated Bank is the bank nominated or authorized by the LC issuing bank to make payment under LC. In practice, the paying bank presents the documents received by it either to issuing bank or Reimbursing Bank for payment and transfers the proceeds to the beneficiary's account.
- Reimbursing Bank is a bank with whom the LC issuing bank maintains foreign currency account (NOSTRO account). LC issuing bank authorizes the reimbursing bank to honour the LC reimbursement claim of negotiating bank.

Documents under LC

To receive payment, an exporter must present the documents required by LC. Typical types of documents in such contract include –

- ✓ Financial documents: Bill of Exchange, co-accepted draft. It is the basic document drawn by the beneficiary (exporter / seller) and has to be drawn as per the terms of the LC.
- ✓ Commercial documents–Invoice, packing list. It is addressed to the buyer (importer), signed by the seller (exporter) and contains details of sales like quantity, rate, specification and total amount.
- ✓ Shipping documents–bill of lading, airway bill, lorry/truck receipt, railway receipt etc. It is a document of title to the goods, proof that the exporter has dispatched the goods.
- ✓ Official documents–license, certificate of origin, inspection certificate, health certificate. These are the documents as specified in the LC document.
- ✓ Insurance documents–insurance policy or certificate but not a cover note. The dispatched goods must be insured for the amount and the kind of risks as specified in LC document. The policy / certificate should be signed by the insurance company

Types of LCs

1. Documentary LC and Clean LC: When the LC contains a clause that the payment is conditional on submission of document of title to goods such as bill of lading (evidence of dispatch of good), it is called Documentary LC. If no such clause is in the LC, it is called a clean LC.
2. Fixed Credit and Revolving Credit: Fixed credit is where LC specifies the amount up to which one or more bills can be drawn by the beneficiary within the specified time. The LC remains effective till the specified amount is exhausted within specified time. In Revolving Credit, the LC opening bank does not specify the total amount up to which bills may be drawn, but mentions total amount up to which the bills may remain outstanding at a time. Thus, after reaching that amount, as soon as the importer pays the bill, to that extent the limit gets reinstated. It is thus automatic and does not need renewal within the specified period of time.
3. Revocable and Irrevocable LC: In case of revocable LC, the opening bank reserves the right to cancel or modify the credit at any moment without prior notice to beneficiary. It therefore does not constitute a legally binding undertaking between the opening bank and the beneficiary. If, however, the negotiating bank makes payment to the beneficiary before receiving notice of cancellation or amendment, the opening bank has to honour the liability. Such a credit provides no real security to exporter but a mere intimation to draw bills under credit. As such exporter accepts such LC only from buyers of known integrity. Irrevocable credit constitutes a definite undertaking of the issuing bank. Such a LC once established and advised cannot be cancelled or amended except with the consent of interested parties – beneficiary and negotiating bank. If nothing is mentioned in LC, it is treated as irrevocable under UCPDC regulations.
4. Confirmed and Unconfirmed LCs: When the opening bank requests the advising bank in the exporter's country to add its confirmation to an irrevocable LC and the advising bank does so, the LC is "irrevocable and confirmed". The advising bank is then called as 'confirming bank' and its liability then becomes similar to the issuing bank. The confirmation cannot be cancelled or amended unless agreed by all the parties. A confirmed irrevocable LC provides absolute security to the beneficiary. If the advising bank does not add its confirmation, the LC remains as unconfirmed. In such case there will be no such obligation on the advising bank.
5. 'With' and 'Without Recourse' Credit: In case of "with Recourse" bills, the banker as a holder of the bill, can recover the amount of the bill from the drawer, in case the drawee of the bill fails to pay it. In order

to avoid such liability, the seller / exporter / drawer asks the importer / buyer to arrange credit "Without Recourse" to the drawer. In such a credit the issuing bank will have no recourse to the drawer (exporter) if the drawee (importer) fails to honour the bill. The liability of such a bill ends as soon as the bill is negotiated.

6. Transferable LCs: Ordinarily the beneficiary is authorized to draw bills of exchange under LC. But if the beneficiary is an intermediary in the transaction and the goods are actually to be supplied by someone else, the beneficiary may request the opener to arrange a transferable credit. Under transferable credit, the beneficiary can transfer the credit to one or more persons. But it can be done only if the credit is expressly designated "transferable" by the issuing bank. The credit can be transferred only on the terms and conditions specified in the original credit. The second beneficiary, however, cannot transfer it further, but can transfer the unused portion back to the beneficiary.
7. Back to Back LC: When a beneficiary receives a non-transferable LC, he may request a bank to open a new LC in favour of some other person (may be local supplier), on the security of LC issued in his favour. Such LC is called Back to Back LC. The terms of such LC are identical except that the amount (price) may be lower and the validity earlier.
8. LC with Red Clause / Green Clause: LC with a clause printed in red ink, contains authority from the issuing bank to the advising / negotiating bank to grant advances (packing credit) to the beneficiary up to a specified amount at the responsibility of former. It is a short-term advance recovered from the amount, payable by the negotiating bank to the beneficiary when it negotiates the documents under LC submitted by the beneficiary. Green Clause is an extension of red clause LC allowing advances for storage of goods in warehouse in addition to packing credit.
9. Installment Credit: LC is issued for full value of goods but part-shipments of specific quantities of goods within nominated period are required. Credit is not available for missed shipment and shipments thereafter unless permitted in LC document.

LCs to the Exporter (Seller) and the Importer (Buyer)

- ✓ Facilitates trade transactions between two parties who are not known to each other and located in two different countries.
- ✓ Beneficiary is assured of payment as long as it complies with the terms and conditions of LC.
- ✓ The credit risk is borne by the issuing bank and not the applicant (buyer).
- ✓ LC accelerates payment of receivables and helps beneficiary (seller) in minimizing collection time.
- ✓ The beneficiary's foreign exchange risk is eliminated with LC issued in the currency of seller's country.
- ✓ On the basis of LC, the exporter may obtain advance from the bank for procuring and processing or manufacturing goods to be exported.
- ✓ Buyer is enabled to import goods.
- ✓ LC assures importer that bills drawn under LC will be honored only when they are strictly in accordance with the conditions stipulated in LC document and the documents are duly submitted.

RBI Guidelines on LCs

- ✓ For Commodities covered under Selective Credit Controls, there is no restriction for banks in opening LCs for import of essential items. However, banks are not permitted to open inland LCs, providing a clause therein which would enable other banks to discount Usance Bills under LCs.
- ✓ Before issuing LCs, banks should ensure that –
 - i) LCs are issued in security forms only.
 - ii) Large LCs are issued under two signatures, one of the signatories being from HO / Controlling office.
 - iii) LCs are not issued for amounts out of proportion to the borrower's genuine requirements, and are issued only after ensuring that the borrowers have made adequate arrangements for retiring the bills.
 - iv) Where LCs are for purchase of raw materials, borrowers do not maintain unduly high inventory of raw materials in relation to the norms/past trends.
 - v) In case of borrowers having banking arrangements on a consortium basis, the LCs are opened within the sanctioned limit on the basis of agreed share of each bank.
 - vi) If there are no formal consortium arrangements for financing the borrower, LCs should not be opened by the existing bank or new bank, without the knowledge of other banks.

- vii) LCs for acquisition of capital goods should be opened only after banks have satisfied themselves about tying up of funds for meeting the relative liability by way of providing for long term funds or term loans.
 - viii) In no case working capital limits should be allowed to be utilized for retiring bills pertaining to acquisition of capital assets.
- ✓ The exposure ceilings and other restrictions prescribed for total credit exposure including non-fund-based facility, advances to bank's directors, loans and advances to relatives of directors, unsecured guarantees etc., must be strictly observed.
 - ✓ Unauthorized LCs are not to be issued.

Non-Fund Based Limits:

Scheduled Commercial Banks are permitted by RBI to grant non-fund-based facilities including Partial Credit Enhancement (PCE) to those customers, who do not avail any fund-based facility from any bank in India, subject to the following conditions:

- a. Banks shall formulate a comprehensive Board approved loan policy for grant of non-fund-based facility to such borrowers.
- b. Verification of Customer credentials: The banks shall ensure that the borrower has not availed any fund-based facility from any bank operating in India. However, at the time of granting non-fund-based facilities, banks shall obtain declaration from the customer about the non-fund-based credit facilities already enjoyed by them from other banks.
- c. Credit Appraisal and due-diligence: Banks shall undertake the same level of credit appraisal as has been laid down for fund-based facilities.
- d. The instructions / guidelines on Know Your Customer (KYC) / Anti- Money Laundering (AML) / Combating of Financing of Terrorism (CFT) applicable to banks, issued by RBI from time to time, shall be adhered to in respect of all such credit facility.
- e. Submission of Credit Information to CICs: Credit information relating to grant of such facility shall mandatorily be furnished to the Credit Information Companies (specifically authorized by RBI). Such reporting shall be subject to the guidelines under Credit Information Companies (Regulation) Act, 2005.
- f. Exposure Norms: Banks shall adhere to the exposure norms as prescribed by RBI from time to time.

Traders who import goods and services from abroad, can now apply for credit facilities in the form of Letter of Credits, Bank Guarantees, all important financial instruments, required to transact overseas mostly, without availing vanilla bank loans

BOOK DEBTS FINANCE

Book debts mean the amount that the customers of business owe to the business. Thus, the trade receivables (debtors and bills receivable) are the book debts of the business. Debtors are the customers (persons or companies) who purchase goods or services from the business and pay money for the same later.

Sometimes businesses after selling goods or services to customers, draw bill, which are accepted by them and amount is paid by them on due dates. These are called Bills receivables. Both are current assets of the business and are financed by the banks. It is a short-term finance and is called working capital finance. Banks finance debtors which are not exceeding 90 days of age.

DISCOUNTING OF TRADE BILLS

Bills Purchase and Discount

The bills of exchange are classified into Demand Bills and Usance Bills. A demand bill is one which is payable 'at sight' or 'on demand' or 'on presentation'. Usance bill is one where drawer (seller) allows certain period of time (Usance) say 30, 60 or 90 days to drawee (buyer) to make the payment. The bills can further be classified as Clean Bill or Documentary Bill. If drawer of a bill encloses document of title to the goods (Railway Receipt, Lorry Receipt, Motor Transport Receipt, Bill of Lading) it is documentary bill, and if no such document is enclosed, it is a clean bill.

In case of Purchase and Discount of bills, the banker credits the customer's account with the amount of the bill after deducting his charges (called discount). This facility extended against Demand bills is called Bills Purchased facility and facility extended against Usance bills is called Bills Discounting facility.

Advantages of Discounting of Bills

- ✓ Safety of Bank's funds: Though bank does not get charge over any tangible asset here, the security that the bill is negotiable legal instrument and if it is not paid by the drawee (buyer), bank can always recover by debiting drawer's (seller) account.
- ✓ Certainty of payment: As bill finance is of short-term nature, bill maturing for payment on demand or after the usance is completed (which is maximum of 90 days), the advance is self-liquidating. Monitoring also becomes easy as when the bill of a particular party remains unpaid, further discounting bills of such party can be stopped.
- ✓ Facility of refinance: In case of need of funds, banks can rediscount the eligible bills with the Central Bank (RBI).
- ✓ Stability in the value: The value of the bill as security does not fluctuate. Amount advanced and amount payable are fixed.
- ✓ Profitability: Bank credits the amount of bill by recovering its interest (discount) from the amount of bill, hence the yield is more.

Bills Facility

- ✓ Clean bills are treated by banks as unsecured advance and hence sanctioned only to borrowers of high repute. Documentary bills are safer and advance against it is secured.
- ✓ Usance Documentary bills with DP term (documents against payment) are considered safer than DA term (documents against acceptance) as in latter case the goods are parted first and the payment is made by the buyer later.
- ✓ The purpose of the facility should be carefully verified.
- ✓ Adequate information about the parties on whom the bills are drawn by the borrower should be gathered from the market and their creditworthiness should be assessed.
- ✓ If borrower draws bills on number of parties, party wise limits within the overall limit should be sanctioned, depending on percentage of sales of each party in total sales.
- ✓ Ensure that bills are drawn out of genuine trade and commercial transactions and are not of accommodation nature.

CLASSIFICATION OF ASSETS

The Banks have to classify their advances into two broad groups:

1. Performing Assets

2. Non-Performing Assets Performing assets are also called as Standard Assets.

The Non-Performing Assets is again classified into three categories and they are

- (i) Substandard Assets
- (ii) Doubtful assets &
- (iii) Loss Assets.

Standard Assets: Standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. The operations in the loan account is satisfactory in terms of timely repayment of principal and interest, availability of security, no adverse features in the operations of the accounts etc.

NON-PERFORMING ASSETS

An asset, including a leased asset, when stops generating income for the bank, it becomes Non-performing. A loan or an advance is non-performing asset (NPA) where:

- (i) Interest and /or installment of principal remain overdue for a period of more than 90 days in case of a term loan. In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.
- (ii) The account remains "out of order" in case of CC/OD (cash credit/ overdraft). An account should be treated as "out of order", if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power for 90 days. In case where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as "out of order." If the cash credit facility or ad hoc limit sanctioned remains unreviewed or unrenewed for 180 days from the due date or sanctioned date respectively.
- (iii) The bill (purchased / discounted) remains overdue for more than 90 days.
- (iv) The amount of liquidity facility remains outstanding for more than 90 days, in respect of securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- (v) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of derivative contract, if remain unpaid for a period of 90 days from the specific due date for payment.
- (vi) Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.
- (vii) In case of Credit Cards, if minimum amount due, mentioned in monthly credit card statement, is not paid fully within 90 days from the payment due date.
- (viii) In case of Agriculture loans if instalment or the interest remains outstanding beyond due date for two crop seasons (crop maturing within one year) and one crop season (for crops maturing after one year) In other agricultural loans the norm is 90 days.
- (ix) Advances against term deposits, NSCs eligible for surrender, Indira Vikas Patras and Life policies need not be treated as NPAs if adequate margin is available in the account. Advances against gold ornaments, government securities and other securities are not allowed this exemption.
- (x) In case of consortium advances the classification can be different for different banks as it is based on the record of recovery with the individual member bank. (xi) On Account of GST implementation, standard MSME loan accounts up to Rs. 25 crores as on 31.08.2017 will be classified as standard, if payment due as on 1.9.2017 falling due up to 31.12 2018, not paid up to 180 days. 90 days norm to be apply from 1st January 2019. (xii) the availability of security or net worth of borrower / guarantor should not be taken into account for the purpose of treating an advance as NPA or otherwise

RECOVERY MEASURES

Enforcement of Security under SARFEASI

If a borrower defaults, bank (a secured creditor), will have powers as to – take possession, sell or lease secured assets / take over the management of the business / appoint a manager / recover any money payable by 3rd party to the borrowers. (debts also include debt securities)

In case of consortium financing or multiple lending arrangement, if 60% of the secured creditors in value, agree to initiate recovery action, the same is binding on all secured creditors.

Under the Securities Interest (Enforcement) Rules, the lenders can dispose of the assets charged to the bank after taking possession of the assets, after serving 60 days possession notice. The sale can be through private treaty and / or public auction or bids. Possession process is allowed only if charge is registered with CERSAI.

If on notice from the lender, the borrower makes any representation or raises any objection, bank shall consider such representation / objection. If the same is not acceptable, bank shall communicate the justification for possession within 15 days of receipt of such representation / objection.

Conditions for Sale of Assets

- Sale by way of public tenders or through public auction has to be backed by public notices in two newspapers.
- Minimum 30 days' notice to be given to the owner after taking possession by the authorized officer and the eventual sale of both movable and immovable properties.

- The lenders have to make proper valuation of the assets prior to sale. The reserve price will have to be arrived at only after the valuation exercise. In case of movable secured assets, authorized officer will simply obtain an estimated value, for immovable assets valuation to be obtained from approved valuer by the lender's board of directors.
- If a price equal to reserve price cannot be obtained, the asset can be disposed-off at a lower price with the consent of the borrower and the lender except where the asset could have natural decay or where the cost of possession might exceed the value of sale.
- Sale will be confirmed after deposit of 25% by the highest bidder. Balance will be payable within 15 days of confirmation of sale.

INCOME RECOGNITION

- Income from NPA is not recognized on accrual basis but is booked as income only when it is actually received. The bank should not charge and take to income account interest on any NPA. This will apply to Government guaranteed accounts also.
- Interest on advances against Term Deposits, National Savings Certificates (NSC), Indira Vikas Patra (IVP), Kisan Vikas Patra (KVP) and Life insurance policies may be taken to income account on due date, provided adequate margin is available in the accounts.
- Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covered by the negotiated or rescheduled extension of credit.
- If any advance, including bills purchased or discounted, become NPA, the entire interest accrued and credited to income account in the past periods, should be reversed, if the same is not realized. This will apply to government guaranteed accounts also.
- In respect of NPAs, fees, commissions, and other income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.
- The finance charge component of finance income on the leased assets which has accrued and was credited to income account before the asset became non performing, and remaining unrealized should be reversed or provided for in the current accounting period.
- Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.
- On an account turning in to NPA, the bank should stop further application of interest. However, may continue to record such accrued interest in a Memorandum account in their books.

INTERNATIONAL BANKING

Authorized Dealers

Authorized Dealers means persons who are authorized by Reserve Bank of India to deal with foreign exchange without any restriction. As per Sec 10(1) of FEMA 1999 RBI is empowered to authorize any person to deal in foreign exchange as an Authorized Dealer. They are issued licence to deal with foreign exchange. They are commercial banks. Normally banks which are having national presence are allowed to become Authorized Dealer. All commercial banks are not Authorized Dealers.

According to RBI, whether a transaction is a Current Account transaction or a Capital Account transaction, each of these transactions is to be carried out through a person authorized to deal in foreign exchange. In this regard Section 10 (1) of FEMA states as under : " The Reserve Bank may, on an application made to it in this behalf, authorize any person to be known as authorized person to deal in foreign exchange or in foreign securities, as an authorized dealer, money changer or off-shore banking unit or in any other manner as it deems fit".

Such authorization is conferred on these persons through a license. An AP may be Authorized Dealer belonging to Category I, II, or III or can be a Money Changer. The details are as under:

1. Authorized Dealers Category I: This category comprises of Commercial Banks, State Co-operative Banks and Urban Co-operative Banks. They are authorized to carry out all Current and Capital Account transactions as per RBI directions issued from time to time.
2. Authorized Dealers Category II: This category consists of Co-operative Banks, Regional Rural Banks, Full Fledged Money Changers and others. They are authorized to carry out specified non-trade related

current account transactions and also all activities permitted to Full Fledged Money Changers from time to time.

3. Authorized Dealers Category III: This category consists of select Financial Institutions and other institutions who conduct transactions which are incidental to the foreign exchange activities incidental to their business under taken by them.
4. Full Fledged Money Changers ('FFMC'): This category consists of Department of Post (Post offices), certain Urban Co-operative Banks and others. They conduct the business of buying and selling foreign currencies.

SWIFT

SWIFT stands for Society for Worldwide Interbank Financial Telecommunication. It is owned by about 250 banks in Europe and North America and registered as a Society in Brussels, Belgium. It is a communication network for international financial market transactions linking effectively more than 25,000 financial institutions throughout the world, who have been allotted bank identifier code. Through Swift messages are transmitted from country to country via centrally interconnected operating centres located in Brussels Amsterdam and Culpeper, Virginia.

The member countries are connected to the Centres through Regional Processors in each Country. It has the following advantages:

- It is time tested reliable and accurate method of sending and receiving messages.
- Its structured format gives the information very clearly and as such it is widely used for various types of banking transactions.
- Access is available to a vast number of banks globally for launching new cross border initiatives
- Message relay is instantaneous.

CHAPTER - II

Bank's Concurrent Audit System

RBI directed all the banks to introduce system of Concurrent Audit for the first time in 1993 based on the recommendations of Ghosh committee on frauds and malpractices in Banks. Subsequently, a working group headed by Mr. Jilani, CMD of Punjab National Bank, recommended some improvements in the system of concurrent audit in the Banks. Thereafter, RBI issued fresh guidelines vide its circular dated 14th August 1996 to make the system of concurrent audit in the Banks more effective. RBI issued another circular on 12th August 1997 in connection with enlargement of scope of concurrent audit to covers Banks FOREX transactions. The latest Circulars on Concurrent Audit System in Commercial Banks is Circular No: RBI/2015-16/133 dtd:16th July, 2015 – DBS.CO.ARS.No.BC.2/08.91.021/2015-16 and Circular No: RBI/2019-20/64 dtd: 20th September, 2019 - DBS.CO.ARS.No.BC.01/08.91.021/2019 -20. (See Annexure-I and II at the end).

Objectives of Concurrent Audit

1. With a view to bringing about an ongoing improvement in the standard of Internal House Keeping and identifying areas of weakness and deficiency and with a view to energizing the process of rectification, this system of audit has been introduced at selected branches of Commercial Banks. The object is to carry out certain audit tasks on an ongoing basis. The Concurrent Auditor has been provided as a special resource to the Branch Manager / Officers In-charge of different departments.
2. To shorten the interval between transaction and its examination by an independent person not involved in its documentation. Improve functioning of the branch leading to improvement in its performance and prevention of frauds. Concurrent Audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilant internal audit.
3. Concurrent Audit is an examination, which is contemporary to the occurrence of transaction or is carried out as near to it as possible. Thus concurrent audit is a regular process that has to be carried out round the year at a branch on an ongoing basis. Concurrent audit is an independent appraisal activity conceived as a systematic examination of all financial transactions at a branch to ensure accuracy and compliance of internal systems and procedures as laid down by the bank. It aims at minimizing the incidence of serious errors and fraudulent manipulations.
4. To supplement the efforts of the bank in carrying out simultaneous internal checks of the transactions and compliance with the laid down system and procedure of the bank. Perform substantive checking in key areas and on the spot rectification of deficiencies to preclude the incidence of serious errors and fraudulent manipulations.

Scope of Concurrent Audit

Concurrent auditor is required to check that:

- Transactions are properly recorded documented and vouched.
- Spot rectification of the irregularities and implementation of system and procedure of the bank.
- To perform this job effectively and efficiently he must be aware of the latest guidelines issued by the Bank as well as RBI.
- He should also be well versed with the functioning of different departments at the branch.

A concurrent auditor should not sit on judgment / decision taken by the Branch Manager or an authorized official of the branch. As concurrent auditors are not meant to interfere or block the day-to-day working of the branch. The purpose of their presence is to provide a second look on the operations. The concurrent auditors will have to essentially see whether the transactions or decisions are within the policy parameters of the bank and RBI. And that they are within the delegated authority and in compliance with the terms and conditions for exercise of such an authority. He has also to see in case of sanctions received from higher authorities those terms and conditions of such sanctions are duly complied with.

In very large branches having different sections dealing with specific activities concurrent auditor is a means to the in-charge of the branch to ensure that the different sections do function within laid down parameters and procedures on an ongoing basis.

Whenever serious irregularities are observed these have to be immediately reported to HEAD OFFICE, Audit Departments of the Bank as well as concerned Regional / Zonal Office of the Branch. Irregularities having vigilance angle have to be reported to Head Office, Vigilance Department for taking necessary action.

In case of observation of

- i) Acts of corruption and bribery on the part of branch officials.
- ii) Frauds / misappropriation.
- iii) Abuse of power to get pecuniary benefits at the expense of the bank.
- iv) Any other malpractices, the concurrent auditor shall not include these incidents in his regular report but, after discussion with the Branch Manager, shall report such facts by way of a special confidential report to Head Office, Audit Department / Head Office, Vigilance Department.

Procedural aspects of Concurrent Audit

Banks, based on the guidelines from RBI, has framed a policy for concurrent audit of the selected branches of the bank. Administrative control over Concurrent auditors is to be exercised by respective Regional / Zonal Office Audit / Audit Department.

Branch Profile information for Concurrent Audit

- ✓ Branch has a Currency Chest.
- ✓ Whether branch has Cash Management Product.
- ✓ Whether branch has Lockers.
- ✓ Whether Branch conducts State Government Transactions.
- ✓ Whether Branch conducts Central Government Transactions.
- ✓ Whether Branch conducts Public Provident Fund (PPF).
- ✓ Whether Branch conducts Senior Citizen Scheme.
- ✓ Whether Branch conducts Sukanya Sam Riddhi Scheme.
- ✓ Whether, branch has onsite ATM and replenishment of cash being done by the branch.
- ✓ Whether, branch has Trade Bill Business.
- ✓ Whether, branch has Prepaid Card business.
- ✓ Whether, branch has Pension Accounts.
- ✓ Whether, the branch is authorized to carry out Forex Business under A or B Category.
- ✓ Whether, the branch is authorized to carry out Forex Business under C1 or C2 Category.
- ✓ Whether, branch has bill financing business.
- ✓ Whether, branch has financed agricultural loans under Contract Farming etc.
- ✓ Whether, branch has restructured the accounts under MSME Re-structuring.
- ✓ Whether Branch has LCs Business.
- ✓ Whether Branch has BGs Business.
- ✓ Whether, branch has Warehouse Receipt Financing Business.
- ✓ Whether, branch has Export Packing Credit Business.
- ✓ Whether, branch has Allocated Limits of Corporate Accounts.

List of Important Registers / Files

An indicative list of important Registers / Files which may be kept in readiness by the Branch Manager so that they are scrutinized by the Concurrent Auditor along with the relevant vouchers:

- Branch Managers Monthly Certificate – Register & File.
- Branch Dossier File.
- Branch Document Register.
- Complaints Register + File.
- Frauds Register + File.
- Customer Service File.
- Customer Relations Program File / Minutes.
- Cheques Referred and Returned Register.
- Insurance Register.

- Term Loan Documents Executed Register.
- Cash Credit Register.
- Stock Statement Register.
- Suits Filed Register.
- Safe Custody & Security Register.
- Nomination Register.
- ATM related matters Registers + Files.
- Internet Banking Registers + Files.
- Cash Balance Register.
- Vault Register.
- Loan Applications Received & Disposed Register.
- NPA Monitoring Register.
- Write Off Loans Register.
- Recalled Assets Register (Suit Filed).
- Unit Inspection Register (Advances).
- Equitable Mortgage Register.
- Pass Books Issued Register.
- Cheque Books Issued Register.
- Transit Voucher Book(s).
- High Value Cash Monitoring Register.
- Key Register.
- Dispatch / Courier Register.
- Petty Cash Register etc.

Areas required to be covered under Concurrent Audit

Concurrent Auditors are required to check the entire working of the branch covering 100% transactions. An *illustrative list* of the areas covered under concurrent audit is as under:

a) Cash

- Daily cash transactions with particular reference to any abnormal receipts and payments.
- Proper accounting of inward and outward cash remittances.
- Proper accounting of Currency Chest transactions, its prompt reporting to the RBI.

b) Deposits

- Check the transactions about deposits received and paid.
- Conduct percentage check of interest paid on deposits as mentioned in the computer system i.e., Rate of Interest for each and every product (Both Deposit and Advance Produces).
- Check New Accounts opened particularly current accounts / KYC Norms.
- Verify operations in New Current / SB accounts in the initial periods to see whether there are any unusual operations / transactions.

c) Advances

- Verify that loans and advances have been sanctioned as per standing guidelines of the bank. (i.e., after due scrutiny and at the appropriate level).
- Verify whether the sanctions are in accordance with delegated authority / powers.
- Verify that securities and documents have been received and properly charged / registered.
- Verify that post disbursement supervision and follow up is proper such as receipt of stock statements, installments, renewal of limits etc.
- Verify whether there is any mis-utilization of the loans and whether there are instances indicative of diversion of funds.
- Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
- Check the bank guarantees issued, whether they have been properly worded and recorded in the register of the bank and that whether they have been promptly renewed on the due dates.

- Verify proper follow up of overdue bills of exchange.
- Verify whether the submission of claims to ECGC is in time in case of Export / Import Finance.
- Verify that instances of exceeding discretionary powers have been promptly reported to Controlling / Head Office by the branch and have been got confirmed or ratified at the required level.
- Verify the frequency and genuineness of such exercise of authority beyond the discretionary powers by the concerned officials.

d) **Foreign Exchange Transactions**

- Check foreign bills negotiated under letters of credit.
- Check FCNR and the other Non-resident accounts whether the debits and credits are permissible under the rules.
- Check whether inward / outward remittances have been properly accounted for.
- Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorized and necessary charges have been recovered. Check that balances in Nostro accounts in different foreign currencies are within the limits as prescribed by Head office.

e) **Housing Keeping**

- Check reconciliation of entries outstanding in the inter branch suspense account and inter bank accounts, Suspense account Sundry Creditors Account, Payment made on account of other branches account etc. Ensure early adjustment of large value entries.
- Carry out a percentage check of calculations of discount, commission and exchange on various transactions. Check whether debits in income account have been permitted by the competent authorities.
- Check the transactions of Staff Accounts.
- In case of difference in clearing there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the day book to verify as to how the differences in clearing have been adjusted. Such instances should be reported to Head Office in case the difference persists.
- Detection and prevention of revenue leakages through close examination of income and expenditure heads.
- Check cheques returned / bills returned register and look into reasons for return of those instruments.
- Checking of inward and outward remittances like Demand Drafts, RTGS, NEFT and Exchange collected thereon etc.

f) **NPA management**

- Check that the early warning signals in the account are being picked up and immediate remedial actions including marking the account as SMA is being done.
- Check the follow up being carried out by the branch towards recovery.
- Check that proper record of Technical write-off accounts is maintained.

g) **Contingent Liabilities**

Check Bank Guarantee / Letter of Credit portfolio of the branch and report.

Bank Guarantees (BG) comprise both performance guarantees (PG) and financial guarantees (FG) and are structured according to the terms of agreement viz., security, maturity and purpose.

- Banks should confine themselves to the issuance of Financial Guarantee and exercise due caution with regard to Performance Guarantee business.
- Bank guarantees should not normally extend beyond 10 years. Banks may issue guarantees (BG) for periods beyond 10 years taking into account the impact of very long duration guarantees on their Asset Liability Management and in tune with their policy on issuance of guarantees beyond 10 years as approved by the Board.

h) **Information Technology Areas**

Auditing is a systematic and independent examination of information systems environment to ascertain whether the objectives, set out to be achieved, have been met or not.

Auditing is also described as a continuous search for compliance. The objective of the IS audit is to identify risks that an organization is exposed to in the computerized environment. IS audit evaluating the adequacy of the security controls and informs the management with suitable conclusions and recommendations. IS audit being an independent subset of the normal audit exercise. Information systems audit is an ongoing process of evaluating controls, suggest security measures for the purpose of safeguarding assets / resources, maintaining data integrity, improve system effectiveness and system efficiency for the purpose of attaining organization goals. Well planned and structured audit is essential for risk management and monitoring and control of information systems in any organization.

i) **Revenue Audit**

1. Concurrent Auditors have to check and certify correctness of cent percent interest earning of borrowal accounts, discount, commission earned on bills, cheques purchased, letter of credit, letter of guarantees and all other incomes on account of service charges in terms of various circulars issued from time to time on the subject. As the Interest is to be calculated by the CBS System, correct product is to be given the Advances or Deposits of the Bank. Accordingly, the system will take the correct rate of interest and calculate the Interest accordingly.
2. Auditors are advised to thoroughly check:
 - ✓ Application of interest on drawings allowed against un-cleared effects, cheques returned unpaid, adhoc limits allowed, protested / NPA accounts etc.
 - ✓ Penal rate of interest on account of non-submission of stock statements / Quarterly Information Statements / Delay in renewal of limits.
 - ✓ Revenue leakage on Bills purchased which is one of the major areas of revenue leakage.
 - ✓ Recovery of processing charges / up-front fees and commission on LCs / Guarantees.
 - ✓ Inspection charges and Incidental Charges in CC / Current Accounts.
 - ✓ Interest / Commission and remuneration in lieu of foreign exchange business / Bills.
 - ✓ Payment of one-time interest on deposit accounts particularly on term deposits (Check the Correct Product Code in CBS). Those term deposits which have been paid before maturity must invariably be checked in the System.

j) **Other Items**

In case of the branch has been entrusted with Government business, ensure that the transactions are done in accordance with the instructions issued by Government, RBI and Head Office.

Ensure that the branch gives proper compliance to the internal Audit / other reports. Ensure that customer complaints are dealt with promptly.

Verification of settlements Head Office Returns, statutory returns and control returns submitted to Zonal Office / Head Office.

The detailed functions of the Concurrent Audit as laid down above can be expanded further by the Audit Department of the Bank (where necessary), depending upon the needs of the individual Branch / Departments. The Branch Manager should impress upon the Officers In-charge of different Departments the importance concurrent audit and the need for them to instruct / train the staff under their control in laid down systems and procedures, wherever deficiencies are pointed out by the Concurrent Auditor in order to prevent recurrence of such irregularities.

Branches which are given special support of Concurrent Audit are expected to perform well always from the audit stand point and the Branch Manager should ensure prompt compliance of observations made by the Concurrent Auditor. If the Concurrent Auditor finds that the observations are not complied with for any reason, he may record and submit to the Branch Manager formal audit notes for rectification.

Disposal of Audit Notes submitted by the Concurrent Auditors

Ordinarily the Audit Notes of the Concurrent Auditor should be effectively disposed of within a maximum period of seven days by the concerned officer in-charge. If an Audit Note is not disposed of within this period, the Branch Manager should review the position and initiate appropriate action. A review of the action initiated on pending audit notes should be taken by the Branch Manager once in a week with a view to removing deficiencies pointed out.

The Branch Manager should make efficient and effective use of the services of the Concurrent Audit provided to him as an additional resource for identifying the weakness in the various vital areas of Branch working with a view to initiating proper remedial action. Unsatisfactory performance by a branch having the benefit of the resource of Concurrent Auditor should be viewed with great disfavor by the Head Office because such branches constitute the backbone of the bank's Business structure.

To enable Head Office to have a feedback on the effectiveness and the manner in which Concurrent Audit is being carried out, the Concurrent Auditor should submit monthly and quarterly reports indicating the deficiencies noticed and the extent to which the position stands rectified especially the effective disposal of audit notes within the prescribed time limits. Based on the monthly / quarterly reports submitted by the Concurrent Auditors, Zonal Offices should examine the deficiencies noticed, in order to take prompt remedial measures. The Regional / Zonal Office should issue suitable directions / time bound programmes in the matter. Regional / Zonal Office should advise Head Office Audit Department every quarter, various steps being taken for making the system of Concurrent Audit effective.

During regular Audit of a branch where Concurrent Auditor has been posted, the Auditor will comment on the manner in which Concurrent Audit functions are being carried out at the branch.

Concurrent Auditors should full familiarize themselves with the provisions of the Audit Manual and the Systems and Procedures, Audit checklists and the scope of audit scrutiny under the Audit Report Format for broadening their audit perspective and skills.

Reporting Formats

During the course of Audit of Branches the Concurrent Auditors are likely to make observations of varied nature. Some of the observations may be of the nature of ordinary short-comings or deficiencies in observance of systems and procedures. Some may be of the nature of general comments for the guidance of branches. But there may be some findings observed by the Concurrent Auditors during the course of Audit which may require a different kind of reporting in view of their seriousness, and to enable the controlling offices to act upon such findings at the earliest available opportunity to set right the deficiencies. Guidelines for furnishing such reports are given here below:

1) Daily Report

Discrepancies observed in the adherence of systems of procedures on daily basis have to be given to the Branch Manager / Officers In-charge of different Departments on daily basis. This report is to be prepared in duplicate. One copy of the report shall be returned by the Branch after the rectification of irregularities.

2) Monthly Report

Banks devised guidance lists of serious irregularities relating to:

- a) General Routine.
- b) Deposits.
- c) Remittances.
- d) Alternate Delivery Channels.
- e) Cash Department Areas.
- f) Foreign Exchange Transactions.
- g) Banking Operations
- h) House Keeping and
- i) Credit Management.

Serious irregularities enumerated in these guidance lists have to be covered in the Monthly Reports / Quarterly Reports. With a view to bringing uniformity in the classification and reporting of these serious irregularities, Banks devised group Headings of Serious irregularities. All serious irregularities should be grouped as per Group Headings of Serious irregularities (GHSI). Monthly / Quarterly reports should be grouped as per Group Headings of Serious Irregularities (GHSI). Monthly / Quarterly reports should be notes of discussions and hence the subjects of these reports should be thoroughly discussed with the Branch Manager and steps already taken, if any, should invariably be incorporated in these reports.

3) **Monthly Reports of Concurrent Audit**

- a. Certificate of Discussion with the Branch Manager.
- b. Confirmation of Receipt of the Concurrent Audit report by the Branch Manager.
- c. Flash Report/ Special Report.
- d. Executive Summary.
- e. Monthly Reporting formats, which includes:
 1. Report on Compliance of KYC /AML guidelines.
 2. Income Tax deducted at source-Auditor Certificate.
 3. Compliance Certificate.
 4. Report on Foreign Exchange business (Applicable only for branches authorized to transact foreign exchange business).
 5. IT Audit like BCP, DRM etc.
 6. Report on Leakage of Revenue.
 7. Monthly Concurrent Audit Reports and rectifications thereof.
 8. Alternate Delivery Channels irregularities.

Monthly reports should not be sketchy, but should be factual, clear, and exhaustive in details and wherever necessary, should indicate the action initiated by the branch. It should also contain specific views / opinion of the Auditor based on his findings. Apart from incorporating the irregularities pertaining to a particular advance reviewed, these reports should invariably cover therein other limits enjoyed by the party, liabilities thereof and the irregular features there under, if any.

4) **Special / Confidential Report**

Matters of grave nature such as shortage in cash or huge shortage in securities pledged or hypothecated to the Bank which is likely to cause loss to the bank, large scale deviation from sanction terms, short collection of interest and other income for sizeable amount in respect of which immediate action is called for on the part of the Branch / Zonal / Head Office and also observations pertaining to submission of claims under DICGC / ECGC have to be informed immediately by way of Special/Confidential Reports.

Wherever the Auditors feel that the adherence to a particular system and procedure is of a critical nature, non-compliance of the same can be covered as a serious irregularity and accordingly covered in the monthly report. As system and procedures constitute the back bone of any organization in general and banking industry in particular, due importance and adequate emphasis has to be laid by the Auditors in their coverage in monthly / quarterly reports.

Brief comments should be given at the end of each Annexure of the Concurrent Audit Report with regard to steps taken by the Branch for the rectification of irregularities and the suggestions by the Auditors to prevent recurrence thereof.

i) **Confidential Reports**

There are certain special reports of confidential nature where the copies should not be given to the Branch. Such reports should be sent only to the Audit Department with a copy to respective Zonal Office. Before drawing up the report, the Concurrent Auditor should have a thorough discussion with the Branch Manager to ascertain all relevant points / facts on the subject to be covered in the confidential report. The Concurrent Auditor should invariably furnish therein his views / opinion / conclusions based on his findings.

The following are to be reported by way of Confidential Report:

- a) Violation of IBA Ground Rules / Code of Ethics / Unethical practices resorted to in the matter of deposit mobilization.
- b) Fraudulent Transactions and mis-appropriation of bank funds.
- c) Mass lending by violating the Credit norms issued by the Bank.
- d) Observations, if any, from the angle of Limitation Act, Stamp Act, RTI Act etc.
- e) Observations, if any, regarding under stamping / non-stamping of Demand promissory notes and the security documents etc.

ii) **General Guidelines regarding Special / Confidential Reports**

- a. The concurrent auditor should not wait until the audit is concluded to submit Special / Confidential reports. They should be sent as and when the irregularities are observed.
- b. Where the grave irregularities are already brought to the notice of and controlling authorities are seized of the matter, Concurrent Auditors may record their observations in the Monthly Report itself along with the observations on the action taken by the branch regarding instructions received from Regional Office / Zonal Office / Head Office Audit Department etc.
- c. All Special reports submitted should be referred to in the Quarterly Audit report under relevant head and also in covering letter of the Quarterly Audit Report.
- d. In case of observations acts of
 - ✓ Bribery/corruption on the part of the branch officials.
 - ✓ Frauds/misappropriations.
 - ✓ Abuse of power to get pecuniary benefit at the expense of the bank.
 - ✓ Improper use of discretionary powers.
 - ✓ Undue favoritism and nepotism.
 - ✓ Any other instances of malpractices, the auditors shall not report the same in their audit report, but shall discuss the same with official concerned and shall report such facts by way of confidential letter addressed to the Asst. General Manager / Dy. General Manager of Regional Office / Zonal Office.
 - ✓ If there are any matters of confidential nature involving the working of the personnel of the branch, such matters also need not be reported in the audit report, but the same shall be discussed with and the fact of such discussion be reported by way of a Confidential letter addressed to AGM / DGM / General Manager Audit Department of the Bank.

CHAPTER - III

Four Important Functions of Bank Branch

(1) Cash Department

i) Role of the Head of the Cash Department

In all Currency Chest Branches an officer will discharge the duties of Cash Officer. He shall be responsible for the effective functioning of the cash department of the Branch. He shall

- ✓ Be the joint custodian of Cash and other valuables like Gold, Gold ornaments, Safe Deposit Articles and Security Forms other than Cheque books.
- ✓ Supply cash / cash boxes to Single Window Operators (SWOs) or Assistant (Cash) in the morning. Take possession of excess/ surplus cash or deliver / supply cash from / to Single Window Operators and bulk cashier(s), as and when required during the day. Complete End of the Day exercise for cash after completion of business hours.
- ✓ Carry out surprise verification of the cash holding in the cash boxes / drawers of Single Window Operators and carry out intraday cash verification at the Single Window Operators Counters.
- ✓ Ensure that all the notes received are shroffed and sorted into issuable and non-issuable notes. Arrange for sorting out ATM fit notes for delivery and remit Soiled Notes to the RBI, with the help of Single Window Operators from time to time.
- ✓ Ensure that the non-issuable note bundles prepared are pasted with note slips duly signed by the Single Window Operators on the top and bottom of the bundles confirming the quantity and quality of the notes.
- ✓ Liaise with RBI and other Currency Chest Branches of both Public Sector and Private Sector Banks to manage cash inventory at the Branch, arrange for inward / outward cash remittances from them.
- ✓ Arrange for receipt / payment of bulk cash from important customers.
- ✓ Verify the purity and the weight of Gold offered as security by Gold loan customers and to keep Gold / Gold ornaments after sanction in joint custody as per instructions
- ✓ Generate and check relevant reports.
- ✓ Ensure Weighing Balances Certificate are current and in order
- ✓ Ensure operation of the Currency Chest as per norms.
- ✓ Keep the Currency Chest fitness Certificate current.
- ✓ Keep the Gun licenses current and diarize for timely renewal.
- ✓ Save the Cash related reports daily and keep a hard copy of all the reports properly filed for future reference.
- ✓ Verify the cash balance in the Currency Chest at specified intervals.

ii) Responsibilities of Head Cash Department

- ✓ Responsible for the correctness of the Branch Cash, Currency Chest and small coin depot balances. A bin card bearing details of daily deposit and withdrawal into/from the bin should be kept in each bin.
- ✓ Responsible for the Branch Cash balance held in his single custody.
- ✓ Responsibility for the custody and safety of all cash.
 - From the strong room until distribution while withdrawing.
 - From the point of collection from Single Window Operators until deposit in the strong room.
 - Held in the strong room jointly with the joint custodian.
- ✓ Responsible for ensuring that each packet of notes of all denominations up to Rs. 100/- turned into the vault bears a note slip with date duly signed by the employee who prepared the note. The coin bag contained a similar slip prepared by the employee who prepared it.
- ✓ Responsible for ensuring that each packets of notes of Rs. 500/- and above bears a note slip with date on the packets with the signature of the Single Window Operator who prepared it.
- ✓ Responsible for the quantity in each packet of Rs. 500/- and above is 100 pieces. He should ensure that the quantities in each packet is 100 and affix his signature on the note slip for having recounted the packets.

- ✓ Responsible for the quantity and quality of notes turned into the vault without the signature of Single Window Operators on the note slips.
- ✓ Responsible for proper conduct of work in the cash dept. and adequate safety measures for handling cash at the Branch.

iii) Important Registers to be maintained

a) Currency Chest / Strong room access Register

It is to be maintained to record the time of entry into / exit from the strong room of all persons, including staff members attached to the chest. The entries therein should be authenticated by the persons concerned and the Chest-in-Charge.

b) Currency Chest Register

The Register is maintained in duplicate, one copy is kept with the Cash Officer and the other is kept in the Vault. The balance in this register should tally with that in the Vault Register at all times.

c) Small Coins Depot Registers

The Register is maintained in duplicate, one copy is kept with the Cash Officer and the other is kept in the Vault.

d) Passing Powers Register

The signature of every official / staff in the Branch together with his passing powers should be circulated to the Cash Department Staff so that they would be able to know the genuineness of the signature and their powers before making payment.

e) Intra-day Cash Verification Register

A surprise check and verification of cash of Single Window Operators should be carried out during the business hours and a record of the same has to be maintained for having carried out the Intra-day Cash Verification duly scrutinized by the Branch Head at monthly intervals. Evidence of verification has to be recorded.

f) Register for Verification of Contents of Cash Boxes of Single Window Operators

The verification of contents of cash boxes on the basis of system generated random list, should be carried out at the end of the day and a standard register to be maintained for this purpose. Further, the Cash Officer should verify the cash of all SWOs on Friday of each week without fail.

g) Register for Verification of Physical Cash Balance by Joint Custodian Fortnightly

The physical verification of currency chest balance should be carried out fortnightly and tallied with. A separate standard register should be maintained for this purpose which should be perused by the Branch Head at regular intervals.

h) Burglar Alarm Test Check Register

The testing of burglar alarm on daily basis should be recorded in a standard register. The test check should be conducted at different counters on different dates at different times and recorded in detail with date, counter number and time.

i) Cash Sorting Machine Register

A standard register has to be maintained for recording number of sections sorted in the Sorting Machine and to verify the optimum usage of the machine for supplying quality notes to the general public.

j) Other Important Registers

Branch Cash Balance Register	Branch Cash Balance Book
Cash Shortage / excess Register	Cash Receipt Delivery Book
Cash Remittance Register	Petty Cash Register
Cash Vault Register	Key Handing / Taking over Register

iv) Workflow relating to Cash at Branches:**Beginning of the Day**

- ✓ The Accountant / Operations Official enquires the opening balance of cash and verifies that it is equal to the closing balance of cash as recorded at the previous evening and cross check with CBS System.
- ✓ The Vault Custodian, Cash Officer and SWOs login and open their Cash drawers.
- ✓ Vault Custodian transfers Cash to Cash Officer.
- ✓ Cash Officer verifies and acknowledges receipt of cash.
- ✓ Cash Officer distributes the Cash to the Single Window Operators who handle Cash transactions at the Branch. The receiving Teller verifies the Cash and acknowledges the same.

During the day

Single Window Operators perform customer transactions, i.e. Receipts / Payments and swap denominations, etc.

End of the Day

Single Window Operators tally the cash, generate cash reports and hand over the balance of cash / cash kept in the cash box along with the report to Cash Officer and Cash Officer acknowledges.

- ✓ All the Single Window Operators reconcile currency and close their respective Cash Drawers in the system.
- ✓ Cash Officer prints cash related reports, tallies the cash and transfer cash to Vault Custodian and Vault Custodian verifies and acknowledges in the system.
- ✓ Cash Officer reconciles currency and closes his Cash Drawer after ensuring that all the Single Window Operators' cash drawers are closed.
- ✓ Vault Custodian reconciles the currency and closes his Cash Drawer.
- ✓ Cash Reports are printed and saved by the Cash Officer every day without fail.

v) Integrated Computerized Currency Operations and Management System (ICCOMS)

Reporting of Currency Chest Transactions through ICCOMS is done daily.

- ✓ Check the opening balance (bin-wise details & note category details).
- ✓ Complete the data entry of withdrawals / deposits – denomination / bin wise correctly.
- ✓ Check the total balances and verify whether the amount is correctly entered.

The following reports are to be saved and hard copy filed.

Report Name

Chest Slip Form.
 Chest Register Form.
 Currency Transaction Account.
 Certificate of Notes & Coins held in Currency Chest.
 Statement of Net Daily Withdrawal / Deposit.
 For Currency Chest.
 Position of Solid Notes.

DO's – Currency Chest Activities:

- ✓ Verify opening balance daily and then start day's transactions.
- ✓ If RBI website is inaccessible, Fax Chest Slip.
- ✓ If internet connection is available in standalone PC, upload the required files to RBI website after copying the required data files.
- ✓ If wrong transactions are reported or if there is an error in balance, please reverse / rectify the entries the next day, itself through proper menu options. RBI levies Penalty from the date of mistake to the date of rectification and also for wrong reporting, delayed reporting and non-reporting.
- ✓ Remittances from / to RBI and diversions from / to Chest-to-(nearby) Chest are to be accounted in CBS.
- ✓ Verify DAILY that the balances in Branch General Ledger a/c ICCOMS and Currency Chest (Physical) balances are tallied.
- ✓ Update Chest Slip Number and in ICCOMS Software.
- ✓ Educate acting Cash Officers to handle the software when you are on leave.

DONT's – Currency Activities:

- ✓ Do not show Remittance as Deposit and Soiled remittance as Withdrawal.
- ✓ Do not put through any accounting entries for Chest-to-Chest Currency Transfer.

vi) Gold Loans

- ✓ Systems and Procedures laid down in regard to KYC Norms, appraisal, sanction, joint custody of ornaments and follow-up of Gold Loans should be complied with meticulously.
- ✓ Cash Officer is purely responsible for the purity of the ornaments pledged. Testing of ornaments by touch stone method, nitric acid and specific gravity method etc. should be meticulously carried out for finding the purity of ornaments. In some Banks Gold Appraiser will verify the purity of the Ornaments. In that case, whether the Appraiser empaneled by the Bank or not to be verified.
- ✓ Ornaments with alphabetic initials / names should not be accepted.
- ✓ Balance the No. of Gold loan A/Cs with the Loan Balance File and also Gold Loan In / Out Register at Monthly intervals.
- ✓ Reputed Jewel Appraiser's services for testing of gold ornaments for purity should be carried out for loans exceeding Rs. 1.00 lac. and his certificate should be obtained and kept on record at borrower's cost.
- ✓ Ensure that no loans are granted against gold bar / bullion.
- ✓ The repayment period for Gold loan should not be more than 30 months.
- ✓ Every effort in follow-up of gold loan advances should be made and record the efforts made.
- ✓ Ensure that no gold loan account turns to be NPA.
- ✓ Ensure adequate insurance coverage for gold ornaments.
- ✓ Ensure that the customer is not mis-utilizing the gold loan facility.

vii) Sale of Ornaments

- ✓ A notice of auction should be sent to the borrower by Registered Post Acknowledgement Due at this recorded address.
- ✓ A notice containing details of account number, ornaments (except the name of the borrower) will be put up in the notice board.
- ✓ The postal acknowledgement should be preserved. In case the Registered Notice is returned undelivered, the postal cover should be preserved unopened. In this case, a copy of the notice has to be sent under certificate of post to the borrower.
- ✓ The borrower's name should not be mentioned in the auction notice, this will obviate the chances of his suing the bank for defamation.
- ✓ An advertisement containing the details of total weight of ornaments, present outstanding, date of auction etc. should be given in a local language newspaper well in advance as approved by the Controller. All the incidental charges should be recovered from the borrowers.
- ✓ Before sale of ornaments, a panchnama signed by a Notary Public listing the ornaments as per the details recorded in the Gold Loan documents should be obtained.

viii) Change of Cash Officer in Core Banking System (CBS)

- ✓ The change of Cash Officer should be done after the completion of day's work.
- ✓ The outgoing Cash Officer should have handed over the Cash to the Accountant (Vault Teller) in the system.
- ✓ Both existing Cash Officer and new Cash Officer should be signed off.

(2) Operations Department**i) Role of the Operations Head**

He is Joint Custodian of the Branch and his responsibilities are:

- ✓ Responsible for Cash / Gold Ornaments (as a Joint Custodian), Security Documents viz., Specimen Signatures, Branch Documents, etc.
- ✓ He is the floor manager for the Branch, ensuring punctuality, neatness and efficient functioning of the Branch.
- ✓ Coaching and motivating the Single Window Operators to be customer friendly, encouraging them to interact with the customers.
- ✓ Handling staff related matters, maintenance work for the Branch, Operational risks in the Audit process, timely submission of MIS related information etc., under overall supervision of the Branch Manager
- ✓ Taking charge of Administrative matters, matters relating to Premises, Rent, Electricity, Utilities, Annual Maintenance Contracts, ATM, etc. under the overall supervision of the Branch Manager.
- ✓ Ensuring smooth and efficient functioning of the Branch on various efficiency related parameters for the customer service, staff and upkeep of the Branch.
- ✓ Act as a whistle blower and report to Controllers actual or suspected frauds, inappropriate behavior and practices, unethical actions etc.

ii) Responsibilities

- ✓ Overall Head of the Administration Unit of the Branch reporting to the Branch Manager.
- ✓ Handling complaints and Customer Complaints which cannot be solved by Single Window Operators / Grahak Mitra or Sevak (Enquiry Counter).
- ✓ Monitor and report the performance of external agencies attached to the Branch for upkeep of ATMs, hardware, courier services etc. to controllers, so that all the facilities are available in trouble-free manner for rendering excellent customer service.
- ✓ Ensure that the ATM PIN mailers are handled securely and the undelivered ATM cards are not handled by the persons who handle ATM PIN mailers. All undelivered ATM cards and PINs are delivered to the account holders after follow up & destroyed after 45 days if remains undelivered.
- ✓ Ensure Safe custody of scrip's, safe deposit articles, and vacant safe deposit locker keys.
- ✓ Ensure that Current and Last calendar month's vouchers are kept in lock and key.
- ✓ Delivering and accepting welcome kits of Savings Bank Accounts to / from Senior / Special Assistants at the end of the day.
- ✓ Branch Document Register is to be maintained as per laid down instructions. Branch Licence, Emergency Arrangement, locking up Arrangement, Disaster Recovery Plan & Business Continuity Plan, Insurance and Annual Maintenance Contract of Bank's properties, Lease Agreements, Audit notes, Gun licence, Copy of Registration Certificate of Vehicle books, Insurance, Agreement etc. are entered in the Branch Documents Register.
- ✓ Items like NSCs and LIC policies are properly recorded in the Miscellaneous Securities Register.
- ✓ The Emergency Arrangements / Locking up Arrangement are properly approved and current in order.
- ✓ BCP and DRP are approved by controllers and current.
- ✓ Ensure the display of proper notice boards as per the laid down norms from RBI/ Bank HO time to time.
- ✓ Allotment of staff duties and ensure job rotation.
- ✓ Resetting/ foreclosure of password to the SWOs, when required after entering in the relevant Register.
- ✓ Start of the Day (SOD) / End of the Process (EOD) Processes.
- ✓ Authorizing transactions referred to him.
- ✓ Ensure Rent for Lockers are recovered periodically. (Failed SI report for recovery of rent is available in the CBS Reports Folder between 1st and 5th April.)
- ✓ Custody of articles for Safe Deposit and Safe Custody.

- ✓ Any other activity necessary for efficient working of the Branch.
- ✓ Extend full support to the Branch Head as he cannot deliver 100% without your constructive support.

iii) **House-Keeping**

- ✓ Arrange for withdrawal of duplicate keys for verification from the branch where it is deposited and completely verify the keys with that of the Key Register and after due verification, re-seal the keys presently in use and deposit the same and advise the Controllers about the withdrawal and redeposit in the prescribed manner and obtain their confirmation which should be kept securely in the drawer of his desk (not hand-safe).
- ✓ Cash balance with physical counting to agree with cash balance register. Note down the difference if any for follow up & balancing.
- ✓ If the branch is a currency chest, count all the packets of ₹.2,000/-, 500/- & 10% of the rest of the cash with clip system.
- ✓ Balance all the cash in almirah, bins and cages by jotting down in a register and tally with cash vault register/Currency Chest Register.
- ✓ Verify all small coin's bags by weighing them & check the content slips.
- ✓ Reshuffle the cash in almirah at least once in three-months.
- ✓ Verify and Initial one or two items of cash in cash balance register daily.
- ✓ Randomly verify the complete cash balance and authenticate all items.
- ✓ Verify the gold items in gold loans bags with their content slips and tally the number of gold bags with the Loan balance file.
- ✓ Verify the 'Report on Loan Accounts' in the 'Other Reports' folder daily and ensure that the security of gold obtained as security for each gold loan account appearing in the report is turned into the vault.
- ✓ Deliver Gold pledged as security against Gold Loan Accounts after ensuring that the Gold Loan A/c is closed in the System and Gold Loan register against proper acknowledgement.
- ✓ Ensure Sundry loan documents are complete and securities obtained are current. Maintain daily list and present for renewal/ payment on due dates.
- ✓ Have full control over non-home (non-cash) transactions to avert any fraud.
- ✓ Ensure the reconciliation of all the Systems Suspense Accounts including Drafts / Bankers Cheque/Inter-Office Instruments to be issued and other Branch General Ledger Accounts on daily basis.
- ✓ Ensure the Voucher Verification Report checking allocation and checking on daily basis. Maintain the Voucher Verification Report Roaster as per laid down instructions. Ensure entering the missing vouchers in the 'Missing Vouchers Register'. Any deviations to be brought to the knowledge of the Branch Manager.
- ✓ All statutory instructions regarding Service Tax and TDS must be adhered with and the amount recovered is deposited into the Government a/c before the 7th of every month. In case of need, help of any local Chartered Accountants can be sought.
- ✓ Verify the physical stock of all security forms with that of registers.
- ✓ Ensure destruction of all obsolete security forms viz. Demand Drafts /Bankers Cheque etc. except Inter Office Instrument (IOI) instruments with the Controller's permission.
- ✓ Verify the Miscellaneous articles in Safe Deposit with the acknowledgements for deliveries since last Audit. Examine the packing, seals, numbers and storage.
- ✓ The Fixed Assets Register and Ledger should be checked, including physical verification of fixed assets.
- ✓ Verify the securities held at the Branch pending disposal.
- ✓ Verify the balance of stamps held in Stamp Account. Obsolete, unusable stamps should be sent to appropriate stamp authority for seeking refund.
- ✓ Maintain the relative books and ensure Branch Manager Monthly Certificate depicts the true picture of position obtaining at the Branch.
- ✓ Ensure Joint Custody of Security forms other than cheque books.
- ✓ Ensure KYC norms / AML guidelines are followed for deposit accounts.
- ✓ Ensure Trusts, Minors accounts and Government Accounts are clearly indicated, flagged and operations conducted according to the mandate.
- ✓ The specimen signatures, Trust Deeds and letters of various government departments are held under proper custody.
- ✓ Diarize the dates of renewal of Gun Licence, Lease Deeds of Office Premises/ATM Premises, and Certificate for Weights & Measures, Insurance Policies of Bank Vehicles, and Strong Room Fitness Certificate etc. and ensure proper renewal.
- ✓ Ensure the prompt balancing of securities, stamps, fixed assets etc.

- ✓ Scrutinize and follow-up outstanding entries in the sensitive accounts like Suspense, Sundry Deposits, and System Suspense Accounts.
- ✓ Clearing difference should be followed up vigorously.
- ✓ Postage Balance, letters pending, Inward / Outward / Courier / Registered Letters Sent Registers should be scrutinized periodically. Letters should be delivered for dispatch only against proper acknowledgement of the Courier in the postage book.
- ✓ Deceased case documents for the period between two Audits previous to last one Audit should be kept as one document with new number.
- ✓ All staff loans are sanctioned properly and lien is noted in Provident Fund and cancelled when the account is closed.

iv) Important Registers to be maintained

- ✓ Branch Document Register.
- ✓ Branch Manager's Monthly Certificate Register.
- ✓ Key Register.
- ✓ Handing over / Taking over of Keys Register.
- ✓ Miscellaneous Securities Register for NSC/LIC.
- ✓ Security/Safe Custody Register.
- ✓ Sundry Loans Register.
- ✓ Cheques handed over for Dispatch – Register.
- ✓ System Suspense/ATM System Suspense Accounts Reconciliation Register.
- ✓ Voucher Verification Report Allotment Register.
- ✓ Missing Voucher Register.
- ✓ Office Orders Issued Register.
- ✓ ATM PIN mailer issue Register.
- ✓ Inter Net Banking Kit issue Register.
- ✓ Fixed Assets Register / Ledger.
- ✓ Security Forms Destroyed / Cancelled Register.
- ✓ Pass Book Over Night Retained Register.
- ✓ Registered Post Register / Courier Register.
- ✓ Undelivered Letters Register.
- ✓ TDS Register / File of Form 15G / 15H.
- ✓ Locker Access Register.
- ✓ Cheque book / Pass book issued Register.
- ✓ Stopped Cheque Register.
- ✓ Staff Leave Register.
- ✓ Government Commission Register.
- ✓ Cheque Referred and returned Register.
- ✓ IOI (Inter Office Instruments) / Drafts reported lost Register.

v) Whenever Change in the Operations Head of the Branch

- ✓ Arrange for withdrawal of duplicate keys and verify them with that of the Key Register.
- ✓ Verify the cash, including cash in the Currency Chest, hand balance and Single Window Operator's cash box and balance it with Branch General Ledger cash balance & Cash GL cash balance. (In case of Currency Chest Branch, verify the Currency Chest balance with the Chest Slip / Vault Register 'Currency Chest Bin balance a/c' / ICCOMS. Verify the small coins bags with that of the small coins depot balance.
- ✓ Verify the number of gold bags with the loan balance file and the gold items in the bags with the content slips.
- ✓ Verify the sundry loan documents with the loan balance file and ensure that the securities held are current.
- ✓ Verify the Important Branch Documents with the Branch Documents Register.
- ✓ Verify the securities such as Inter Office Instruments, guarantee forms and other security forms as per Security Register.
- ✓ Verify the miscellaneous security Register with the securities / items entered therein.
- ✓ Verify the keys of vacant and surrendered lockers and ensure that it is not held by the custodian who handles the master key.

- ✓ Verify the safe custody scrips with the safe custody Register. Verify that interest is realized wherever applicable and renewed in case of matured scrips.
- ✓ Verify the Safe Deposit Articles with the Safe Deposit Register and ensure that the seals in the pockets are intact.

The New incumbent has to peruse the Concurrent Audit, Risk Focused Internal Audit report and the Statutory Audit Report and concentrate on persisting and serious irregularities of the Branch.

(3) Loans & Advances (Credit) Department

i) Role of Assistant Manager / Deputy Manager / Manager (Advances)

- ✓ Cash Credit Documents with Cash Credit accounts / Over Draft of Core Banking System File, Cash Credit Register and also for Title Deeds as per Equitable Mortgage Register.
- ✓ Term Loan Documents with Loan Balance File, Term Loan Register and also Title Deeds as per Equitable Mortgage Register.
- ✓ Recalled Assets Documents with 'Other Reports', Recalled Assets Register and Correspondence file.
- ✓ Whether all the applications are duly filled in, appraisal are properly done, duly sanctioned by the appropriate authority and approved control forms are available.
- ✓ Whether correct documents in the proper format as per the laid down instructions of the Bank are obtained and duly filled in.
- ✓ Whether the borrower / guarantor have signed in all the pages of documents executed.
- ✓ Whether the documents are adequately stamped.
- ✓ Valuation / Title Investigation reports are available with the documents.
- ✓ Whether all the listed documents as per Title Investigation Report are on record and entered in the Equitable Mortgage (EM) Register
- ✓ Whether valid EM is created and Form A / B by postal confirmation as applicable has been received and kept on record
- ✓ Revival letters obtained, if any, are kept on record.
- ✓ Whether adequate insurance has been covered for all the eligible loan accounts and the policies are current and in order.
- ✓ Blank and Signed RTO forms obtained, Copy of RC Book in respect of all the vehicle loans sanctioned at the Branch are on record.
- ✓ Whether the bank's hypothecation has been registered with the RTO and recorded in the RC Book.
- ✓ Read the latest Audit Reports and note the observations made against loan accounts.
- ✓ Submit the Taking over certificate along with observations within three months to the Branch Head/Controller by the New incumbent of Credit Department.
- ✓ Carry out inspection of units immediately after taking over.

ii) Pre-sanction Process

Ensuring KYC Norms

- ✓ Latest Passport Size Photograph of Borrower/Guarantor should be obtained, attested by Branch Officials and pasted on Loan Application Form.
- ✓ ID proof: Photocopy of Aadhar / Voter ID / Employee ID Card/Driving License/ PAN Card/ Passport duly verified by Branch Officials with the Original, should be obtained to establish Identity of the Borrower / Guarantor. Brand the seal, 'verified with original' on the Xerox copy and sign it full in token of having verified it with the original.
- ✓ Photocopies of latest Electricity / Telephone / Credit Card Bill / other Utility Bills should be obtained to verify address of the Borrower / Guarantor as per the KYC norms.
- ✓ Apart from obtaining the above Documents, evidence of visit to Residential / Office / Business Premises of Borrower / Guarantor to verify genuineness of their antecedents should be recorded.
- ✓ If the applicant is a Company or Partnership Firm or Private or Public Limited Company, obtain the documents as advised under KYC norms under each head.

iii) Pre-sanction inspection

- ✓ Ensure the application received is filled-in properly and copies of the necessary documents are enclosed.
- ✓ Visit the Business premises of the company / firm, factory premises. Visit work place of the individuals and residences of the borrower / Guarantor / Promoter / Partner / Director.
- ✓ Mention the name of his neighbors in the pre-sanction survey report and record the contents of the interaction with them.
- ✓ Obtain his mobile & land line phone number if available.
- ✓ Discuss the loan proposal and note it on the application.
- ✓ Make a roadmap of the location mentioning village/location, street, landmark etc. i.e. any temple, school, big shop, pond etc. near to the house or place of work & record your observations at above points, while recommending for sanction.
- ✓ Visit and identify the properties offered as collaterals with the help of the Title Investigation Report, verify the details and confirm its ownership.
- ✓ Prepare a rough sketch of the properties and mark the landmarks for easy identification of the property.
- ✓ Verify whether unrestricted free access is available to the properties offered as security.
- ✓ Record the pre-sanction inspection and prepare the pre-sanction inspection report.

iv) Other Areas (SME / PERSONAL / AGRICULTURE Segment Credit Officers)

- ✓ Verify all the records viz. Sales / Purchases, Debit / Credit Notes, Book Debts, Orders on hand, Suppliers / Buyers Particulars, Statutory Dues, Subsidiary Units, Employees and their wages payment etc. to know about the unit.
- ✓ Verify the genuine credit needs of the company, its sales at normal as well as peak level etc.
- ✓ Availability of infrastructure at the premises of the unit.
- ✓ Market Trend for each activity.
- ✓ Verify whether all the required licenses for doing the business are obtained viz. SSI / GST Certificates, Water & Sewage Board Approvals, Power Connection, NOC from Pollution Control Authorities and necessary certificates from other Govt. Agencies.

a) SME Loans

- ✓ Complete analysis of Balance Sheet, Director's Report and Remarks by the Auditor.
- ✓ Ensure that the projections are reasonable, achievable and in tune with the industry/market trend.
- ✓ Consider the details of the technology, manufacturing process, availability of construction/production facilities etc., and estimates of cost of the project.
- ✓ Consider the details of the proposed means of financing indicating the extent of promoters' contribution etc.
- ✓ Consider the Debt service coverage ratio (DSCR) to know the viability of project and for fixing the repayment period and the quantum of annual installments and the Internal rate of return (IRR) to ascertain the income generating capacity of the total funds used in the project over its life time.
- ✓ Ensure the, Commercial Viability, Technical Feasibility, Economic Viability, Financial Feasibility, Managerial Competency, Environmental concern: etc.
- ✓ Ensure that the Quotations / Invoices are obtained from reputed/standard manufacturers/ dealers/ companies.
- ✓ The machineries / equipment's / articles to be purchased out of bank finance are of ISI/BIS approved.

b) TIR & Valuation Report

- ✓ Ensure that the legal opinion is in prescribed format and the documents as listed in the Title Investigation Report (TIR) are received direct from the Panel Advocate.
- ✓ Panel Advocates should clearly confirm that they have conducted independent Search in the Records of Sub-Registrar Office concerned and that the documents are genuine, convey Clear, Absolute and Marketable Title and are valid for creation of a valid Mortgage.
- ✓ Legal Opinion Report should be perused thoroughly. Branch should obtain all the Original Documents and other Link Documents as stipulated by the Advocate in the TIR.
- ✓ Ensure that no conditions are mentioned in the TIR and search report is enclosed with the TIR.
- ✓ The Movement of Documents from the Branch to the Advocate and vice-versa should be through an Authorized Official of the Branch / Registered Post etc. to ensure that all the required Documents are intact as mentioned in the TIR.

- ✓ In case of doubt with regard to the title or its genuineness, the 2nd Opinion from the Bank's Law Officer should be obtained.
- ✓ Supplementary TIR wherever necessary should be invariably obtained and be kept on record.
- ✓ Ensure the Valuation report is from the Panel Valuer, Photograph of the property is scanned in the report and compare the valuation of the property with the market value prevailing in the area, to ascertain there is no excess/exorbitant valuation and record your assessment of the valuation.
- ✓ Up-to-date Encumbrance Certificate for the last 13 years for non-Agricultural and 30 years for Agricultural properties should be obtained.
- ✓ Up-to-date Land Revenue / Property Tax (Like Municipality Taxes etc.) Receipts should be obtained.
- ✓ Chitta, Adangal, Patta and Revenue Records to be obtained and kept on record for agricultural lands.

c) Property documents and its Genuiness

- ✓ Original Registered Sale Deed / Agreement to Sale should be obtained and the following should be ensured.
- ✓ Exercise adequate care before creation of EM to verify the genuineness of the Original Title Deeds as Color Photo copies look identical to the original documents.
- ✓ Laminated documents should not be accepted.
- ✓ Verify the availability of Seal / stamp of Office of Sub-Registrar on all pages of the documents.
- ✓ Adequate Stamp Duty should have been paid for Registration as per the relevant Stamp Act.
- ✓ Ensure that the Stamp Papers used are purchased in the name of one of the Parties, i.e. either Seller or Purchaser.
- ✓ Photograph of the Purchaser / Seller from the Sale deed/Agreement for Sale should be verified. (In case of Recent Agreements).
- ✓ Signature of the Sub-Registrar on Registration Fee Receipt should tally with the signatures on the Index-II and other pages.
- ✓ Original index-II should be submitted. The Stamp Duty, Date of Registration, Market Value mentioned in Index-II should tally with other documents.

d) Income Proof

- ✓ Obtain regular salary certificate for the last three months to avoid fabrication.
- ✓ Obtain Income tax returns for the last 2-3 years and scrutinize the INCOME Tax department stamp & receipt number.
- ✓ If income tax returns are submitted for the previous years in the current year on the same date, make it a point to verify these from ITO office and narrate it in the pre sanction survey report. Verify the returns with the originals and record it on the Xerox copy.
- ✓ Income of the Applicant from Various Sources (Salary / Business / Agriculture etc.) should be substantiated/recorded with evidence i.e. Income should be computed judiciously (income from sources for which no documentary proof is available should not be included so that eligible loan amount is not inflated deliberately).
- ✓ Obtain Form -16 in case of government employees.
- ✓ Confirm the genuineness of the Certificate by contacting the issuing authority and record it.

e) Assessment of Borrower's / Guarantor's Net Worth

- ✓ Assets and Liabilities Statements of Borrowers/Guarantors should be obtained with detailed particulars on Standard Formats.
- ✓ Power of Attorney (if applicable) in Bank's Standard Format duly stamped and Notarized / Attested by Indian Embassy / Consulate (for NRI Borrowers) should be obtained.
- ✓ Opinion Reports on Borrowers / Guarantors should be compiled in Standard Formats. Verify with the details with Original Documents and sign it.
- ✓ Discrete Enquiries should be made and record the credentials/antecedents of Applicant / Guarantor. Feedback from Salary Disbursing Officer / Institution / Neighbor should be recorded. In case of Professionals / Self-Employed persons, name of the Firm, Constitution, Activity, Address, Phone number, Years of existence etc. should be verified and recorded.

f) Appraisal

- ✓ Opinion Reports of the borrower/ guarantor/ partners/ directors.

- ✓ Clearly record all the negative information which comes across while appraising the request.
- ✓ Ensure there are no encumbrance, clear title and marketability of collaterals offered by making searches in the Sub-Registrar Offices / ROC.
- ✓ Deviations if any observed should be reported to the Controllers and their approval to be obtained before sanction of the credit limit.

g) Personal Segment Loans

Ensure the eligibility criteria including Income Proof. Loan amount should be based on Net Salary/income taken from Salary Certificate/ Form 16/ Income Tax Returns.

i) Housing Loans

- ✓ Building Plan approved by the Competent Authority should be obtained and perused and Evidence of Independent Site Verification should be on record. A Location Sheet indicating landmarks signed by the Visiting Official should be Annexed.
- ✓ Civil Estimate prepared by a Civil Engineer or an approved Architect should be obtained. Cost of the project should be scrutinized and found to be reasonable in relation to the Built-up Area and as per the prevailing Market Rate. Cost of amenities included in the Total Project Cost should be reasonable.

ii) Additional requirements in respect of purchase of flats from builders

- ✓ Feedback on the credentials / antecedents of the Builder with Previous Projects, experience should be enumerated / recorded. This can be verified from other Reputed Builders in the locality. Also, there should be a record whether the Builder is on the Approved List of the Bank (if any) or is of a Member of the Local Builders' Association.
- ✓ From few residents of existing projects promoted by the Builder; feedback on quality of construction, timely completion, conveyance of ownership title, disputes / litigations, if any, may be obtained / recorded.
- ✓ Builders' Banker's may also be contacted to verify his credentials.
- ✓ Copy of Approved Plan should be obtained and verified with the Original (May be verified from Govt. Office for genuineness and also to ensure that construction only to the permissible extent/level has been carried out.)
- ✓ Valuation Report of an Approved Valuer should be on record. Cross checking of valuation should be done independently. Valuation Report should also contain Realizable Value, in case of a Distress Sale.
- ✓ Adequate comments about Access to the Property, Locality, Habitation Conditions, and Landmarks for identification of the Property. Display of signboards of the Apartment's / Builder's name at the Construction Site etc. should be recorded.
- ✓ The documents should be executed by the Land owner / Builder himself. In cases, where document is executed by a Power of Attorney Holder, the document should clearly specify the rights of each Party.
- ✓ Original Allotment Letter issued (verified with the records of the Builder) should be on record. If it is not in English, its English version, duly vetted, should be annexed.
- ✓ Possession Letter / Share Certificate in respect of the flat should be available and should be printed / typed on the letterhead of the Builder/Developer.
- ✓ The Floors / Flats should be within the given range permitted for Development/Construction by the Appropriate Authority.
- ✓ In case, Society has not been formed despite completion of construction, resulting in non-availability of Share Certificate, a Stamped Deed of Undertaking-cum-Power of Attorney (Standard Format) should be obtained from the Builder / Flat owner for delivery of the Share Certificate direct to the Bank as and when the Society is formed.

iii) Loans to Salaries Employees

- ✓ Permanent Salaried employees of Government / PSUs / Reputed Private Organizations only are eligible.
- ✓ Latest Original Salary Certificate / Form-16 duly stamped and signed by Drawing & Disbursing Officer (DDO) / Employer should be obtained.
- ✓ Signature of DDO / Employer appearing on the Salary Certificate / Form-16, other documents should be verified to ensure genuineness.

- ✓ Take Home Salary should not be less than 50 % of the Gross Salary, after accounting for the proposed EMI on the Housing Loan.
- ✓ It should be ensured that Income is not inflated by showing Income from Sources which are not verifiable or for which no records are available.
- ✓ Check-off Facility should be available and should be signed by Competent Authority. In case, it is not available, Post Dated Cheques (PDCs) should be insisted upon.

h) Agriculture Segment Loans

- ✓ Obtain copies of the patta, chitta and adangal. If tenant cultivator ensures that his name is entered in the adangal and the crop is indicated.
- ✓ Ensure that eligibility is calculated as per scale of finance approved by District Level Bankers Committee.
- ✓ In case of SHG loans note to obtain KYC documents for each member of the Group separately and open and link the Customer Information File (CIF) to the loan account. Before dispersal the group should be visited by an official and records should be verified in the meeting.

i) Sanction

- ✓ The Loans should be sanctioned as per the Delegation of Financial Powers. Sanction should be recorded properly.
- ✓ The amount of Loan Sanctioned and Terms of Repayment viz., EMI, Repayment Period, and Date of Commencement of Installments should be properly recorded.
- ✓ Control Form should be submitted to the next Higher Authority and the Confirmed copy should be on record. Deviations, if any, should have the approval of the Competent Authority and kept on record.
- ✓ Sanction of the credit limit should be properly advised to the applicants/guarantors

j) Documentation

- ✓ Ensure that appropriate document – CC / Term Loan Documents such as, SME, ACC / ATL Documents, Arrangement Letter, TL Agreement, Guarantee Agreement, Agreement to Create Mortgage, Tripartite Agreement, and General Power of Attorney – is used.
- ✓ Ensure all the documents are properly filled-in and are complete in all respects
- ✓ Borrower / Guarantors should have signed on each page of the Loan Documents including Sanction / Arrangement Letter. These should be dated and witnessed, wherever applicable.
- ✓ Ensure that the documents are executed in our own premises, dated and the place of execution is marked on all the documents. If it is executed elsewhere, ensure the documents are properly stamped as applicable at the place of execution and the facts that the documents are executed elsewhere has to be noted in CC / TL Register.
- ✓ Documents should be adequately stamped as per the Stamp Act of the State in force.
- ✓ Embossing / Cancellation of Documents should be done under Full Signature (not initials) of the Branch Manager with Seal (not round seal of the Branch).
- ✓ Ensure the obtention of necessary Board Resolutions and common seal is affixed on the documents executed as per Articles of Association of the Company.
- ✓ Obtain PDCs, wherever necessary (for P Segment Loans) and record it in the PDC register and system for effective follow up.
- ✓ Cuttings in Documents should be authenticated by the Borrower/ Guarantor with full signature.
- ✓ Arrangement letter/ sanction letter conveying the terms and conditions of the loan should be signed by the borrowers.
- ✓ The completed documents should be kept securely.

k) Creation of Equitable Mortgage (EM)

- ✓ Before creation / extension of EM obtain encumbrance certificate for the broken period i.e., Period between the date of TIR and the date of EM creation.
- ✓ EM should be created / extended for the property offered as security before disbursement. Recital of EM Register should be made as per the Standard Format and in chronological order. All particulars in the Recital should be filled in properly. Recital should be made after completion of all EM formalities and witnessed by two officials of the Branch/Bank.

- ✓ Standard EM Confirmation Letter, Form 'A' in case of fresh creation of EM and Form 'B' in case of extension of existing EM should be received at the Branch by Registered post. It should be dated subsequent to the date of creation of EM (Otherwise it may attract Advalorem Stamp Duty).
- ✓ In case of extension of EM ensure that all the persons who have signed Form 'A' have signed Form 'B'
- ✓ After creation of EM, it is mandatory to register **Mortgage of Documents**. Obtain an Encumbrance Certificate after registration of MOD and confirm that the Bank's interest is recorded in the EC.
- ✓ It is also mandatory to register the particulars of the EM under **CERSAI** to protect the security interest of the property.

i) Steps to be taken by the Non-notified Centre (Lending) Branch for creation of EM

The Branch Should record details of EM documents (including a copy of the Recital) in Title Deeds Register after receipt of the same from the Notified Centre Branch and send an acknowledgement thereof to the Notified Centre Branch.

ii) Steps to be taken at the Notified Centre Branch

- ✓ Should complete all necessary formalities of creation of EM.
- ✓ Should forward all Documents relating to EM and a copy of Recital to the Non-notified Centre (Lending) Branch by Regd. and Insured Post under the cover of a letter detailing all Documents and must obtain an acknowledgement.
- ✓ The Notified Centre Branch must preserve the acknowledgement for scrutiny by the Branch Inspectors/Auditors.
- ✓ In the case of Houses allotted by Housing Board / Development Authority, written Permission from the Housing Board / Development Authority concerned (if such a stipulation is found in the Allotment Letter / Sale Agreement) for creation of EM in favor of the Bank should be obtained.
- ✓ In the case of financing houses allotted by Housing Co- Operative Societies, written permission from Housing Co-operative Society (if any) for creation of EM should be obtained. The Society should confirm having noted Lien and should undertake Delivery of Title Deeds, when ready.

l) Control Returns

Send the control report to higher authorities / controllers immediately after documentation.

m) Disbursement

- ✓ Disbursement should be done only after completion of documentation and dispatch of control returns.
- ✓ The borrower must open a SB / CA and deposit the margin money in it.
- ✓ Disbursements should be made after completion of all formalities including Documentation and creation of EM.
- ✓ Ensure to make payment direct to the suppliers' / vendor's account through electronic payment modes- RTGS / NEFT. Credit the customer's a/c for housing loans.
- ✓ Ensure that "HYPOTHECATION / PLEDGED to BANK" clause must be written on the bills/invoices.

i) Disbursement for Housing Loans

- ✓ Disbursements should be made in phases, in accordance with stages of construction except in case of outright purchase of a Ready-built Flat House.
- ✓ Records of Post sanction Inspection by Branch officials should be prepared and kept on record to evidence progress of construction.
- ✓ Necessary evidence for purchase of materials by the borrower should be obtained in case advance payments are made.
- ✓ Reimbursement of Expenditure Incurred, should be made on the basis of Stage Completion Certificates, issued by a Civil Engineer/ Architect, confirmed by the borrower and duly verified by the Branch Officials.
- ✓ In case of Flats, payment should be made directly to the Builder by way of electronic payment- RTGS / NEFT. A Letter of Authority from the Borrower should be obtained for effecting direct payment by the Bank to the Builder.
- ✓ Disbursements should be made after ensuring Proportionate Contribution by the Borrower Stipulated as Margin.

- ✓ In case of Housing Loans sanctioned for purchase of ready built houses / flats / plots ensure that the amount entered in the agreement to sale tallies with the amount entered in the sale deed.

ii) For Other Loans

- ✓ Opinion Report about the Suppliers to be obtained from their Bankers – for Term Loans.
- ✓ Make payments direct to the suppliers / vendors.
- ✓ Ensure stipulated margins are brought in by the borrowers / units as per the sanction letter.

n) Insurance

- ✓ Insurance, wherever applicable must be obtained with bank's hypothecation clause with renewal annually.
- ✓ Insurance for full value of the Flat / Building and 110% of stocks should be obtained and Original Policy retained at the Branch. The Policy should be current and in force.
- ✓ Insurance Policy should cover all risks like Earthquakes, Fire, and Riots etc.
- ✓ Insurance Policy should bear the name of the Financing Branch.
- ✓ Insurance Register should be maintained and updated to ensure timely renewal of Policies.

o) Inspections

- ✓ Credit Officers should inspect the units at monthly irregular intervals. The Credit Officer need not conduct monthly inspection during the month in which Branch Manager/ Manager of the Division has inspected the unit unless the circumstances so demand.
- ✓ Ensure end use of funds by immediately inspecting the assets purchased out of bank's funds and record it in the Inspection Register with details.
- ✓ Regular inspections must be conducted & recorded in the Inspection Register.
- ✓ In car loans for Standard Assets accounts, periodical inspections are waived. However, if there is a default of two installments, inspection is required.
- ✓ Half Yearly inspections are required in NPA accounts.
- ✓ In Housing loans for standard assets accounts, inspections are required after every disbursement during construction, thereafter, once in a year. However, if there is a default of two installments, inspection is required immediately.
- ✓ Half Yearly inspections are required in NPA accounts.
- ✓ Adverse features and irregularities may be advised to the higher authorities/ controllers immediately and steps to be initiated for regularizing the position under advice to controllers.
- ✓ For Agricultural Loans, after disbursement of the crop loan, no inspection of the crop need be undertaken till harvest time. However, the branch officials should maintain contact with the farmer on an ongoing basis at least once in a quarter.
- ✓ Irregular crop loans (any amount) – monthly visits for recovery should be taken.
- ✓ Where movable assets are created out of our finance, one post-disbursement inspection within one month should be undertaken. Creation of the asset to be invariably ensured and recorded.
- ✓ Regular term loans (any amount) – Inspection once in six months for verification of asset (preferably at harvest time) will suffice.
- ✓ Irregular term loans (any amount) – Monthly visits for recovery should be undertaken.

p) Recovery of Installments, Supervision and Follow-up

- ✓ Ensure the end-use of funds.
- ✓ Ensure that the assets created are effectively utilized for productive purposes and are well maintained.
- ✓ Ensure recovery of the installments as per the scheduled repayment programme.
- ✓ Monitor the failed Standing Instructions Report and initiate action for recovery.
- ✓ Adequate number of Post-Dated Cheques (PDCs) should be obtained, recorded and held in Joint Custody if there is no check-off facility.
- ✓ PDCs should be presented for payment on Due Dates.
- ✓ Proceedings under Section 138 to 142 of NI Act should be initiated in respect of PDCs returned unpaid.
- ✓ Revival Letters, duly signed by both the Borrower and Guarantor, should be kept along with the Loan Documents.
- ✓ Proper follow up of non-receipt of installments on Due Dates to be made.

- ✓ Obtain periodical stock statements and scrutinize the same by thorough critical analysis viz. stocks – Idle, Old, Outdated, Stale, Non-moving, Sundry etc.
- ✓ Stocks Pledged / Hypothecated to the Bank must be inspected at irregular intervals which should ordinarily not exceed one month.
- ✓ Obtain cash budget, if any, QIS statements or Financial Follow-up Reports (FFRs), as the case may be, monthly statement of select operational data etc.
- ✓ Confirm whether salaries for the employees are paid in time.
- ✓ Confirm the level of activities by verifying Electrical meter reading.
- ✓ Confirm maintenance of invoices for Purchase and Sales and Registers for Sundry Debtors / Sundry Creditors.
- ✓ Ensure the display of bank's board at a prominent place visible to the eyes of public / others.
- ✓ Ensure the correct address of the unit is mentioned in the policy and also hypothecation clause wherever necessary is recorded properly in the Insurance policy.
- ✓ Adequate care should be taken for stock sent for process at far of places and necessary arrangements for covering the stocks should be made in the policy.
- ✓ Diarize and ensure the obtention of Revival Letters in time and keep the documents current and in order.
- ✓ Ensure, for vehicles financed by us, our charge is noted in the RC Book and a copy of the RC Book is kept along with the documents.
- ✓ Ensure Form:29/30 and Form No:34/35 duly signed by the borrower are obtained and kept on record.
- ✓ Ensure prompt submission of Financial Statements at Quarterly / Half-yearly and Yearly intervals and critically analyze the same from bank point of view.
- ✓ Ensure that the excess drawings allowed are need based, approved and proper control for regularization of the same by the unit.
- ✓ Ensure the excess drawings allowed are reported to the appropriate authority for their scrutiny and confirmation.
- ✓ Ensure prompt and regular payment of installments for Term Loan accounts and routing of credit proceeds to Cash Credit Accounts.
- ✓ Ensure that the review / renewal exercise is completed in time.
- ✓ Ensure that maintenance of all the correspondence with the unit and controllers are filed properly.
- ✓ Ensure the compliance of terms and conditions of the sanction by the unit. Deviations if any observed should be reported to the Branch / Controllers.
- ✓ Ensure that no information is suppressed which is detrimental to the interest of the Bank.
- ✓ For government employees, irregularity must be intimated to the Head of the Department / Drawing Disbursement Officer immediately.
- ✓ Ensure Registration of charge with ROC.
- ✓ Ensure periodic search of charge with ROC to protect the Bank's interest.
- ✓ Wherever loans are sanctioned for outright purchase of Houses, plots, flats follow up to obtain the original title deeds and create EM after obtaining TIR.
- ✓ Follow-up of and rectification of irregularities pointed out in the various audit reports.
- ✓ Recovery of applicable charges / fees / penalties etc. as per extant instructions.
- ✓ Preparation of reviews of IRAC, identification of deteriorating assets / potential NPAs and initiation of corrective action where warranted.
- ✓ Account-wise follow-up of NPAs for recovery / rehabilitation, preparation of related recommendations to appropriate authority for approval.
- ✓ Send demand notices for accounts where installments are overdue.
- ✓ Hand over cases to Recovery agencies for recovery under SARFAESI Act, seizure of vehicles etc. and filing of DRT and other suits for recovery of dues with due approval from appropriate authorities.
- ✓ To identify early warning signals, if any, and initiate remedial measures thereby averting the incidence of incipient sickness.
- ✓ To ensure compliance with all internal and external reporting requirements covering the credit area.

q) Important Registers to be maintained

Application Received / Disposed-Off Register
 Control Forms Sent & Received Register
 Documents Execution Register
 Assets Hypothecation Register
 Drawing Power Register
 Ledgers – CC / Term Loan / Agri. Term Loan

Loan Sanction Register
 EM Register
 Insurance Register
 Inspection Register
 LC / BG Register
 Opinion Report File

Stock Statements File
Written Off Accounts Register
Compromise Proposals Register

Tour Diary
Suit Filed Register
DCB Register

r) Daily Reports generated through Core Banking System (CBS) to be verified by the Assistant Manager / Deputy Manager / Manager (Advances)

Cash Credit / Over Draft Balance File
Report on Agricultural Advance
Failed Standing Instruction Report
Exception Report for Interest Rates
List of NPA Accounts
List of Segment-wise INCA Balances
List of Special Mention Accounts

Inspections Due Report
Insurance Expiry Report
Review/Renewal Due Report
Loan Accounts Opened for the day Report
Probable NPA A/Cs Report
Overdue Loans

s) Reports for Monitoring Advances

- ✓ Failed Standing Instructions.
- ✓ Expired Insurance Policies for renewal.
- ✓ Pending charges to be registered with Registrar of Companies.
- ✓ Excess Drawings Permitted.
- ✓ Monthly Reports on 5th & 25th of every month on Agri. Advances including NPA tracking date.
- ✓ List of irregular CC/OD Accounts.
- ✓ List of Irregular TL/DL accounts.
- ✓ Incorrect interest rates for CC / OD accounts – exception report.
- ✓ Loan Balance with zero interest rate.
- ✓ Collateral Security already matured report.
- ✓ Securities to be matured during next month.
- ✓ Securities created but not authorized report.
- ✓ Collateral Securities matured – Term Deposit / Special Term Deposit.
- ✓ List of NPA Accounts.
- ✓ Manual corrections to IRAC Status.
- ✓ Probable NPA accounts list.

t) Takeover of Loans from other Banks / NBFCs / Agencies

In case of Takeover of Loans from other Financial Institutions, Branch should obtain the following documents:

- ✓ Ensure that all the laid down instructions for taking over of loans from other financial institutions are meticulously followed and there are no deviations.
- ✓ Ensure that deviations if any have been duly approved by the Controllers / competent authorities.
- ✓ Ensure that the account is a standard asset and satisfactorily conducted at the other financial institution.
- ✓ Critically examine the reasons why the borrower / unit is switching over to our bank from their existing bankers.
- ✓ Ensure that the KYC norms have been followed.
- ✓ Statement of Accounts evidencing regular and up-to-date Payment of Installment and Interest.
- ✓ Administrative Approval of next Higher Authority for Take Over of the Loan.
- ✓ Fresh up-to-date Non-Encumbrance Certificate and Legal Opinion Report.
- ✓ Ensure the obtention of opinion report and NOC from the financial institutions.
- ✓ Ensure no adverse remarks against the unit.
- ✓ Ensure the availability of Collateral Securities and its encumbrance.
- ✓ Complete set of Title Deeds and connected Papers with a Forwarding Letter.
- ✓ Receipt / Acknowledgement for the Cheque / Draft received together with a “No Dues Certificate”.

u) Non-performing Assets

Ensure the verification of list Cash Credits, Overdrafts, Demand Loans, Term Loans of all Segments and Probable NPA accounts:

- ✓ Take corrective steps for regularization of accounts under SMA category into standard assets.
- ✓ Ensure that there are no technical NPAs identified.
- ✓ Ensure identification of all the NPA accounts as per the IRAC norms.
- ✓ Ensure no NPA accounts are held in live regular category accounts.
- ✓ Ensure conduct of Recovery Camps, Lok Adalats at District / State Level at regular intervals to maximize the cash recovery.
- ✓ Ensure prompt submission of recommendations for transfer of outstanding to Recalled Assets Account to Controllers and seek their approval.
- ✓ Ensure timely initiation of legal action, filing of suit.
- ✓ Ensure obtention of acknowledgement from Panel Advocate while handing over the security documents for filing suit.
- ✓ Ensure NPA status of an account is changed only on recovery.
- ✓ Ensure interest rate is Zero in NPA accounts.
- ✓ Ensure interest is not applied to NPA accounts.
- ✓ Ensure no renewal, new loans sanctioned to the borrowers whose account is already classified under NPA.
- ✓ Ensure all the documents / title deeds / files of Recalled Assets are on record.
- ✓ Ensure periodical supervision and follow-up of NPA accounts.
- ✓ Ensure that all the particulars of Recalled Assets are properly recorded in the Recalled Assets Account.
- ✓ Ensure the follow-up of DRT cases and update the current position.
- ✓ Ensure the prompt attendance for Court / DRT / IBC cases.
- ✓ Ensure the list of advocates and the cases handled by them.
- ✓ Ensure the receipt of monthly / quarterly reports of all the cases from Advocates and appraise the Controller the updated position.
- ✓ Ensure review of suit filed cases at quarterly intervals and submit the Branch recommendations to the Controllers.
- ✓ Ensure timely submission of Written of Proposals to controllers to seek their approval.
- ✓ Ensure the initiation of compromise proposals wherever possible.
- ✓ Ensure the asset details of the borrower / guarantor not mortgaged to the bank to the Advocate for filing attachment before judgment.
- ✓ Ensure proper care for realizable value of securities for Doubtful Assets to protect the bank's interest.
- ✓ Ensure proper arrangement for sale of the movable assets of the unit at the earliest to avoid security charges / insurance / removable by the owner or others.
- ✓ Ensure all out efforts to minimize the portion of loss to the bank to barest minimum after realizing the value of securities.
- ✓ Ensure the decrees obtained from the Court / DRT are as per our prayer including rate of interest filed.
- ✓ Ensure necessary steps for filing Execution Petition for Decree, EP.
- ✓ Ensure location of property, landmark, sketch map prepared and kept on record for all the securities for easy identification.
- ✓ Ensure supervision and follow-up on Restructured Loans.
- ✓ Ensure maintenance of Registers for Suit Filed, Written Off, Compromise Proposal, Cash Recovery etc.

(4) Head of the Branch

i) Role

Branch Manager is the key motivator and leader who channelize all the resources available to render excellent customer service, promote business development and increase profit.

The **Branch Manager** being overall in-charge of the **branch**, the responsibility of business development, staff development, proper housekeeping and image building rests with him.

The task of the Branch Manager is multifarious, demanding knowledge, skills and attitudinal orientation. He/ She must be updated on knowledge of instructions regarding systems, procedures, rules regulations, risk mitigation, marketing etc.

The Branch Manager is vicariously responsible for the acts of his subordinates.

ii) Functions of Branch Manager

- ✓ Branch Manager has to ensure the following at the time of taking over as Branch Manager of a Branch. Study the Branch Dossier also.
- ✓ Read the latest Performance Report of the Branch and get a panoramic view of the Branch business position. Study the Branch Dossier (Performance of the Branch of earlier years, Opportunities available in the area of operation etc.)
- ✓ Read all the latest Audit Reports of the Branch and be aware of the problems of the Branch. Carefully go through the observations made in GHSI (Group Heading of Serious Irregularities) of last Audit Report and cross check them with relevant records.
- ✓ Identify deficiencies in the functioning of the Branch from the marks awarded to the core parameters.
- ✓ Fraud folder, investigations, inquiries pertaining to the affairs of the Branch, if any exist has to be studied and ensure proper control of documents relating to such matters.
- ✓ Branch Document Register – All the items to be checked to ensure they are valid, properly indexed and initialed and are current and in order.
- ✓ Key Register – Ensure that the entry of all the keys of officials, are properly entered and no extraneous entries are recorded in the register.
- ✓ Read and note the emergency arrangement of the Branch.
- ✓ Ensure the availability of Duplicate Key Deposit Receipt.
- ✓ Check the System Suspense Accounts entries – Ascertain the reasons for long outstanding entries and the steps taken for reconciliation of such entries.
- ✓ Loan Balance File / Cash Credit accounts, Over Draft accounts (CCOD) / List of NPA Accounts – to find and ascertain the overall position of the Branch.
- ✓ In case, the Branch does not have a designated Field Officer, take possession of all the loan documents and verify each with the Loan Balance File / Cash Credit and Over Draft file.
- ✓ Ensure that all the limits were sanctioned under proper Authority and relevant control forms are available.
- ✓ Verify the security documents relating to advances/loans and verify whether they are appropriate, current and enforceable.
- ✓ Check the balance of stamps held in the stamp account.
- ✓ Arrange for withdrawal of duplicate keys for verification from the neighboring branch. After verification it should be released and re-deposited back on the same day. The fact of withdrawal should be entered in the Branch Key register and advised to the Controlling Authority.
- ✓ Check and note the emergency arrangements to be followed in the event of sudden incapacitation of the Branch Manager.
- ✓ Check the Protective and security arrangements, availability of auto locking facility at all the counters, fire protective systems notices, locking up arrangements, Police patrolling, emergency alarm bells and ensure that lights are adequate.
- ✓ Ensure that CCTV is installed at the Branch is functioning, all the cameras are in working condition and storage facility of data of at least 45 days is available in the system.
- ✓ Ensure that the Branch Manager's monthly certificate depicts the true picture of positions obtaining at the branch.
- ✓ Verify whether the Customer Service Committee Meetings and Customer Relation Programmes are held at stipulated intervals and advised to controllers.
- ✓ Verify the documents relating to branch and its premises, viz., approved maps / lease deed / title deeds / licenses and their validity. If the premises are taken on lease/ license, check the rent receipts etc.
- ✓ Verify insurance of cash and valuables, cash in transit, fixed assets, gun licenses, ammunition, fire extinguishers, anti termite treatment, time lock on strong room, security alarms, communication system with nearest police station etc.
- ✓ Visit local police station, senior police authorities and other important government officials in the town.
- ✓ Visit important customers and record in the Customer Call Register.
- ✓ Visit important leaders, good NGOs, Heads of Educational Institutions, industries, builders etc.

iii) Daily routine of activities of Branch Manager

- ✓ Visit customer area to see whether all the customer amenities like water, water filters, water coolers, lights, fans, air coolers, air conditioners, wash rooms, brochures, vouchers, signboards, furniture, drop-box etc. are in order and adequate.
- ✓ Check the complaints / suggestion box.
- ✓ Check all the security systems / electrical wirings / fire extinguishers, etc. are in order.

- ✓ Check whether the security guards are on duty with gun, if applicable and check whether the guns are loaded and ammunition available.
- ✓ Get all the vouchers of previous day, scrutinize and do second crossing.
- ✓ Read the e-mails received at the branch and initiate suitable steps. If the e-mail is received from an outsider, acknowledge receipt immediately pending final disposal.
- ✓ Follow-up pending items, if any, against request / instructions received for Internet Banking Reports through Manual Intervention Transaction menu in Core Banking System (CBS).
- ✓ Verify the Roster Register to ensure that all the reports have been delivered and acknowledged for checking.
- ✓ The Voucher Verification Registers and other reports are allotted and properly checked invariably on T+1 basis and vouchers are cancelled by checking Officials suitably.

iv) **Daily routine of Branch Manager in Core Banking System**

- a) **REPORTS:** Verify / ensure that all the reports for the previous day have been received. If any report has not been received, ITS department at H.O. may be contacted for obtaining the same. All reports are to be printed and checked as per allotment made through suitable office order. The Branch Manager has to ensure that the reports are checked on day-to-day basis and corrective action, if any, has been initiated.

The **Branch Manager** should scrutinize the checked reports, particularly the following:

- ✓ Voucher Verification Report (VVR).
- ✓ Daily Report on Accounts Opened & Closed.
- ✓ Report on back dated value transactions.
- ✓ Report of High-Value Transactions.
- ✓ TDS Daily Report.
- ✓ Failed Standing Instructions Report.
- ✓ Exception Reports.
- ✓ List of Non-zero Intermediary Accounts.
- ✓ ATM Suspense Postings Report.
- ✓ List of User Report.
- ✓ Delayed Stock Statement.
- ✓ Cash Credit (CC) / Over Draft (OD) and Loans Balance File.
- ✓ Irregularity Reports in respect of advances.
- ✓ Probable NPA Report & List of NPA Accounts.
- ✓ List of Accounts due for revival.
- ✓ Check for un-reconciled ATM entries (available in EOD reports folder).
- ✓ Check VVR for Non-Home Branch Transactions.
- ✓ Check Branch General Ledger (BGL) Day Book for Non Home Branch Transactions.
- ✓ Ensure allotment and proper checking of VVR and General Ledger (GL) daybook.
- ✓ Check Exception Report.
- ✓ Branch General Ledger (BGL) Audit ad-hoc Report.
- ✓ Check list of probable NPA file in Core Banking System (CBS) Reports folder.
- ✓ Report on Manual Interest intervention adjustment transactions.

b) **Month end routine for Branch Manager**

i) **Verify and Ensure**

- ✓ BM's Monthly Certificate with Annexure.
- ✓ Outstanding entries in Sundry, Suspense and BGL accounts for prompt reversal.
- ✓ Verify the Staff Accounts.
- ✓ TDS is remitted before the due date.
- ✓ Ensure that the gold ornaments pledged against gold loans are assessed by an appraiser for purity.
- ✓ Ensure that all incomes have been correctly booked / realized.

ii) **Routine at Periodic Intervals**

Ensure that:

- ✓ The staff members are aware of the Information Security instructions.
- ✓ Reports are filed properly and preserved as per the Bank's Instructions.
- ✓ Scanning of all Customers' Signature is done at the branch / Liability Central Processing Centre (LCPC).
- ✓ Intraday cash verification is carried out by the Cash Officer regularly at irregular intervals.

iii) Registers to be maintained

Ensure proper maintenance of the following registers / records / Files at the Branch:

- ✓ Branch Manager's Monthly Certificate Register.
- ✓ Fixed Assets Register.
- ✓ Insurance Register.
- ✓ Documents Execution Register.
- ✓ Title Deeds Register / EM Register.
- ✓ Trust Accounts Register.
- ✓ Customer Call Register.
- ✓ Various Audit Reports and its present position.
- ✓ Court Cases – Files / Records.
- ✓ Customer Complaint Register / Files.
- ✓ Annual Maintenance Contracts – Approval / Payments Register.
- ✓ Preventive Vigilance Committee, Customer Service Committee and Customer Relations Programme - Registers /Files.
- ✓ Missing Voucher Register.
- ✓ Registers for Loan Application Received & Disposed, Assets Hypothecation, DP, Insurance, Inspection.
- ✓ Registers for NPA-Suit Filed / Special Mentioned Accounts (SMA), Written-Off, DRT and Compromise Proposals.
- ✓ Letters Received / Sent Register.
- ✓ Cash Transaction Monitoring Register.

iv) It is the bounden duty of the Branch Manager to ensure

- ✓ Zeroing of the System Suspense Account on day to day basis.
- ✓ Allocation of Voucher Verification Report Checking and Checking of VVRs on daily basis.
- ✓ Scrutiny of transactions of high withdrawals and enquire its necessity.
- ✓ Monitor high value transactions by non-home branches in the accounts of the Branch.
- ✓ The Branch does not have any unauthorized tellers in the Branch log in Core Banking System.
- ✓ The allocation of proper capability levels for the Users at the Branch.
- ✓ Scrutiny of capability level changes made at the Branch on daily basis.
- ✓ Ensure adequate protective arrangements at the Branch and also proper security arrangements for ATM Cash Replenishment.
- ✓ Prompt submission of various returns and its correctness.
- ✓ Strict adherence to cash department procedures as per laid down norms of the Bank.
- ✓ Reconciliation of Systems Suspense Accounts including ATM Accounts is done on daily basis.
- ✓ All the security documents for loan accounts are available, current and in order.
- ✓ No documents are kept time-barred. Revival letters obtained are properly kept along with the documents concerned.
- ✓ All the Title Deeds, Encumbrance Certificates (ECs) as per Title Investigation Report (TIR) are properly kept at the Branch.
- ✓ Appropriate actions are initiated for NPA accounts.
- ✓ Follow-up of SMA / NPA accounts, Recovery etc. are properly carried out at the Branch.
- ✓ Court Cases are properly followed and current position of each case is recorded in the respective registers.
- ✓ Meticulous maintenance of all the Registers as per the laid down instructions of the Bank.
- ✓ Proper follow-up of Systems and Procedures as per laid down instructions.
- ✓ Post facto sanction / approval obtained for the deviations if any observed in sanction of advances/loans at the Branch.
- ✓ Submission of Compliance reports various Audits.
- ✓ Control over expenditure – Charges, Petty Cash & Miscellaneous.

v) Indicate checklist for Branch Managers**i) Hardware**

- ✓ Details of machines with location and number to be maintained in a Register.
- ✓ Annual Maintenance Contract (AMC) to be done before the expiry date.
- ✓ Insurance to be renewed before expiry date.
- ✓ Preventive Maintenance of computer/UPS/AC/ generator.
- ✓ Cleaning arrangement once in a fortnight.

ii) Software

- ✓ Only Bank's authorized software.
- ✓ Keep watch against Un-licensed / Pirated software.
- ✓ All software licenses & media in safe place.
- ✓ Input forms for users' right are authorized by you and these forms are given a numerical sequence.
- ✓ No user is having any rights on CBS, which are not approved by you.

iii) Password

- ✓ Passwords are kept secret by all users and never shared with others.
- ✓ Ensure that the passwords of official / generic IDs pertaining to INB / ATM, etc., kept in sealed covers is preserved in Branch Documents.

iv) Security

- ✓ Post EOD Signal Data backup to be obtained and preserved as per extant instructions.
- ✓ Verify all the system room registers periodically.
- ✓ Disaster Recovery Plan and Business Continuity Plan approved by the controller are on record and circulated to all the staff members concerned. All committees as per the approved Business Continuity Plan are functional and also meeting at the stipulated intervals.

v) User Management

- ✓ Ensure that a suitable officer is designated for User Management.
- ✓ Users to be created on written instructions from the BM and screen print of the Service Desk request to be scrutinized for correctness.
- ✓ Register(s) maintained for User Management – User Id Register; Sign on Reset Register; Forced Closure Register; etc. – to be scrutinized.
- ✓ To ensure that IDs of Users Transferred from the Branch are transferred and those of retired employees are deleted.
- ✓ Reiterate the importance of maintenance of Password Secrecy by all Users at the branch.

vi) Other Areas

- ✓ Verify or seek confirmation from the official concerned that the position of Customers' Signature Scanning is up-to-date or specimen signature cards are sent to Liability Central Processing Centre (LCPC) concerned.
- ✓ Verify the Calendar for the next month and ensure that Holidays/Sundays are declared correctly as Non-Working days.
- ✓ Ensure that the rectification carried out in Credit Information System (CIS) data are invariably incorporated in the CBS also.
- ✓ Reports for all the days to be preserved by copying to a separate file/folder on a separate PC.
- ✓ Monitor for Host Data Synchronization to be run at regular intervals to ensure that changes made, if any, in the CBS are updated in the **Branch** server.

vii) Credit Management

- ✓ Loan application is properly filled & entered in the branch loan application received/ returned register.
- ✓ Ensure that credit discipline of the loan applicant is verified from CIBIL.

- ✓ All necessary applicable documents for the advances and original invoices, bills, etc. are obtained.
- ✓ The latest photo, ID proof and residential proofs of the borrower guarantor are obtained.
- ✓ Proper movement register is maintained and used.
- ✓ Proper pre-sanction survey has been conducted by the F.O and recorded in the branch inspection register as well as in loan application/sanction note.
- ✓ Interact with the borrower personally.
- ✓ Ensure that you are exercising financial powers as per bank's instructions.
- ✓ Never try to exceed Drawing Power.
- ✓ Ensure the compliance of post disbursement inspections as per bank's instructions (minimum one initial assets verification is desired).
- ✓ Borrowers account is scrutinized periodically to check the flow of transactions. If any irregularity is observed, report the matter to Controllers and initiate efforts to regularize the same.
- ✓ Record sanction with DATE.

viii) Elimination / Reduction of NPAs

- ✓ It is the primary duty of the **Branch Manager** to initiate action for recovery in all NPA accounts irrespective of whether they became NPA during their tenure or otherwise.
- ✓ Follow up and collect due installments settled at Lok Adalats in time.
- ✓ Effective credit management which includes timely renewal / review of facilities, supervision, follow-up and documentation.
- ✓ Restructuring of facilities when signs of sickness are visible with the approval of controllers.
- ✓ Timely rehabilitation where feasible.
- ✓ Where rehabilitation is not possible, compromise to be encouraged.
- ✓ Timely filing of suits and constant follow-up with advocates.
- ✓ Verification of assets at periodical intervals even where suits are filed.
- ✓ With the help of external agencies, identify undisclosed properties of the borrower / guarantors and file for attachment before judgment.
- ✓ Arrange for seizure of assets hypothecated/pledged for eventual sale without allowing deterioration in quality of assets after seizure.
- ✓ Initiate SARFAESI process wherever other recovery measures do not yield results.
- ✓ Initiate recovery in Accounts parked in AUCA
- ✓ Put recommendations for write-off accounts where absolutely no recovery is possible.
- ✓ Execution of recovery certificates / decrees expeditiously.
- ✓ Initiate recovery in written off accounts

ix) DO NOT

- ✓ Do not transfer funds on instructions received from e mail and scanned signatures.
- ✓ Do not accord permission for requests for duplicate ATM Cards without verifying the signature of the applicant?
- ✓ Do not exceed the delegated powers while sanctioning loans.
- ✓ Do not use your influence for securing any advantage for yourself or any one related or known to you.
- ✓ Do not take a decision in a case where you have interest or your relations are involved but let the files move without your intervention.
- ✓ Avoid getting influenced by personal prejudices while disposing of files.

CHAPTER - IV

Preventive Vigilance

(Note: The objectives of Bank's Preventive Vigilance Mechanism are to mitigate the 'Credit Risk' and 'Operational Risk' at Bank Branches. These areas to be monitored by the Concurrent Audit)

Of late, the number of Disciplinary cases increasing against Staff Members is on the rise in Banking Industry. The reasons ascribed to it include inadequate staff / officers comparing to the tremendous growth in volume and number of banking transactions / products and the business resulting in heavy work load, introduction of new products and technology up gradation without proper notice and training, unreasonable business targets thrust on Officers, inducements being paid in the form of incentives and many other such reasons.

The term "VIGILANCE" indicates 'alertness' or 'watchfulness'. Vigilance is an integral part of any Management System.

Frauds normally occur due to

- ✓ Negligence.
- ✓ Non-adherence to Systems and Procedures.
- ✓ Complacency, Laxity & Permissiveness.
- ✓ Dereliction of duties and
- ✓ Overdependence.

Prevention is better than cure. If branches follow the systems and protect the Bank. There is a continuous need to ensure strict adherence to systems and procedures. Preventive Vigilance is therefore, a continuous process.

How

- ✓ Identify / locate sensitive areas vulnerable to corrupt practices.
- ✓ Rectify irregularities pointed out by Audit in a time bound manner.
- ✓ Ensure that the same irregularities do not re-occur.
- ✓ Review systems and procedures being followed at the Branch.
- ✓ Submit control forms invariably with details regarding deviations and irregular features, if any.
- ✓ Observe and analyze the modus operandi of frauds and take corrective steps.
- ✓ Analyze unusual fluctuation / sudden spurt in the advances / deposits.
- ✓ Carefully examine the nature of complaints.

i) Role

- ✓ Identify areas of vulnerability to frauds and malpractices and recommend methods to tone up systems and procedures and suggest specific action points.
- ✓ Identify unscrupulous elements and be alert and act to keep them under check.
- ✓ Educate staff on the need to observe systems and procedures and pit falls.
- ✓ Study the Audit reports, particularly relating to systems and procedures and initiate corrective steps.
- ✓ Make the staff aware of the important circular instructions relating to systems and procedures.

Branches are the backbone to the Bank and the business decisions are implemented only at the Branches. Therefore, significant portion of the preventive vigilance is required to be implemented at branches.

ii) Areas that require Constant Preventive Steps

a) General Matters

- ✓ Look for strangers waiting for unusually long time keenly watching the movement of staff, vouchers, banking activities, etc.

- ✓ Observe persons frequently visiting the branch before the lunch break and staying back in the banking hall without any murmur/ protest till the staff take their seats.
- ✓ Ensure that CCTV has been installed at the branch, covers all vital areas, especially SWO cabins, cash sorting areas and the area between the Strong room / Safe to the Cash Section.
- ✓ Ensure that no unauthorized person enters into the areas meant for internal use of the branch.
- ✓ Beware of persons who are inquisitive about other persons' A/cs and about bank's procedures.
- ✓ Ensure that only authorized Officials open the Drop Box and account for all the instruments as per Bank's extant instructions. Messengers, Armed Guards or any other unauthorized persons should not be allowed to handle Drop Boxes.
- ✓ Exercise caution while disposing undelivered cheques / drafts kept with the authorized officials.
- ✓ Ensure that all entries in system suspense account should be reconciled / zeroized on daily basis.
- ✓ Exercise due caution in verifying the signature of the Treasury Officer for payment of Govt. cheques.
- ✓ Maintain the Key Register as per extant instructions with a record of all-important keys of officials/employees including SWO Cash Boxes.
- ✓ Keep control on the inward mails
- ✓ Ensure that the "Whistle Blower Policy" is known to all employees so that instances of unethical behaviour, actual or suspected, fraud or violation of the Bank's code of conduct can be reported to the Management.

b) Staff and Internal Controls

- ✓ Ensure job rotation at stipulated intervals.
- ✓ Observe staff that are unwilling to leave & not going on leave and coming early and leaving late without significant work.
- ✓ Watch the life style of staff and see if they are living beyond their means.
- ✓ Carry out periodic Job rotation regularly.
- ✓ Periodically scrutinize transactions in staff accounts as stipulated.
- ✓ Circulate signatures and initials of all staff.

c) System related and Password Security

- ✓ Ensure staff to maintain utmost secrecy of password and also to change the same at regular intervals and whenever it is reset. Compromise in Secrecy of Password to be avoided.
- ✓ Ensure that there is no "THIRD EYE" watching your password and at any cost second person should not come to know about your Password.
- ✓ Ensure that password is not used during leave period / deputation to other Branches / Training etc., by others at your branch.
- ✓ Do not note passwords in a dairy, piece of paper or store in mobile.
- ✓ Advise Controllers of any incidences of divulging your password which is beyond your control for confirmation purpose.
- ✓ Assign the defined user rights and capability level properly and as per duties allotted.
- ✓ Record the change of powers given to users in the User Control Register.

d) Cash Related Areas

- ✓ Carry out intraday cash verification meticulously.
- ✓ Ensure verification of the Contents of the cash boxes of SWOs / Assistants (cash) based on the random list generated by the system at the end of the day.
- ✓ Ensure proper closure of SWO counter doors and affixing night latches.
- ✓ Ensure proper custody of cash keys by the Joint Custodians.
- ✓ Record high value cash transactions in the Cash Monitoring Register [₹.10 lacs. & above in case of Metro branches and ₹.1 lac & above in case of other branches].
- ✓ Time Lock system should be invariably used by Currency Chest Branches particularly while closing the cash for the day.
- ✓ Entry into the strong room should be restricted to authorized persons. Branch Staff not concerned with chest operations should not have access to the strong room.
- ✓ Ensure that both the joint custodian should not avail leave simultaneously

e) Voucher Verification Reports (VVR) Checking

- ✓ Ensure that all transactions except system generated ones, are put through based on vouchers / instruments and confirm the same through Voucher Verification Register (VVR) checking.
- ✓ Allot VVRs on rotation basis and closely monitor checking.
- ✓ Ensure that VVR Checking is done regularly and meaningfully.
- ✓ Record missing vouchers in the "Missing Vouchers Register" and in the online VVR.
- ✓ Prepare duplicate vouchers against proper authentication and record it.
- ✓ Ensure proper custody of vouchers, reports, books and registers.

f) Deposit Accounts

- ✓ Observe 'Know Your Customer' norms meticulously while opening accounts.
- ✓ Verify Photographs, signatures and photo copies of supportive papers as a matter of practice in all cases.
- ✓ Keep a close watch on return of letter of thanks / ATM Cards / Notices sent and immediately take cautionary steps as required.
- ✓ Exercise extra caution when processing requests for duplicate pass books / duplicate Term Deposit Receipts and entertain it only if the depositor makes the request personally against acknowledgement or send it by Registered post with AD.
- ✓ Record change of address only after verifying compliance of KYC.
- ✓ Scrutinize withdrawals from dormant, in-operative, trust and minor accounts and ensure compliance of KYC while allowing the account into operation i.e. photo identity, address proof and signature scanning etc.
- ✓ Ensure that withdrawal slips in SB accounts are always accompanied with passbooks.
- ✓ Thoroughly scrutinize collections, transfers and withdrawals into / from New accounts.
- ✓ Ensure compliance of instructions regarding destruction of surrendered cheque leaves, if any by noting down in a separate section of the Cheque Issued Register and then destroying effectively under authentication of the officer-in-charge.
- ✓ Scrutinize all transactions in newly opened accounts especially when frequently transacted.
- ✓ Enquire the identity of the bearer of high value cheques and note down the address, telephone numbers etc. of the bearer on the reverse of the cheque.
- ✓ Take extra care while making cash payments against third party cheques of NRI account holders.
- ✓ Stop the operation of the account if the cheques book sent to the given address is returned undelivered.

g) Loans and Advances

- ✓ Be vigilant against common methods used by the fraudsters which include:
 - Submission of Fake Title deeds / documents of house property.
 - Submission of fabricated income proof / IT returns.
 - Creation of multiple title deeds for single property.
 - Impersonation of seller in executing the title deed.
- ✓ Observe procedures for pre-sanction visit to the project site.
- ✓ Visit to borrowers' / guarantors' residence and office and discreet enquiries made regarding their credentials and antecedents, information about the loans, if any, availed by them from other branches/ banks/ institutions, etc. and establishment of their identity beyond doubt.
- ✓ The report of pre-sanction processes should be taken on the prescribed standard format. Suitable noting should be made in regard to visit to the borrower / guarantor and visit to the property site with names of neighbors, etc. on such reports.
- ✓ Proof of income and relative salary certificates are properly scrutinized / verified from respective departments. Engage services of Chartered Accountants to verify and establish genuineness of Income Tax Returns, in case of doubt
- ✓ Ensure that processing of loans and sanction thereof are done by different officers.
- ✓ Obtain Credit / opinion reports from banks, CIBIL report.
- ✓ Pre-sanction inspection and post sanction inspections should be done by different officials as per latest guidelines.
- ✓ Processing and appraising of loan applications strictly as per laid down norms/guidelines.
- ✓ Ensure that Loans are sanctioned by officials only as per the delegated financial powers. (Not to exceed discretionary powers).
- ✓ Do not exercise discretionary powers of a higher post in which you officiate, even permanently.

- ✓ Submit periodic control reports, excess drawings statements, bills / cheques purchased / returned statements.
- ✓ Obtain legal opinion from the Bank's empaneled advocates. Do not overly rely on the Title Investigation Reports.
- ✓ Complete documentation and asset charge creation formalities prior to disbursement of the facilities.
- ✓ Re-verify loan documents in respect of loans which have slipped into NPA within a short period to detect any possible fraudulent submission of forged title deeds/income documents, etc.
- ✓ Carry out post disbursement supervision meaningfully.
- ✓ Maintain proper Inspection Register and record details of pre-sanction / post-sanction inspection details and comments of the inspecting officials therein.
- ✓ Avoid cash payments and make payments directly to suppliers.
- ✓ Obtain the purchase-receipts and keep them on record.
- ✓ Ensure that the assets have been actually created and record evidence.
- ✓ Create Bank's charges in a valid manner.
- ✓ Ensure that ROC Registration is completed.
- ✓ Exercise caution while passing cheques drawn on borrowal A/Cs in favour of different parties to see that funds are not being diverted for other purposes.
- ✓ Call up bad advances in time and initiate action for recovery.
- ✓ Send irregularity reports periodically.
- ✓ Verify Cash Credit (CC)_Over Draft (OD) Balance File, Loan Accounts Opened for the day Report, Exception Report for Interest Rates and Overdue Loans files daily.

h) ATM

- ✓ Keep under Proper custody the ATM PINs received and to be issued to customers.
- ✓ Ensure that PINs and undelivered ATM cards are held by different people.
- ✓ Deliver PINs / Cards to customers after ascertaining identity and obtaining acknowledgement.
- ✓ Promptly destroy the PIN Mailers that remain without delivery for more than 45 days after duly entering it in the Register.
- ✓ Balance cash at ATMs – Admin Balance with the physical cash balance on a daily basis.
- ✓ Ensure security of the Admin Card and confidentiality of PIN.
- ✓ Ensure PIN is changed periodically and whenever there is a change in incumbency.
- ✓ Ensure Admin Function is carried out using the Admin Card whenever cash is replenished in ATM.
- ✓ Ensure that photocopy of the Admin Balance enquiry slips is pasted in a register and are signed by both the joint custodians.
- ✓ Get the approval of the Branch Manager whenever "Cash Decrease" through "ADMIN Function" is performed by the joint custodians and note it in the Cash Replenishment Register.
- ✓ Ensure cash is placed in the ATMs as per "Opti-cash" recommendations received from the respective Management Centre.
- ✓ Ensure that back-up register for cash replenishment is maintained.
- ✓ Do not issue ATM card in the individual name of the proprietor if the account is in a limited company's name.
- ✓ Exercise caution while processing and sanctioning requests for duplicate ATM cards.

i) Preventive Vigilance Committees (PVCs)

PVC is an effective forum for ensuring compliance of Rules / Systems and procedures. It serves as a vital tool for averting the perpetration of frauds. It is mandatory to constitute Preventive Vigilance Committees.

The meetings shall be held once in a Quarter. Merely creating record of holding the meeting should be avoided. The meeting should actually be conducted and matters relevant to preventive vigilance should be discussed not as a ritual but with the true spirit for which the committee functions.

j) Composition of the PV Committee

At least 30% of staff strength of Branch / Unit should be members of PVC. A minimum of 3 officers / employees should be co-opted on the PVCs of each unit. The head of the Branch / Unit and official responsible with dealing operational risk at the Branch / Unit would be permanent member and the other members shall be rotated at yearly intervals. Be on the Guard Against

- ✓ Misappropriation and criminal breach of trust.
- ✓ Fraudulent encashment through forged instruments.
- ✓ Manipulation of books of account or through fictitious accounts.
- ✓ Unauthorized credit facilities extended to reward or for illegal gratification.
- ✓ Cash shortage.
- ✓ Cheating and forgery.
- ✓ Irregularities in foreign exchange transactions.
- ✓ Recklessness.
- ✓ Failure to report to competent authorities.
- ✓ Exercise of discretion in excess of powers.
- ✓ A cause of undue loss or a gain to an individual or a party or parties.
- ✓ Flagrant violation of systems and procedures.

k) Few DOs and DON'Ts issued by Reserve Bank of India in this regard

DOs:

- ✓ Remember, each one of us is a public servant and expected to act honestly and faithfully at all times.
- ✓ Always demonstrate a sense of fair play impartiality in disposing cases, it is paying.
- ✓ Show courtesy and consideration in public dealings, it will knock out the basis of public grievances.
- ✓ Maintain strictest secrecy regarding the Bank's affairs whatever be the provocations: this is the least expected of you.
- ✓ Observe scrupulously the rules and regulations concerning your personal conduct, it will not embarrass you any time.
- ✓ Attend to public grievances promptly; it improves the image of the institution.
- ✓ Dispose of cases promptly but without undue haste, it helps.
- ✓ Remember to date your signature always, it will avoid complications.
- ✓ Do intensive monitoring of delays and disposals of files, it helps curbing corruption.
- ✓ Give job rotation to those who are on sensitive desks; lest vested interests grow.
- ✓ Pay particular attention to the procedures and do not delegate them to the subordinates, it is a good way of preventive vigilance.
- ✓ Keep on assessing the strength of the internal control. This is the surest way to reduce malpractice.
- ✓ Get all oral instructions and decisions of the higher authorities down in writing and get them confirmed – it is in your own interest.

DON'Ts:

- ✓ Do not yield to temptation or run after petty gains; it does not pay ultimately.
- ✓ Do not live beyond your means; it is tempting but torturous.
- ✓ Do not engage in any commercial proposition nor allow anyone dependent on you to do so; it does not further your interests.
- ✓ Do not make any effort / endeavor to flout or circumvent the rules or regulations; it creates tension in you.
- ✓ Do not make any attempt to short-circuit the prescribed procedures, it may prove risky.
- ✓ Have the specimen signatures of the passing officials and their passing powers been kept on record with the Paying Cashiers / Cash Officers?
- ✓ Do both the joint custodians remain present without fail during every operation in the cash safe/strong room?
- ✓ Is Armed Guard present near the Strong Room when it remains closed?
- ✓ Are alarm bells connected to all Cashiers / Teller's and all concerned officials' desks? Are they in working condition?
- ✓ Is adequate control being exercised over the entry / exit of people through main entrance to the banking hall?

Exercise extreme caution while collecting cheques and immediately report such attempts to the controllers and lodge police complaint. Follow up the FIR until the culprits get arrested. Top 10 Categories of Fraud in Indian Banking Sector in terms of number as per RBI.

- ✓ Credit Cards
- ✓ Deposits – Savings A/C

- ✓ Internet Banking
- ✓ Housing Loans
- ✓ Term Loans
- ✓ Cheque / Demand Drafts
- ✓ Cash Transactions
- ✓ Cash Credit A/C [Type of Overdraft A/C]
- ✓ Advances
- ✓ ATM / Debit Cards

In terms of amount involved

- ✓ Cash Credit
- ✓ Advances- others
- ✓ Letter of credit (Mostly issued to corporates)
- ✓ Advances (Term Loans)
- ✓ Bills- Purchase and discounting
- ✓ Housing Loans
- ✓ Deposits- Current A/c
- ✓ Credit Card
- ✓ Deposits- Savings A/c
- ✓ Deposits- Term / Fixed

CHAPTER - V

Concurrent Audit Check List – Important Bank Products

For effective concurrent audit, it is essential that the audit planning and programme is detailed and pre-planned. Since the period during which the concurrent auditor is to verify manifold items in the branch of the Bank is limited and transactions are numerous rationing of the time of the concurrent auditor is a pre-condition to successful audit. The checklist is to be time oriented with volume of transaction and vulnerability of the same being considered for ascertaining frequency of checking.

The checklist is based on suggested item of coverage as per RBI Circular “Concurrent Audit System in Commercial Banks – Revision of RBI’s Guidelines” dated July 16, 2015 and Circular No: RBI/2019-20/64 dtd: 20th September, 2019 - DBS.CO.ARS.No.BC.01/08.91.021/2019 -20. Unless there is a specific guideline by the bank, the suggestive checklist of various items with periodicity is given below:

A. Cash

- ✓ Verifying daily cash transactions with particular reference to any abnormal receipts and Payments.
 - ✓ Verify all cash transactions of ₹. 10 lakhs. and above reported in CTR.
 - ✓ Verify Cash transactions of ₹.50,000/- and above invariably indicate PAN No. / Form 60.
 - ✓ Verify all expenses incurred by cash payment involving sizeable amount (i.e., ₹. 50,000 and above).
 - ✓ Inward / outward cash remittances have been properly accounted for and prescribed security measures are adhered to.
 - ✓ Cash transactions through vouchers are properly authorized, authenticated and recorded in the books of accounts.
 - ✓ Daily vouchers are properly stitched and kept as per procedure.
 - ✓ No Bankers Cheque/DD/MT for ₹.20,000/- and above in cash is made.
- i. Verify whether surprise verification of cash by an officer other than the joint custodian is conducted. Carry out surprise checking of cash on hand & at ATM along with safekeeping and custody. Surprise check implies that the bank need not be informed by the auditor in advance about the date and timing of the physical verification sought to be undertaken. However, it is recommended that such surprise check should be done either before or after the banking hours so as not to cause inconvenience. Further, the date on which such verification is carried out should be duly documented on record and unless the appointment letter so stipulates, the frequency of verification should be at the discretion of the auditor, depending upon his observation to the robustness of the system or otherwise. Verify whether:
 - The cash on hand as per the General Ledger matches with the physical cash on hand. Cash for this purpose will include domestic as well as foreign currency and coins. It includes imprest balances irrespective of where located.
 - The Foreign Currency, if any, on hand matches with the Foreign Currencies register and General Ledger.
 - The Currency Notes are properly sorted and bundled as per clean note policy of RBI. As per the RBI Guidelines, currency notes are not to be stapled/ stitched now.
 - Based on the system of the bank for stuffing of cash and system of recording in ledger, verification of cash in ATM has to be done. If ATM is attached to the branch, then it requires same surprise checks as in the case of cash.
 - ii. Verify at random the entries pertaining to inward and outward cash remittances are adhered to the rules laid down in the matter of security, insurance, etc.
 - iii. Verify cash movement records / register and comment on completeness of information captured, overwriting, if any movement’s records after closure of day end, transactions during the day, signature of cashier, etc.
 - iv. Verify the trends of cash balance compared to cash retention limit. Report on whether the Branch is holding cash balance beyond the cash retention limit, if procedure of the bank permits?
 - v. Verifying whether Cash Remittance in Transit Account is reversed on the same debit to a proper head designated for it after receipt of proper acknowledgement / receipt where cash is remitted to a branch / Bank.

- vi. Verify whether Register maintained for impounded counterfeit notes and adequate reporting made as required by RBI & Respective Bank HO guidelines.
- vii. Verifying whether the branch remits its excess cash to link branch or Currency Chest.
- viii. Verify whether Currency Chest transactions are properly accounted for and it's reporting to RBI is done promptly in case of delays / omission.
- ix. Verifying whether keys to Strong Room, Cash Safe, and Almirah for Security Printing Books are in joint custody of the authorized officials?
- x. Verifying whether the branch remits its surplus balance with other banks regularly to the designated RBI centre.

The following is an illustrative checklist on Cash Management

Particulars	Remarks
i) Date of verification of Cash.	
ii) Amount of cash held as on the date of verification.	
iii) Cash retention limit of the branch.	
iv) No. of days when cash retention limit exceeded during the month/ quarter and by which amount.	
v) Actual amount of cut / soiled notes held.	
vi) What is the percentage of cut notes / soiled notes out of total cash held as on date of surprise verification of cash.	
vii) Whether cut / soiled notes are kept separately?	
viii) Whether "Cash discrepancy register" maintained and Excess / Shortages reported to higher authorities promptly?	
ix) Whether surprise verification of cash done by officer other than joint custodian officer / manager?	
x) Whether cash movement register is maintained as per guidelines?	
xi) Whether the branch is maintaining records / registers relating to inward / outward cash remittances to currency chest properly and proper insurance cover has been obtained?	
xii) Whether currency chest transactions are properly accounted and reported to RBI? (wherever applicable)	
xiii) Whether bait / decoy money is kept separately in the bank?	

B. Clearing

1. Verify:
 - ✓ Proper accounting of inward and outward clearing on daily basis with CTS System.
 - ✓ If the branch is independently handling clearing, whether the clearing account is brought to nil every day, if not, comments to be noted down.
 - ✓ Counter returns, inward and outward, if any, should be reported. In respect of cheques returned by other banks whether respective customer's account is debited.
 - ✓ Whether safeguards are observed to ensure proper handling and custody including returned instruments.
 - ✓ Whether service charges / incidental charges as prescribed are charged for the cheques returned in clearing.
2. Verifying whether credits for realized cheques are received promptly.
3. Verifying entries which remain outstanding for more than 2 days and checking for action taken for their disposal.

C. Remittances / Bills for Collection-Inward & Outward

- ✓ Verify remittance of funds by way of DDs / NEFT/ RTGS any other mode in cash exceeding the prescribed limit.
- ✓ Verify documents of title (lorry receipts, railway receipts, etc.) obtained in favour of the bank and the concerned transporters are on the IBA approved list.
- ✓ Verify whether proper accounting of inward and outward remittance transactions is done.

- ✓ Outstanding balance in Drawing Power and other transit accounts pending payment beyond prescribed period.
- ✓ Verify whether DDs of ₹.50,000/- and above are issued through accounts and not against cash.
- ✓ Verify whether prescribed service charges by way of exchange, commission, out of pocket expenses, interest, overdue interest in respect of all remittances, bills purchased and collection items are recovered.
- ✓ Verify physically the inward bills on hand and post parcels tally with records.
- ✓ Verify whether returned bills are debited to "Past Due & Dishonored Bills" and followed up as per guidelines.
- ✓ Verify whether branch detains Inward Bills / cheques/ collection item beyond the stipulated period.
- ✓ Verify whether overdue bills are properly followed up / non-payment notices are served.

D. Deposits

- ✓ Verify adherence to KYC / AML guidelines in opening of fresh accounts and monitoring of transactions in such accounts and whether letter of thanks is being sent to new depositors.
- ✓ Verify whether Form No.60 where the depositor does not have PAN is held on record and the same are submitted as per laid down procedure.
- ✓ Verify large term deposits received and repaid including checking of repayment of term deposit in cash beyond permissible limit.
- ✓ Verify Accounts opened and closed within a short span of time i.e., accounts with quick mortality.
- ✓ Verify whether the receipt / payment of Term Deposit beyond ₹.20,000/- is made only through Current/Savings Bank A/c. or by A/c payee cheque.
- ✓ Verify Inoperative / dormant accounts are properly segregated and separate control thereon is exercised. Operations in dormant accounts are authenticated by the competent authority.
- ✓ Verify value dated transactions.
- ✓ Verify renewal procedure of term deposits. Whether deposits are auto renewed on due date if not closed.
- ✓ Verify that deduction of tax at source from interest income on term deposits is made as per laid down procedure.
- ✓ Verify procedure in place for settlement of claims of deceased customers and payment of TDRs against lost receipts and obtention of indemnities, etc.
- ✓ Verify revival of dormant accounts and accounts with minimum activities. Examination of multiple credits to single accounts.
- ✓ Verify whether service charges for the return of cheques, issue of cheque books, carrying out standing instructions and minimum balance charges are levied as per prescribed norm.
- ✓ Scrutiny of staff accounts to detect any abnormal transaction.
- ✓ Verify the stop payment instructions are being recorded properly.
- ✓ Specific checks w.r.t Debits in the inoperative accounts:
 - Shifting of inoperative/dormant A/c to operative A/c is to be backed with KYC norms.
 - Cash withdrawal in dormant A/c to be done personally by the A/c holder.

E. Treasury Operations

- ✓ Verify if branch has acted within Head Office instructions for purchase and sale of securities.
- ✓ Periodic confirmation of derivative contracts with counterparties.
- ✓ Adherence to regulatory guidelines with respect to treasury deals / structured deals.
- ✓ Controls around deal modification / cancellation / deletion, wherever applicable.
- ✓ Cancellation of forward contracts and passing / recovery of exchange gain / loss.
- ✓ Gaps and OPL maintained in different currencies vis-à-vis prescribed limit for the same.
- ✓ Reconciliation of Nostro and Vostro accounts-balances in Nostro accounts in different foreign currencies are within the limits prescribed by the bank.
- ✓ Collection of underlying documents for derivative and forward contracts, delays, if any.
- ✓ Instances of booking and cancellation of forward contracts with the same counterparty within a span of couple of days or a few days.
- ✓ Sample checks some of the deals and comment on the correctness of computation.
- ✓ Checking of application money, reconciliation of SGL account, compliance to RBI norms.
- ✓ To ensure that the treasury operations of the bank have been conducted in accordance with the instructions issued by the RBI from time to time.

F. Advances

- ✓ Verify Fresh loans and advances (including staff advances) have been sanctioned properly and in accordance with delegated authority.
 - Whether appraisal of the proposals sanctioned are proper and disposed within the prescribed time norms with emphasis on credit sanction efficacy at Branch level.
 - Verify that disbursements are allowed against proper sanction, within sanctioned limits and drawing power.
- ✓ Whether all conditions of sanction have been complied and to ensure "Certificate of Compliance" if any of sanction terms are submitted to respective sanctioning authority.
- ✓ Whether Legal Vetting Certificate, wherever prescribed had been taken.
- ✓ Verify reporting of instances of exceeding delegated points to the controlling/head office by the branch have been confirmed or ratified by the competent authority.
- ✓ Verify whether securities and documents have been received as applicable to particular loan.
- ✓ Verify operations allowed in advances accounts to verify

Whether they are within the sanctioned limits drawing power (worked out as per the latest statements and prescribed margin.

- ✓ Whether operations in the accounts reveal any unhealthy features such as heavy withdrawals in cash suggestive of diversion of funds for purposes other than the declared business of the borrowers, diversion to sister/ associate concerns, diversion of funds to other banks, kite flying etc. or any other sticky/ unhealthy tendencies which may jeopardize the interest of the Bank.
- ✓ Verify whether in the case of all advances against hypothecation of goods / stock / book debts, etc. [CC (Hypothecation), PCL (Hypothecation), etc.] Periodical statements declaring stock / debtors etc. as the case may be, are received from the borrowers within the stipulated due dates; whether the statements are properly scrutinized by the branch officials. Report of verification of securities by third parties, whether penal interest is being charged for delayed submission. Report as per annexure requirements of respective banks.
- ✓ Verify whether book debt statement certified by chartered accountant a stipulated by the bank has been obtained.
- ✓ Verify whether creditors have been reduced while calculating DP?
- ✓ Verify whether monthly updating of drawing power in the computer system on the basis of stock statements/book debt statement/ other financial data received from the borrowers.
- ✓ Verify whether securities have been properly charged / registered and valued by competent person. Whether the same has been entered in the bank's system.
- ✓ Verify value dated entries.
- ✓ Verify whether post disbursement, supervision and follow-up are proper, such as, timely receipt of stock and book debts statement, QIS Data, analysis of financial data submitted by borrower, verification of securities by third parties, renewal of limits, insurance, etc.
- ✓ Whether Select Operational Data and Management Report in respect of big borrowers have been received promptly as prescribed in the sanctioned letter.
- ✓ Verify whether the branch has charged lead Bank charges in respect of advances under consortium norms.
- ✓ Verify master data relating to limit, rate of interest, EMI, moratorium period details have been correctly entered and updated/modified in the system.
- ✓ Compliance of prudential norms on income recognition, asset classification and provisioning pertaining to advances.
- ✓ Recovery in compromise cases is in accordance with the terms and conditions of the compromise agreement.
- ✓ Verify whether bills are purchased as per terms of sanction and proper margin is maintained as pre-sanction.
- ✓ Verifying whether pre-sanction verification is done before sanction of BP limits.
- ✓ Verify and report clean bills / cheques purchased, if in the nature of accommodation bills. Ensure that local cheques are not purchased unless specifically permitted.
- ✓ Verify proper follow-up of overdue bills purchased / discounted / negotiated.
- ✓ Verify (On sample basis) by surprise goods pledged to the Bank to ensure that keys of the godown are held in dual custody, goods pledged to the Bank tally with the record maintained in the Godown Register and the invoices both for quantity and value.

- ✓ Verify if godown inspection is being conducted periodically and is properly recorded and reports thereof raised / submitted.
- ✓ Verify if stock statements (indicating the location) are being received at stipulated intervals, the statements are properly scrutinized drawing, power is correctly calculated, DP Register is maintained and drawings / availments in the account so regulated. If the stock is with third party, then obtain NOC from the third party and their bankers.
- ✓ Verify if all assets charged to the Bank are fully insured against all risks and Due Date Diary for insurance policies is maintained and all stock locations should be covered.
- ✓ Verify whether NSCs/KVPs against which advance has been allowed have been pledged in favour of the Bank and the said lien is marked by the concerned Post Office. Relevant securities are sent to and received back by the registered post/speed post unless specified otherwise. The envelope for NSCs/KVPs is held on record.
- ✓ In case of advance against LIC policy, the amount should be allowed only against surrender value and LIC policy in original with assignment is held on record.
- ✓ In respect of consortium advances, the Concurrent Auditor should conduct Audit as per decision of the consortium where the turn comes to the particular branch for Audit.

G. Letters of Credit / Bank Guarantees

- ✓ Whether issue of BGs/LCs are in line with the extant guidelines;
- ✓ Whether appropriate commission is collected in respect of fresh / renewed BGs/LCs;
- ✓ Whether securities including deposits are linked in CBS to BGs/LCs;
- ✓ Whether issue of BGs/LCs are reported timely to Zonal Office/Regional Office.
- ✓ Verify whether LC issued / amended as per approved format/model, if any, and whether standard limitation clause is incorporated. Whether counter indemnity obtained as prescribed?
- ✓ Verify whether any deviation from the terms of sanction in regard to margin, security, purpose, period, beneficiary, collection of charges, commission, fees, etc.
 - Whether the branch has paid / met any guarantee obligation under Bank Guarantee issued by it; whether payment is made to the debit of party's account without creating overdraft / debiting suspense, in case of deferred payment guarantee.
- ✓ Whether bills paid on the previous day under LC are strictly according to terms of the LC; whether reimbursements have been obtained promptly.
- ✓ Whether correct entries are passed on issued / expired / cancelled Bank Guarantees / Letter of Credit issued / expired / cancelled.
- ✓ Whether there are any Bank Guarantees continuing even after their period of expiry; if so, ascertain the reasons therefore and whether steps are taken by the Branch to close them as per stipulated procedure.
- ✓ Verify the limits / accounts falling due for review, renewal and the action taken by the branch on it.
- ✓ Verify whether Due Date, Diary of review / renewal is maintained and required follow-up made on those dates.
- ✓ While opening LC please verify whether credit report of the beneficiary from approved agency has been obtained.

H. Foreign Exchange including Export Finance

- ✓ Verify that L/C and Bank Guarantee are issued as per terms of sanction and charges are recovered as per FEDAI Rules / HO Guidelines.
- ✓ Verify that packing credit released is backed by L/C or confirmed export order.
- ✓ Verify ECGC cover is available and the ECGC terms are complied with. In case of running packing credit accounts, whether RBI guidelines are complied with.
- ✓ Verify submission of statutory returns on export/ import transactions, like BEF statements, XOS, write off of export bills, R-return, etc. Follow up of outstanding export bills and exchange control copy of bill of entry.
- ✓ Irregularities in opening of new accounts and operation in NRE, FCNR, EEFC, NRO, etc., and debits/credits entries permissible under the rules.
- ✓ Verify whether operations in FCRA accounts are as permitted by MHA and FCRA guidelines.
- ✓ To monitor whether FEDAI rules have been observed in the extension and cancellation of forward contract. whether competent authority scrutinizes them and the necessary charges, including delivery charges, have been recovered.

- ✓ Verify whether in case of negotiation/purchase / discounting of Bills under L/C, prescribed procedure like verification of signatures of the Issuing Bank have been followed and scrutiny report issued. Verify Booking, utilization, extension and cancellation of forward contracts.
- ✓ Verify reconciliation of NOSTRO and VOSTRO accounts and verify for random dates that balances in NOSTRO accounts are within the limit prescribed by the Bank. *
- ✓ Verify correctness of charges levied on foreign inward/outward remittances.
- ✓ Monitor timely/ proper submission of claims to ECGC.
- ✓ Adherence to the guidelines issued by RBI / HO about Dealing Room Operations*.
- ✓ Verify that the title to goods is in the name of the bank.
- ✓ All FCNR receipts are issued by the branch against consideration i.e. only after receipt of funds. High value deposits need special attention.
- ✓ Whether rates quoted/applied by the branch on various types of purchase / sale transactions are correct.
- ✓ Verify that over bought / over-sold position maintained in different currencies is reasonable taking into account foreign exchange operations as well as the extent up to which permission has been given to the branch by the International Division of Head Office for such positions. **
- ✓ Payment of ECGC Premium / Submission of required statements to ECGC for pre-shipment / post-shipment.
- ✓ Verification of bill of entry and maintenance of proper records for it.
- ✓ In respect of overdue packing credits, confirm whether they are Firm Order / LCs. Whether report to ECGC is made and premium is paid, whether RBI's approval is sought
- ✓ Whether commercial rate of interest since first day of release is charged for overdue packing credits and those adjusted otherwise than by export bills.
- ✓ Whether export bill negotiated / purchased / discounted is not realized on due date (in case of demand bills within Normal Transit Period and incase of usance bills on the notional due date), exporter's foreign exchange liability should be converted into Rupee liability on or before the 45th day from the notional due date at prevailing TT Selling Rate.
- ✓ In case additional facility is given to exporter in the form of packing credit in Foreign Currency (PCFC) or in the form of Rediscouting of Export bills abroad (EBRD) whether conditions applicable to these are complied with.
- ✓ While opening LC please verify whether credit report of the beneficiary from approved agency has been obtained.

*Applicable only to Category "A" branches.

** Applicable to both Category "A" & "B" branches.

I. House Keeping

Verify Exceptional Transaction Reports are generated and verified by branch staff as prescribed. (Critically analyze the contents of the report also.

Review of all balance sheet heads and outstanding entries in accounts of the Branch, e.g. Suspense, sundry and inter-bank accounts. Review of follow up of entries pending for reversal.

- ✓ Scrutiny of daily vouchers with more emphasis on high value transactions and debit entries in suspense account.
- ✓ Verify debits in accounts where signatures are pending for scanning.
- ✓ Verify whether records related to KYC / Vouchers and other critical areas are sent to specific places like archival center, record room as per stipulated periodicity.
- ✓ Verify adherence to KYC/AML guidelines in opening fresh account and subsequent modifications of records and monitoring of transaction.
- ✓ Listing out the Book / Register / Ledger / General Ledger Account heads not checked and / or not balanced. Latest balances taken, amount of balances short / excess, balances differences freeze out, if any, with remarks and actions taken.
- ✓ Whether the Branch regularly follows up the outstanding entries for early elimination. Whether any non-prescribed transactions/ extraneous entries in violation of guidelines have been routed through the Sundry Debtors account.
- ✓ Suspense accounts (Sundry Debtors) at the Branch do not contain any extraneous entries pertaining to clearing cheques returned as it may be an attempt to conceal TOD. Special attention need be

given at the end of June, September, December, and March for entries of inward clearing cheques parked for the purpose of inflating deposit figures.

J. Credit Card / Debit Card

- ✓ Verify that the application for the issue of credit card has been properly examined and record of issue of the same has been maintained.
- ✓ Ensure that the charge-slip is examined to verify that it does not cover any picked-up card.
- ✓ Ensure that the overdraft / debits arising out of the use of credit cards are promptly recovered and higher authorities are invariably informed about the same.
- ✓ Verify that the bank maintains a proper record of picked-up cards.
- ✓ Verify that undelivered credit cards are properly kept as security items and followed up with credit card department for further instructions.
- ✓ Carry physical verification of ATM cards, debit cards, credit cards, passwords and PINS, control over issue & delivery, safe keeping and custody at all the locations. Report loss of any such items.

K. Documentation

- ✓ Whether documents register, or any other similar record; if prescribed by the bank is maintained up-to-date. Entries are made in this register and found in order. If there is any omission it should be reported.
- ✓ Verify that all documents have been correctly executed in the latest revised prints of prescribed formats and properly stamped wherever necessary in terms of Stamp Act of the respective state, as per manual on documentation and as per circulars on the subject.
- ✓ Where immovable properties are held as security by way of deposit of title deeds, verify title deeds register to see whether narration is written for additional limits and all formalities complied with and verify:
 - That original title deeds are with the bank.
 - Legal vetting by the banks empaneled advocate has been carried out with an unconditional confirmation by the advocate that a valid equitable mortgage can be credited.
 - Certified copy of chain of property with confirmation of the advocate to be a copy of the documents available in the municipal records for 12 / 30 Years as prescribed by the banks.
- ✓ Whether legal opinion and valuation by an engineer are obtained for all the mortgaged properties and the latest "Encumbrance Certificate (EC)" as well as tax receipts is obtained up-to-date and valuation has been carried by the specified valuer as prescribed by the bank.
- ✓ Proper recording of extension of the charge of equitable mortgage for enhanced credit facilities and / or other credit facilities has been complied with.
- ✓ Verification with CERSAI records should be carried out before disbursement/creation of mortgage as applicable.
- ✓ Verify whether signatures of executants / property owners are available on letter of confirmation of creation for having created equitable mortgage on the record.
- ✓ In case of Company / LLP (to the extent applicable):
 - Whether copy of resolution passed by Company's Board is on record for availing the credit facilities from the Bank.
 - Whether the authorized signatories as mentioned in the board resolution have executed the documents.
 - Whether common seal, if applicable affixed on the relevant document.
 - Whether Bank's charge or modification thereof has been registered with the Registrar of Companies (by filing Form 8).
 - Whether search report of company's earlier charge is made.
- ✓ Check classification of advances as per RBI's Prudential Norms.
- ✓ Wherever registered mortgage has been prescribed in terms of sanction, verify whether same has been carried out.

L. Renewal of Documents and Time Barred Accounts

- ✓ Verify limits / accounts falling due for review, renewal and action by the branch. Verify whether due date diary of review / renewal maintained and required follow up is done on those dates.
- ✓ Whether the debts / decrees are time barred. Action taken to be commented.

M. Bills Purchased / Discounted / LCBR (Import LC Documents)

- ✓ Verify whether bills purchased / discounted are genuine trade bills accompanied by Lorry Receipts of Indian Banks Association (IBA) approved Transport Operators or Railway Receipts or airway bills or bills of lading or any other approved mode of transportation and prima facie no unhealthy features are observed in the transaction.
- ✓ Verify whether any bills purchased / discounted / negotiated were returned unpaid and if so, whether they are properly dealt with and reimbursement has been obtained promptly including interest at applicable rate. If the reimbursement is not prompt, verify whether the same has been reported.
- ✓ (In case there are frequent returning of bills for huge amounts pertaining to a borrower, verify the reasons there for and whether such cases have been reported to the concerned sanctioning authority) Verify the bank guidelines for Bills once discounted and returned are not again discounted.
- ✓ Verify that there is proper follow-up of overdue bills.
- ✓ Verify the realization advices adjusted respect of outward bills realized (purchased / discounted / negotiated / collected for huge amounts (say ₹. 10.00 lakhs. and above) as to genuineness of the adjustments;
- ✓ Whether in the case of bills purchased / discounted / negotiated the liability is within the limits. Verify that such transactions will allied / sister concerns are allowed only unless specifically permitted.
- ✓ Whether any excess drawings / bills beyond the sanctioned limits / drawing power are allowed and if so, whether the Branch has forwarded ratification / confirmation of the concerned sanctioning authority. Whether such excesses are under the authorization of the Branch head and properly recorded in the prescribed register and reported to the appropriate authorities.
- ✓ Verify whether there are any bills purchased / discounted / negotiated outstanding beyond a reasonable period/ beyond due date and found out any unusual / unhealthy feature; ascertain reasons for overdue and whether reported to the concerned authorities in the prescribed manner.
- ✓ In respect of bills purchased / discounted / negotiated whether goods are appropriately protected with insurance.
- ✓ Whether credit report on drawees in respect of Bills and Drawees in respect of cheques is obtained.
- ✓ Whether LC documents were verified with LC terms? Whether LC bill was rejected by the importer for any reason of non-compliance with LC terms, etc.
- ✓ Whether cheque / bills are dispatched promptly, at least on the next day.
- ✓ Whether interest / commission, as prescribed, is collected?
- ✓ Does the branch ensure dispatch of returned cheques by registered post if they are not collected immediately? In case any deviation is noticed, please give full details.
- ✓ For supply bills, verify whether the branch ascertained the genuineness of the underlying contract and Power of Attorney registered in the Bank's favour?
- ✓ What is the system of follow up for the recovery of returned bills? How long have they been kept pending?
- ✓ Are the goods covered generally traded items/dealt with by the borrower?
- ✓ Any unusual features noticed in the handling of port folio of bills?
- ✓ Verify In respect of all overdue and returned bills (including bills under LC), the action taken by the branch is as per the guidelines. On the fate of goods and report details of such bills including LCBRs remaining unpaid after arrival of goods, indicating action taken by the branch.
- ✓ In respect of export bills purchased / discounted, expressed in foreign currency, whether overdue bills were promptly converted into rupees under report to the central office.
- ✓ Whether packing credit was adjusted out of export bills purchased.
- ✓ Comment on cases where payment is received under reserve.
- ✓ ECGC policy as applicable is held and Drawee Limit is complied with.
- ✓ Whether appropriate margin has been maintained as per sanction terms?
- ✓ Whether the turnover in Bills limit reflects the true position of sales as evidenced from financial statements? Large variation should be commented.
- ✓ In case of Foreign Bills Purchased/Discounted for export on FOB and C&F terms, whether the contingency risks policy as per Head Office instructions.

N. Cash Credit Including Temporary Overdrafts

- i. Verify whether the branch has identified and classified the advance in accordance with the guidelines of the Head Office.
- ii. Report individually on accounts in which there are irregularities due to:
 - (a) Excess drawing over drawing power.
 - (b) Excess drawing over limit.
 - (c) Deficiency in documentation.
 - (d) Operations unsatisfactory / no operations.
 - (e) Drawings against unclear effects.
 - (f) Non-inspection of securities.
 - (g) Non-recovery / absorption of interest.
 - (h) Not covered by sanction.
 - (i) Unreported excesses.
 - (j) Drawings not reflected by QIS where applicable.
 - (k) Account not brought to credit as per sanction terms
- iii. Verify whether passing of cheque is duly authorized through Cheques referred Register, where there are irregularities as mentioned above.
- iv. Whether excess over the limit / drawing power is covered by adequate security and prescribed margin is maintained?
- v. Whether sundry creditors are reported in stock statement is deducted to calculate drawing power against paid stocks.
- vi. Whether any spurt in inventory is noticed and verified for the source of funds.
- vii. Whether norms for inventory and receivable, wherever applicable is monitored.
- viii. Whether appropriate action is taken where the non-submission of stock statement persists for two months.
 - QMR / HMR are studied critically and dates are entered in a register for follow-up at the time of annual review.
 - Whether variations from projections are analyzed and considered realistic based on past performance and environmental outlook.
 - A concurrent auditor needs to verify the adequacy / enforceability of insurance or insurable assets with appropriate risks, location, etc.
 - The concurrent auditor needs to indicate cases where a delay in the recovery of interest is noticed.
 - *Ad hoc* facilities allowed to continue beyond the stipulated period mentioned in sanction, also need to be highlighted.
 - Excess beyond the *ad hoc* limit without report / confirmation and allowed to continue without recovery to be pointed out.
- ix. In case specifically mentioned by bank, the Concurrent Auditor should conduct inspection of units / godown / fixed assets / stocks under pledge and hypothecation in such a way that all the accounts are inspected as terms of appointment letter at least once in every six months.
- x. Stock inspection report should be in the prescribed format of the bank for this purpose.

O. Advances under Consortium Arrangement

- i. Verify whether consortium meetings are held and minutes of meeting are prepared. Verify whether Minutes of the meeting are communicated to all consortium members. The branch keeps the controlling office informed of all the meetings and deliberations.
- ii. A confirmation from the lead bank that original documents are held by the bank on behalf of all member banks. Securities are created by them on behalf of all member banks and equitable mortgages are held on behalf of all banks are held by them.
- iii. Joint inspections of the unit/stock are carried out as per joint lender's agreement. Verify that the irregularities in the inspection report are promptly attended to.
- iv. Verify that pro-rata business, including non-fund-based business, is transacted through the bank.

P. Pension Accounts

- (i) All Pension Payment Order (PPO's) are properly numbered and recorded.
- (ii) Records at branch for pension payment order are upto date. Verify whether any excess pension payment is outstanding in branch for recovery.
 - i. Verify whether every November Life Certificate has been obtained in case of all PPO's.
 - ii. In case of undisbursed pension, the amount is promptly returned.
 - iii. Whether TDS is deducted as per extant rules.
- (iii) Verify whether link branch (if applicable) is sending pension payment scroll to RBI / SBI well in time for reimbursement.
- (iv) Whether turnover commission is recovered by the link branch and distributed amongst branches?
- (v) Whether reimbursements are in arrears?
- (vi) For collection of taxes, PPF A/c etc. whether funds received are immediately remitted to link branch.
- (vii) 30% scrutiny of transactions relating to the payment of pension.
- (viii) Whether the prescribed certificates-Life, Re-employment, Re- marriage etc. obtained, wherever required, in all pension accounts.

Q. Others – Verify

- (i) Compliance of provisions relating to Tax Deducted at Source, GST and other duties and tax.
- (ii) Physical verification of inventory, control over issue of inventory, safe keeping and custody of security forms. Report any loss of such items.
- (iii) Physical verification of other deliverable items, control over issue, safe keeping and custody.
- (iv) Physical verification of Gold coins, control over issue, safe keeping and custody. Checking of Gold sale transactions.
- (v) Custody and movement of branch keys.
- (vi) Locker keys and locker operations – linking of FDR as security for locker / operation of locker / inoperative lockers / nomination / other issue.
- (vii) Safe custody of branch documents like death claim cases, issuance of duplicate DD / PO / FDR, checking of indemnities, etc., and verification of documents executed during the period under audit.
- (viii) Reporting of frauds.

R. General Banking- Income Tax / GST / Other Tax Related Issues

Verify the transactions where 'PAN' is mandatorily to be submitted under Rule 114 B of the Income Tax Rules, 1962. In case where such person does not have 'PAN' he shall make a declaration in Form 60, giving therein the particulars of such transactions. The transactions are:

- a) A time deposit with banking company for an amount exceeding ₹.50,000/- or aggregating to more than ₹. 5 Lakh during a financial year.
 - b) Opening an account other than as mentioned in (i) above and a Basic Saving Bank Account.
 - c) Making an application to any banking company for issue of credits or debits cards.
 - d) Deposit with a banking company of cash exceeding ₹.50,000/- during any one day.
 - e) Purchase of bank drafts or pay orders or banker's cheques from a banking company where payment was made in cash for an amount exceeding ₹. 50,000/- during any day.
 - f) Payment against purchase of any foreign currency at any time, in cash of an amount exceeding ₹.50,000/-
 - g) Payment against sale/purchase of goods /services for amount exceeding ₹. 2 Lakh per transaction.
- Verifying the obtention of PAN and updation of the same in computer.
 - Verify whether Fixed Deposit is paid of ₹.20,000/- or more in cash which is in contravention of provisions of Section 269T of Income Tax act,1961. In case repayment is made by any branch of a banking company, such repayment may also be made by crediting the amount of such loan or deposits to the saving bank account or current account with such branch.

- Verify whether the compliance of section 206AA of Income Tax Act, 1961 is made with regards to furnishing of 'PAN'.
- Verify the compliance of issues relating to TDS on salary, Pension, disbursement, rent, commission, Interest, payment to contractors, payment of fees to professional / technical person etc. in respect of:
 - Deduction of TDS at correct rate.
 - Deposit of TDS within time.
 - Filing the TDS return in time and as per procedure prescribed.
 - Issue of TDS certificates.
 - Receipt of 15G & 15H and entry in system.
 - Filing of Form 15G/15H with department as per new procedure.
- Ensure whether Form 15CA & 15CB obtained for outward foreign remittance and filing of details of these forms in Form 15CC as per Rules 37BB which states that Banks shall furnish a quarterly statement for each quarter of the financial year in Form No. 15CC as per procedure given in Rule 37BB.
- Ensure that no payment is made exceeding ₹.20,000/- against an expenditure otherwise than through an Account Payee Cheque or A/C Payee Bank Draft to comply with provisions of Section 40 A(3) of the Income Tax Act, 1961.
- Ensure compliance of GST and other duties & Taxes.

S. Compliance of Guidelines on "Know Your Customer" Norms and "Cash Transactions" and Other Internal Control Measures

Whether Bank has complied with the guidelines regarding cash transactions involving amount of ₹.50,000/- while accepting the cash.

Status of Implementation of Mitra Committee Recommendations Relating to Submission of Legal Compliance Certificates.

Check total number of officers in the branch (excluding Controlling Officer), of whom no. of officers who have not submitted legal compliance certificate. Whether the Controlling Officer has submitted legal compliance certificate to his controlling office?

T. NPA Management

Verification of monthly statement. Scrutiny of compromises entered into / recommended by the branch during the month.

Checklist - Quarterly

Revenue Checking

Verify and report Non-recovery of:

- (i) Locker rent.
- (ii) Penal interest for delayed / non-submission of returns, financial statement / stock statement required to be submitted.
- (iii) Penal interest on advances in respect of lapsed sanction / limit.
- (iv) Penal interest on excess over limit.
- (v) Overdue interest on all types of bills, loans and packing credits for overdue period.
- (vi) Commitment fee for unutilized limit is collected as per rules.
- (vii) Commission of letter of credit, letter of guarantee and charges for safe custody etc.
- (viii) Standing information charges.
- (ix) Stop payment charges.
- (x) Processing fee on advances.
- (xi) CIBIL charges, if applicable.
- (xii) Cheques return charges.
- (xiii) Inspection charges.
- (xiv) Charges for documents under LC.

- (xv) Charges for any services provided.
- (xvi) Cheque-book issue charges.

For rates, Bank's service charges booklet / manual should be obtained and kept on record during the period of audit. For any further clarification / modification as mentioned in respective circular should be taken care of.

U. Information Technology

- i. Number of computers in use.
- ii. Hardware details such as brand name, hard, processor name, from copy of invoices / copy of order that is available at branch.
- iii. AMC should be entered for all the system in use. The expiry date will be available from contract entered with vendor by the branch.
- iv. The name of printers, routers, and scanner, in use should also be stated.
- v. UPS and AC details for brand, capacity, number of batteries.
- vi. Whether following registers are maintained and updated:
 - Computer, consumable maintenance log.
 - Computer cabin keys and their movement.
 - Machine breakdowns / maintenance by vendor visits.
- vii. Whether branch is changing the parameter whenever it is due, verify with respective maintenance options under module means.
- viii. Whether Disaster Management is in place.

V. Others

Compliance with insurance limit for cash and other fixed assets of branches.

Fixed and other assets at branch are serially numbered and recorded in fixed assets register, are adequately insured. Depreciation is calculated at HO or branch wise.

If building is rented, rent agreement is kept in safe custody and renewed timely.

Whether or not customer service is satisfactory, such as:

- i. Customer meeting is convened as prescribed.
- ii. Standing instructions are followed up.
- iii. Complaint / suggestion box is there in branches.
- iv. Whether or not staff at branch is polite to customers.

CHAPTER - VI

Systems & Procedures - Value Statements

Cash

- ✓ Have you physically verified cash in hand?
- ✓ Whether it tallies with cash balance account in the system?
- ✓ Have you verified cash scrolls for receipts, token books for payments of individual cashiers?
- ✓ Have you verified that no paid cheques / debit vouchers held along with the cash purporting to represent payments made but not yet brought into account?
- ✓ Have you verified that cash and other valuables are being checked by Zonal Office Authorities? (Dates of last two checking's)
- ✓ Whether late receipts / payments are regular features at the branch.
- ✓ Whether entire cash is being checked by the Manager at regular intervals at least once in a month and whether a record of such verification is being maintained?
- ✓ Whether soiled notes held are within reasonable limit and these are exchanged at the RBI / Currency Chest at regular intervals?
- ✓ Are you satisfied that cash bundles are stitched with prescribed cash slips and signed in full by the cashier / officer concerned as per Clean Note Policy of RBI?
- ✓ Whether proper record is maintained for recording instances of shortage or excess cash found with proper explanation and wherever necessary reported to Zonal Office / Head Office?
- ✓ Whether cash brought over to the counter normally does not exceed the usual requirements?
- ✓ Whether cash is held under joint custody of Manager and Cashier / Officer?
- ✓ Whether all the terms and conditions in regard to insurance of cash in safe and in transit are being complied?
- ✓ Whether duplicate set of keys of strong room and cash safe etc. were withdrawn during inspection? Whether the same were brought in use and exchanged in your presence?
- ✓ Whether replaced set of keys is lodged back?
- ✓ Whether effective follow up of the entries outstanding under Cash Remittance is being done for their immediate adjustment.
- ✓ Have you verified that the slips on bundles consisting of notes of denomination of ₹.500/-, ₹.100/-, and ₹.50/- are duly signed by the cashier and countersigned by the Manager/Branch In-charge?

Cash Management

- ✓ Have you satisfied that correct assessment of daily cash requirements is made by the Branch Manager?
- ✓ Have you verified that minimum cash balance is maintained by the branch for daily transactions?
- ✓ Have you satisfied that proper utilization of cashier manpower including paying cashiers is made for sorting and bundling of notes denomination-wise?
- ✓ Are you satisfied that the cashier staff has full day's job and that they attend and leave the office according to scheduled working hours?
- ✓ Are you satisfied that the branch is depositing surplus cash (if not otherwise disposed of) with the nearest branch/currency chest / RBI / SBI etc. (Concurrent Auditors should furnish figures of average cash holding on fortnightly basis as against the Retention Limit fixed for the branch since the date of last Audit in the Report)?
- ✓ Have you verified that entries relating to remittance in transit are reversed within the prescribed period? List of entries outstanding for more than 10 days should be furnished in the Report.
- ✓ Whether adequate escort is provided for transit cash remittances in accordance with RBI and Banks HO Instructions?
- ✓ Does the branch furnish statement as per periodicity mentioned by Head Office / Zonal Office with regard to Cash Movements?
- ✓ Whether cash remittance and cash drawn registers maintained?

Petty Cash, Postage, Stamps in Hand / Embossed Stamps Etc.

- ✓ Whether balances in petty cash, postage and stamps in hand as on the date of Audit tallies with General Ledger Account / Specified Account in this regard?
- ✓ Have you physically counted the adhesive stamps and stamp papers / forms and tallied with General Ledger Account / Specified Account in this regard?
- ✓ Have you verified that the branch maintains adequate stock of Adhesive stamp forms for Loan Agreements / Locker Agreements etc.?
- ✓ Whether proper register is maintained by the branch in this regard?
- ✓ Have you physically verified all the unused/unissued cheque books /draft books, Multi City Cheque books, FDR Receipts / Acknowledgement Books and other security forms like LCs / Bank Guarantee Forms etc., with the record and found that no security form is missing (in case of any shortage, Concurrent Auditors must inform Zonal Office/Head Office with the full details. Have you further verified that all security items are kept under the joint custody of Branch Manager and second man and are also released jointly to prevent fraud?

Deposit Accounts

- ✓ Whether renewal notices being sent to fixed deposit holders – System generated?
- ✓ Whether the facility of automatic renewal of FDRs is provided to the customers?
- ✓ Whether account opening forms are properly filled in or sent Central Processing Centres, duly signed by all the depositors, KYC Norms and introductions obtained in approved manner?
- ✓ Whether overdraft limits are entered correctly in the Current Account with approved IDs of the Officials?
- ✓ Has the branch resorted to window dressing during the period under review? If yes, modus operandi adopted be given in detail?
- ✓ Cheque Book Issue Register.
- ✓ Cheque Returning Register
- ✓ Pass Book Issue Register
- ✓ Stopped Cheque Register

System Suspense, Sundry Deposit Accounts

- ✓ Whether all the entries are genuinely authorized by Officials in terms of Head Office instructions?
- ✓ Whether entries older than 15 days are being perused with the defaulting branches/concerned Zonal Office.
- ✓ Statements of *System Suspense, Sundry Deposit Accounts* are being submitted to Zonal Office / Head Office Reconciliation department on due dates?
- ✓ Comparative position of entries outstanding in these heads (age-wise) should be mentioned in the Report.
- ✓ Correspondence file of the branch should be gone through to assess the follow up measures/efforts made by the branch.

Imprest Clearing

- ✓ Whether clearing account is balancing every week?
- ✓ Whether there are long outstanding entries under this Head pending reconciliation; if yes, whether differences located and satisfactory efforts being made to reconcile the imprest clearing a/c?

Day Book / GL / GLB

- ✓ Whether Day Book is generated by system daily and properly authenticated?
- ✓ Whether day book is checked with vouchers etc. by Officers in routine?
- ✓ Whether each and every entry initialed and necessary checking certificate being given in the day book?
- ✓ Whether various subsidiary books and registers are properly maintained and are tallied up to date with the General Ledger?

Branch Expenditure (Overheads)

- ✓ Whether all debits to various expenditure heads since the date of last Audit are in order & relative vouchers are being signed by the Branch Manager?

- ✓ Whether all items of Charges General, Stationery consumed etc. are within the discretionary power of the Branch Manager? Or Under proper authority.
- ✓ Whether powers for charges general are being used judiciously by the BM?
- ✓ Whether proper control is being exercised in indenting inventory and use of Stationery?
- ✓ Details of expenditure incurred by the branch beyond the powers vested/without appropriate sanction by the Competent Authority and details of expenses where no supporting bills / Cash Memo. are held be given.
- ✓ Whether the branch is maintaining General Charges Register as per HO guidelines?

Personnel Matters

- ✓ Whether the Attendance register is properly maintained and the same is signed by the Branch Manager after opening time of the branch?
- ✓ Whether Salary Register / HRMS is properly checked and signed by the BM?
- ✓ Whether Income Tax / PF and other deductions are deposited with the concerned authorities and proper receipts obtained thereof and kept on record?
- ✓ Whether installments of staff loans are being deducted every month regularly from the salary?
- ✓ Whether advances outstanding against the staff are proportionate to the bills submitted, whether bills are submitted in time, proper follow up of these entries is made and got adjusted within 30 days?
- ✓ Whether leaves to the staff members are being sanctioned according to the stipulated norms and leave applications are being tendered by them before proceeding on leave and whether leave record is being properly maintained at the branch either online or manual?
- ✓ Whether Festival advance, TA and LFC leave encashment, medical, salary and overtime etc. are being paid in accordance with the laid down instructions and the requisite registers properly maintained.
- ✓ Whether the staff members are trained properly to perform their duties effectively?
- ✓ Whether duties of staff are rotated periodically?
- ✓ Whether supervisory staff at various levels exercising their powers judiciously?
- ✓ Whether industrial relations at the branch are cordial?
- ✓ Whether sub-staff wears uniform?
- ✓ Whether existing staff strength is commensurate with the approved manpower?
- ✓ Whether staff is motivated to clear the pendency of work and update housekeeping?
- ✓ Whether staff movement register is maintained properly and entries being authenticated by the Branch Manager?
- ✓ Whether leased accommodation Rent / HRA is being paid as per sanction / settlement and standard rent is being deducted at source regularly where leased accommodation is provided to the officer staff?
- ✓ Whether officiating allowance is being paid as per Staff Circulars / Head Office guidelines?

Security Aspects

- ✓ Has the security classification of the branch been done and advised by the Zonal Office / Head Office Security Department?
- ✓ Whether guards are posted and guns have been provided for high risk branches?
- ✓ Whether one guard is posted and one gun has been provided for normal risk branches?
- ✓ Whether the Gun License is valid?
- ✓ Whether ammunition is older than three years?
- ✓ Whether cash safe is embedded if the branch is not having strong room/whether iron cage has been provided?
- ✓ Is Electronic Alarm System in order?
- ✓ Whether main entrance collapsible gate is chained and locked (with sufficient opening to allow entry of one man only at a time) during banking hours?
- ✓ Whether collapsible gate at main entrance kept closed after banking hours and entry of outsiders properly controlled and scanned?
- ✓ Whether grill gate of strong room kept locked during the day?
- ✓ Whether cashier's cabin kept locked?
- ✓ Whether the branch is maintaining gun movement register and guns are being tested at periodical intervals?
- ✓ Whether locker room is kept clean and dressing table is in order & curtains are clean?

Frauds / Forgery

- ✓ Whether any fraud/forgery committed after the last Audit? If yes, complete details are furnished in the Report / advised to Head Office.
- ✓ Whether the same has been properly looked into and reported and desired action taken without delay?
- ✓ In case of already reported frauds whether proper follow up is being done in Respect of:
 - Recovery.
 - Police/CBI action, if any.
 - Civil Suit, if any.
 - F.I.R. lodged?

Stopped Cheques

- ✓ Have you verified that stopped cheques are promptly recorded in the stop payment register and proper caution is recorded in the respective ledger account and instructions suitably posted therein in all cases?
- ✓ Have you also verified that entries in respect of stale cheques are regularly marked off in the stop payment register?

Correspondence

- ✓ Whether proper supervision is being exercised by the BM over inward mail?
- ✓ Whether outward letters and instruments are dispatched on the day of originating?
- ✓ Whether Dak Receipt & Dak Dispatch Registers have been properly maintained?
- ✓ Whether correspondence is methodically filed and disposed of in a reasonable time?

Returns / Statements Register

- ✓ Whether statement register is properly maintained and all periodical returns prescribed by Head Office are correctly compiled and promptly dispatched to Head Office / Zonal Office within the prescribed time schedule?

Deposit Vault / Lockers

- ✓ Whether working of the safe deposit vault is in accordance with the prescribed procedure?
- ✓ Whether locks of surrendered lockers are inter-changed before leasing them again?
- ✓ Whether proper safeguards are observed in respect of control of vault and the main keys?
- ✓ Whether keys of vacant lockers tally with the chart provided for this purpose. If not, give details?
- ✓ Whether nomination facility being provided and relevant forms obtained and kept properly in record?
- ✓ Details of locker rent in arrears are furnished in the Report.
- ✓ Whether safe custody facility provided to customers for keeping articles envelopes, documents etc.?
- ✓ Whether safe custody register maintained properly and recovery of rent properly done?

Postage

- ✓ Whether postal receipts of Registered / Insured letters dispatched are recorded daily in the dispatch register and relative postal receipts are crossed under date in token of their checking, whether dispatch register is checked daily and summary of stamps used, details of unused stamps and cash in hand is prepared daily?
- ✓ Whether the branch is maintaining inward and outward registers and sent on behalf of customers are debited to their respective accounts.

Margin Money

- ✓ Whether reversal of entries from Margin Money a/c for the government sponsored advance accounts is properly accounted for?

Bills for Collection (IBC & OBC)

- ✓ Whether outward bills (irrespective of amount) are sent under Regd. Post / IBA approved couriers?

- ✓ Whether instructions regarding the custody of parcels / bills and accompanying documents are being carried out?
- ✓ Whether usance bills in hand are properly accepted adequately stamped and their due dates correctly worked out?
- ✓ Whether bills in hand are tallied with General Ledger and verified documents of title of goods in each case?
- ✓ Whether contra vouchers are passed on daily/weekly basis?
- ✓ Whether all bills in hand are properly presented and intimations thereof sent to drawees promptly?

Un-reconciled entries

- ✓ Whether effective follow up measures are being taken for the adjustment of old un-reconciled entries.

Share and Securities in Safe Custody

- ✓ Whether instructions laid down in respect of acceptance of shares and securities in safe custody are duly observed?
- ✓ Whether half yearly confirmations are obtained from customers in respect of shares / securities held and their signatures duly verified?
- ✓ Whether balances of securities and shares in the ledger are tallied with the balance in the register periodically? And interest and / or dividends are realized in accordance with the customer's mandate?
- ✓ Whether branch is maintaining securities in and out register on prescribed lines for recording the movement of securities and shares?
- ✓ Whether recoveries of safe custody fee/handling charges are in order?

Records and Vouchers

- ✓ Whether old record requiring destruction has been properly dealt with in accordance with the prescribed procedure?
- ✓ Whether branch records are properly kept and recorded in Record Register?
- ✓ Whether vouchers are properly numbered, stitched and recorded in the voucher register and checked by the Manager/Second Man?
- ✓ Whether voucher movement register and old record register are properly maintained?

Miscellaneous

- ✓ Whether signature books of authorized officers of RBI are kept in the personal custody of the branch in-charge and the same is kept up-to-date?
- ✓ Whether bank's books of authorized specimen signatures are properly kept and prompt action is taken on correction list?

Stationery

- ✓ Whether items of stationery are properly recorded and tallied with Balance of Stock of Stationery?
- ✓ Whether security forms in use remain during office hours in the custody of authorized persons as per laid down norms and kept in safe in the strong room after closing hours?

Furniture & Fixtures (FF)

- ✓ Whether furniture items are numbered?
- ✓ Whether they tally with furniture and fixtures register maintained for the purpose?
- ✓ Whether Furniture and Fixtures Balances tally with General Ledger?
- ✓ Whether the sign board is properly displayed?
- ✓ Whether lease deed of bank premises executed or not?
- ✓ Whether lease deed of the bank premises is in force?
- ✓ Whether rent is being paid regularly?
- ✓ Whether appropriate steps taken to renew the lease. If it has already expired or going to expire shortly?
- ✓ Whether payment of taxes and ground rent is being made in time? (This is applicable for bank owned premises or in case of rented premises where payment of taxes is the liability of the work).

- ✓ Whether communication with regard to insurance of furniture and fixture items has been received from Head Office Accounts Department and kept on record?
- ✓ Whether details of obsolete and broken furniture and other items given to Zonal Office seeking instructions for disposal?
- ✓ Whether vehicles allotted to branch are insured?
- ✓ Whether cost of all the vehicles is duly recorded in books?

Disbursement of Pensions

- ✓ Pension Payment Orders (PPO) certificates, pension payment accounts.
- ✓ Whether the branch maintains the PPO's (Disburser's Portion) in good condition i.e. without mutilation?
- ✓ Whether the Pensioner's Portion of PPO's has been given to the pensioners?
- ✓ Whether the undertaking regarding the refund of excess payment prescribed in the scheme being obtained from the pensioners?
- ✓ Whether the PPO's kept under the custody of a responsible officer in the branch?
- ✓ Whether certificates required under the scheme are being obtained on due date?
- ✓ Whether the payments noted simultaneously in the Pension Payment Account Register when the amount of pension is credited to the pensioner's accounts?

Payments of Pensions

- ✓ Whether the amount of pension credited to the pensioners accounts on the due date?
- ✓ Whether the accounts to which pensions are credited are single accounts in the individual names of the concerned pensioners?
- ✓ Are there operational instructions to indicate that operations in the accounts are permissible by the pensioners themselves and not by their attorneys or authorized agents?
- ✓ Whether the amount of relief in pension has been paid to the pensioners at correct rates?
- ✓ Whether the recovery of Income Tax has been made as required under the scheme?
- ✓ Whether the pension has been reduced only from the date of payment of commuted value of pension as laid down in the scheme?
- ✓ Whether in case of death, pension has been drawn for the day of the pensioner's death irrespective of the time of death?
- ✓ Whether the family pension has been reduced / paid at the lower normal rate?
- ✓ Whether the payments made to the pensioners have been noted in the Disburser's portion of the PPO?

Scrolls

- ✓ Whether the payment scrolls submitted to the link branch by every month.
- ✓ Whether the pension payment scrolls are being prepared correctly according to different payment schemes.

In Link Branch

- ✓ Whether Index Register of pension payments authorized under the scheme is being maintained.
- ✓ Whether an impression of the special seal of the treasury officer together with the specimen of his signature maintained?

Restoration of commuted portion of pension after 15 years

- ✓ Whether commuted portion of pension has been restored to such pensioners who had commuted a portion of their pension on due date?
- ✓ Whether action taken on above on receipt of applications from the eligible pensioners in the prescribed form?
- ✓ Whether full particulars of each pension case along with the amount of pension restored have been intimated to the accounts officer who had issued PPO's for verifying the correctness?

Clearing

- ✓ Proper check and control are exercised over cheques / instruments presented / received through CTS.
- ✓ Service Charges on Unpaid instruments are debited to constituents' accounts promptly.

- ✓ Unpaid instruments are properly recorded.
- ✓ Unpaid instruments are returned to lodgers promptly.
- ✓ Clearing differences, if any, are promptly and effectively pursued.

CREDIT MANAGEMENT (OTHER THAN PRIORITY SECTORS)

Advances against immovable properties

- ✓ Whether the branch is in possession of the relative original title deeds or the Mortgage Deed duly registered?
- ✓ Whether the branch is holding the memorandum of deposit of title deeds duly signed by the owners?
- ✓ Whether the branch is in possession of the legal opinion, search report, latest Index Audit and valuation reports?
- ✓ Whether requirements pointed out in legal opinions, particularly those relating to obtaining mortgage permission from competent authority in case of leased properties, permission under Urban Land and Ceiling Regulation Act 1976, mutation, latest property tax receipts, previous chains of title deeds etc. are complied with?
- ✓ Whether entry relating to equitable mortgage is properly entered in the Title Deed Register?
- ✓ Whether Certificate of Registration of charge with the Registrar of Companies in the case of Limited Companies is held by the branch?
- ✓ Whether the title deeds once deposited are not delivered to the customer. Where, however, the same are required for perusal by any authority, have the same been presented before such authority through a Bank Official Bank Counsel.
- ✓ Whether legal opinion states clearly that the owner of the property has a clear and marketable title to the property and that the property can be validly mortgaged to the Bank by way of Equitable Mortgage/Registered Mortgage.

Personal Segment Loans

- ✓ Whether the quantum of loan sanctioned, the number of installments, total repayment period, and margin etc. are within the limits prescribed by the Head Office as per the Loan Product Features?
- ✓ Whether the loans have been granted only to persons with regular monthly salary or proper repaying capacity?
- ✓ Whether letter of undertaking is obtained, wherever possible from the employer of the borrower agreeing to deduct the number of installments from the borrowers' salary and remit it to the Bank directly.
- ✓ Whether the consumer loans are granted for purchase of new consumer articles of standard companies which generally carry a performance warranty for a minimum period of six to twelve months?
- ✓ Whether the disbursement of the loan is by means of cross pay order issued in favour of the dealer and original invoice and receipt (and copy of Registration Certificate in case of Vehicles) are obtained and kept on bank record?
- ✓ Whether the consumer goods purchased are insured against fire and other risks wherever necessary?
- ✓ Whether it is verified from time to time that the consumer goods purchased are in working condition?
- ✓ Whether in cases, wherever default occurs, and prompt action is taken for recovery of the bank's dues?

Advances against Government Securities / Shares

- ✓ Whether all Govt. securities have been duly endorsed in favour of the bank and endorsements got registered wherever necessary?
- ✓ Whether a diary relating to due date of interest on securities is maintained and the interest is collected regularly and promptly?
- ✓ Whether shares held are got transferred in the name of the bank in case of advances of more than threshold limit fixed by Head Office against shares?
- ✓ Whether debentures held as security are got transferred in the bank's name through DEMAT or in Physical Form?
- ✓ Whether there are sufficient blank columns for further endorsement?
- ✓ Whether proper record of securities held and their movement is maintained in security in and out register?
- ✓ Whether the shares/debentures stand in the name of the borrower?

- ✓ Whether shares of Private Limited Companies/Partly paid shares and unquoted shares are not accepted as security and advance is granted against the shares/debentures of only those companies which are approved by Bank Head Office from time to time.
- ✓ Whether the shares held are accompanied by adequate Number of blank transfer deeds?
- ✓ Whether the bank has accepted securities are mutilated or damaged and the chain of endorsements appearing thereon is broken?
- ✓ Whether any advance against shares / securities standing in the name of minors has been allowed?
- ✓ Whether stipulated margin is maintained in all cases?
- ✓ Whether the drawing power is revised on the basis of latest valuation reports of stock exchange?

Advances against Bank Deposits

- ✓ Whether Fixed Deposit Receipts / Recurring deposit pass books, against which advances are allowed, are held by the branch duly discharged in favour of the bank by all the joint account holders or as per the system laid down by the Bank?
- ✓ Whether lien is marked on the deposit receipt in the system as well as on the respective ledger folios in case of manual system under full signatures of the authorized officer with date?
- ✓ Whether letter of undertaking for utilizing loan amount for minor's benefit and indemnity bond are obtained from guardian while advancing against minor's deposit?
- ✓ Whether RBI Directives in regard to margin, rate of interest etc. are strictly complied with and in case of premature encashment of deposit or adjustment of advance rate of interest charged on the advance is also reduced accordingly?
- ✓ Whether advances are allowed to continue after the date of maturity by renewal of the relative deposits?
- ✓ Whether advances against non-resident (external) fixed deposit and FCNR adjusted with local credits in India Rupees?
- ✓ Whether in case of advance against deposit of other offices, an acknowledgement of having noted the lien on the FD by the issuing branch has been obtained and kept with the security documents?

Advances against Life Insurance Policies

- ✓ Whether the assignments in favour of the bank are duly registered with the LIC and original policies with such endorsement held on bank record?
- ✓ Whether latest surrender value has been obtained and the advance is within the stipulated margin?
- ✓ Whether latest premium receipts have been taken.
- ✓ Whether mandate authorizing the bank to make payment of the premium by debit to the borrowers account is held?
- ✓ Whether the age of the assured has in all cases been admitted and the policies are in full force and have been recorded in the documents register?
- ✓ Whether undated surrender letters have been held for each policy.

Loans to Staff Members

- ✓ Whether sanction from competent authority is invariably held on record before disbursing any loan to staff members?
- ✓ Whether all the stipulations of the sanction regarding margin, rate of interest, number of installments, direct payment to dealer etc. are complied with?
- ✓ Whether end use is ensured and all the requisite documents/papers viz. invoice/receipt/insurance/copy of Registration Certificate etc. are obtained and kept on bank record.
- ✓ Whether in case of housing loan to staff, equitable mortgage has been properly created, loan is disbursed in stages and the bills showing the cost incurred are held on record?
- ✓ Whether the property is got insured against various risks stipulated in the sanction / Head Office instructions?
- ✓ Whether the installments in all staff loan accounts are invariably deducted from salary in terms of Head Office Circular Instructions.

Hypothecation / Pledge of Goods

- ✓ Whether the stock statements relating to Hypothecated goods are obtained periodically from the borrowers at stipulated intervals on Standard Format Designed by the Bank? If not, whether penal interest is being charged as per Bank's guidelines?
- ✓ Is the gap between the date of the statement and the date of receipt at branch reasonable and properly explainable to your satisfaction?
- ✓ Whether all the columns of statement are properly filled in by the party and duly signed?
- ✓ Whether the stock statements are scrutinized by the branch and drawing power arrived at after maintaining the margin and noted in the drawing power register / ledger?
- ✓ Whether proper and upto date stock register is maintained by the borrower and stock statement submitted tally with the register.
- ✓ Whether the stocks pledged / hypothecated are periodically checked by the branch manager / officers surprisingly without informing the borrower?
- ✓ Whether godown inspection reports are being sent to the appropriate authority at regularly intervals?
- ✓ Whether the branch is holding original / certified invoices on the basis of which stocks have been evaluated and no advance is being allowed against unpaid stocks?
- ✓ Whether the valuation of stocks pledged / hypothecated has been made on the basis of cost price or market price, whichever is lower?
- ✓ Whether the branch is maintaining the following registers properly
 - Limit Register
 - Drawing Power Register
 - Insurance Register
 - Godown Register
 - Godown Visit Register
 - Key Movement Register
- ✓ Title Deed Register
- ✓ Whether the godowns storing pledged goods are independently accessible? Non-independently accessible godowns have been accepted after obtaining Proper sanctions and Non-Objections?
- ✓ Whether all doors to godowns having stocks under pledge are secured by Bank's padlocks which bear the name of the Bank engraved in full and that Bank's name plates are prominently displayed both outside and inside all such godowns?
- ✓ Whether all windows, ventilators and doors other than the main door are securely grilled from inside, the walls are built upto the roof and godowns are free from dampness etc.?
- ✓ Whether the borrowers are submitting all financial statements including income tax and wealth tax returns for timely review of limits?
- ✓ Whether stocks are adequately insured against fire, burglary risks etc. and policies with bank clause, are held on record?
- ✓ Whether charge has been got registered with the Registrar of Companies in case of hypothecation advances to limited companies, and charge certificate held along with documents?
- ✓ Whether the stocks pledged / hypothecated are well within the norms as suggested by Tandon / Chore Committee / Naik Committee / MPBF etc.? (Wherever applicable).
- ✓ Whether the sale proceeds are routed through the CC account and are comparable to the party's sales turnover?
- ✓ Whether the operations in the account reveal any undesirable features?
- ✓ That clean loan / overdrafts facilities are not allowed to borrowers to enable them to maintain the prescribed margins?
- ✓ That the borrower is not having Cash Credit facility with other bank / non- hypothecated the same stocks to another bank?
- ✓ That the godown does not contain goods which are not pledged to the bank (unless specifically permitted and adequately insured)?
- ✓ That the stocks hypothecated to the bank are separately stored, if kept with other stocks, and that all other stocks are also covered by Insurance?
- ✓ That there is no variation in the stocks as per Balance sheet and the stocks hypothecated / pledged as on the date of Balance Sheet?
- ✓ That in case of consortium advances there is proper arrangement for inspection of stocks, exchange of information between the banks as regards conduct of the account and that other formalities such as obtaining of resolution, registration of charge etc. are complied with?

- ✓ Asset classification of advances has been done correctly and the same has been confirmed by the Zonal Office?

Inland Bills Purchased and Discounted

- ✓ Whether the advance against bills is allowed against sanctioned limit and Branch manager does not allow such facility to a party who is enjoying other facilities under sanction from ZO/HO without their specific approval?
- ✓ Whether the bills drawn on sister / allied concerns are not purchased / discounted?
- ✓ Whether Delivery against Acceptance (DA) / Delivery against Payment (DP) Bills Limits are kept segregated and are not intermingled without the approval of sanctioning authority?
- ✓ Whether bills are not over detained and where over detained, action is taken to enquire fate of the bills and its early realization?
- ✓ Whether the bills in respect of goods in which the borrower does not deal are not purchased / discounted?
- ✓ Whether bills returned unpaid are not repurchased?
- ✓ Whether overdue interest is charged on excess drawings and delayed payments?
- ✓ Whether DA Bills are drawn as per the tenure approved in the sanction letter?
- ✓ Whether credit reports are maintained & periodically reviewed in respect of the drawees, particularly those on whom bills for larger amounts are frequently drawn?
- ✓ Whether when bills drawn on a particular drawee are received back unpaid or generally not paid in time, due precautions are taken before accepting fresh bills on such drawees?
- ✓ Whether the party-wise bill purchased register is well maintained and all the entries of bills purchased/realized/returned unpaid being duly routed through it?
- ✓ Whether the branch is prompt in dispatch of purchased / discounted bills?
- ✓ Whether Bank's lien / interest is promptly notified to Railways / Transport Carriers wherever applicable?
- ✓ Whether the branch is accepting the Transport Receipts of approved Transport Companies issued in IBA approved format only and that bills accompanied by only those Transport Receipts / Railway Receipts have been purchased / discounted, where the consignee is Bank?
- ✓ Whether the overdue bills against which advance is outstanding, are deleted from the DP / transferred to bills for collection?
- ✓ Whether the irrevocable Power of Attorney executed in Bank's favour are duly registered with Govt. Departments in case of advance against Govt. Supply Bills?
- ✓ Whether only the genuine bills/cheques arising out of normal trade transactions are purchased / discounted?
- ✓ Whether the non-payment / non-acceptance advices are duly recorded and proper steps taken?
- ✓ Whether the bills returned unpaid and not reimbursed immediately are transferred to the "Past due and Dishonored Bills" account and notices of dishonor are promptly issued to all the parties liable on the dishonored bills?
- ✓ Whether the bills returned unpaid are reported to the Zonal Office at frequently?
- ✓ Whether due date diaries in respect of usance bills are maintained properly?
- ✓ Whether it is ensured that the goods in transit are adequately ensured for TPND (Theft, Pilferage, non-delivery) flood, and against riots and civil Commotions etc.

Letters of Credit

- ✓ Whether it is verified that all the LC's issued are backed by relative sanction and are properly recorded in LC issued register?
- ✓ Whether applications for opening LC are obtained on bank's prescribed proforma and the same are duly signed and stamped with stamp duly in force?
- ✓ Whether it is ensured that LCs is not issued in favour of sister/allied concerns of the buyer/customer?
- ✓ Whether the branch has obtained underlying sale contract between the buyer and the seller/supplier?
- ✓ Whether LC's are issued for trade related transactions only?
- ✓ Whether balances under "Party-wise Register" extracted and tallied with the outstanding as per "LC Issued Register" as well as the general ledger?
- ✓ Whether Contra Vouchers are passed promptly?
- ✓ Whether appropriate commission is charged and stipulated margin money is held in Margin Money account or in the shape of duly discharged deposit receipts?
- ✓ Whether the LCs is examined carefully at the designated branch to ensure that these have been issued by the opening branch authorized?

- ✓ Whether negotiating branch has received a copy of the sanction letter?
- ✓ Whether bills negotiated under the LCs are promptly paid and where not paid on presentation, the branch charges the overdue interest besides observing other safeguards?
- ✓ Whether counter guarantee of the party on whose behalf the LC has been issued and also of the guarantees specified in the sanction have been obtained?

Guarantees

- ✓ Whether it is verified that all the guarantees issued are backed by relative sanction and are properly recorded in guarantee issued register?
- ✓ Whether balances under “Party-wise Guarantee Register” extracted and tallied with the outstanding as per “Guarantee Issued Register” as well as the general ledger?
- ✓ Whether Contra Vouchers are passed promptly?
- ✓ Whether appropriate commission is charged and stipulated margin money is held in Margin Money account or in the shape of duly discharged deposit receipts?
- ✓ Whether counter-guarantees have been obtained from the constituents and in case of counter guarantees obtained from limited companies the same are backed by appropriate board resolutions?
- ✓ Whether guarantees are issued under the joint signatures of branch in-charge and senior most officer/officers in-charge loans department of the branch?
- ✓ Whether the counter guarantees obtained are adequately stamped and signed by duly authorized persons and additional securities/guarantees have been properly documented?
- ✓ Whether bank guarantees are issued along with a covering letter as per the pro-forma prescribed by Head Office of the Bank.
- ✓ Whether in case of Deferred Payment Guarantee, charge by way of hypothecation of machinery is obtained and the same is also registered with the Registrar of Companies.
- ✓ Whether installments under deferred payment guarantee are paid in time on due date?
- ✓ Whether due date diary has been properly maintained for deferred payment guarantee?
- ✓ Whether Branch Manager visits the borrowers periodically to assess the working position of securities (in respect of which deferred payment guarantees have been issued)?

Suits Filed / NCLT / DRT Cases / RBI commented Accounts

- ✓ Whether is verified that the recovery of bank's dues in the advances cover under the above heads is being properly followed up?
- ✓ Whether the securities held in these advances are clear marketable, properly insured and latest market valuation held on record?
- ✓ Whether primary/collateral securities are inspected periodically and found intact?
- ✓ Whether any efforts are being made for amicable settlement of dues to avoid litigation?
- ✓ Whether expenses incurred in these accounts subsequent to filing of suit are charged to “Litigation Suspense” or “Law” charges account with the approval of Head Office, Law & Recovery Department.
- ✓ Whether in suit filed cases, copies of the suit plaint are kept on record and whether the case is being pursued actively by the branch and the lawyer?
- ✓ Whether in decreed cases, certified copies of decrees have been obtained and execution proceedings are properly taken well before the decree gets time barred?
- ✓ Whether the suit register and the decree register are properly maintained and checked and are always kept up-to-date?

Advances against Book Debts

- ✓ Whether the statement of Book Debts with age of each book debt is obtained every month and the debts beyond stipulated period i.e. more than 6 months old are excluded while calculating drawing power?
- ✓ Whether complete addresses of the debtors are held by the Branch?
- ✓ Whether the amount of book-debts as on date of Balance Sheet tallies with the Balance Sheet?
- ✓ Whether the branch obtains the power of attorney in favour of the bank duly executed on stamped paper and registered, wherever required?
- ✓ Whether the Branch is verifying book debts with borrowers' books of accounts and original orders to verify that the book debts have arisen out of genuine trade transactions?
- ✓ Whether bank's charge stands registered with the Registrar of Companies in case of advances to limited companies?

Clean Advances / Clean Overdrafts

- ✓ Whether in clean loan accounts the repayments as stipulated are received regularly and in the case of overdrafts, the accounts are operated satisfactorily and show healthy fluctuations?
- ✓ Whether the loan is utilized for speculative purposes, overtrading or for providing margin in some other secured advances or in violation of the spirit of Selective Credit Control & other directives issued by RBI?
- ✓ Whether the temporary unsecured overdrafts allowed by the Branch Manager are within his discretionary powers and are granted only in such cases which conform to the guidelines issued by Head Office from time to time?
- ✓ In case answer is in negative to the above, whether such cases were reported to the competent authority and action got confirmed?
- ✓ Whether granting of temporary overdrafts to the parties is a regular feature at the branch?
- ✓ Whether valid security documents are held on record and financial papers of such parties kept on record and credit reports prepared?
- ✓ Whether enhancement, variations in terms of facilities as well as renewal of overdrafts/clean loans are made after obtaining the consent of the guarantors and copies of all communications in this regard are sent to them?
- ✓ Whether same parties or their sister/allied concerns are frequently allowed such facility?

Advances against Gold Jewellery / Bullions

- ✓ Whether the advances are made only to persons properly introduced to the Bank?
- ✓ Whether branch is maintaining a complete record of all the Ornaments & Bullions held as security regarding the description, gross and net weight fineness etc.?
- ✓ Whether the shroof, approved Govt. valuer's certificate about net gold content along with valuation thereon is held by the branch in all cases?
- ✓ Whether the jewellery/bullion is held under the joint custody of bank officials?

Protested / Past Due & Dishonored Bills

- ✓ Whether proper action is being taken in consultation with the Zonal Office / Head Office bank's retainer counsel?
- ✓ Whether valid documents held / limitation available to the bank?
- ✓ Whether goods under the dishonoured bills protected?
- ✓ Whether security / additional security available to the Bank?
- ✓ Whether notices of dishonor issued to all the parties liable on the bills?
- ✓ Whether dishonored bills have been got noted / protested through Notary Public?
- ✓ Whether chances of recovery are good?
- ✓ Whether dishonored bills were accommodation bills in nature?
- ✓ Whether outstanding in the past due and dishonoured bills ledger tallied with System Balance?

Pre-shipment Advances

- ✓ Whether the borrowers are holding exporter's code no. allotted by the RBI?
- ✓ Whether the packing credit advances are granted against lodgment of irrevocable letters of credit or firm export orders with definite expiry dates and are within discretionary powers or sanctioned limits?
- ✓ Whether packing credit contract-wise register and party-wise register maintained and separate accounts in respect of each borrower maintained properly?
- ✓ Whether the disbursements of packing credit are linked to actual purchases of raw material and goods?
- ✓ Whether the periodical inspections of goods and inventory carried out and stock statements are received in time and regularly?
- ✓ Whether the interest is charged for periods and at rates laid down by the RBI?
- ✓ Whether the packing credit advances are adjusted within the prescribed periods?
- ✓ In case where extension of time is granted, whether party's request for extension of time is held on record & permission from RBI obtained wherever necessary?
- ✓ Whether packing credits are adjusted by negotiation of relative export bills only?
- ✓ Whether adequate insurance is held for raw materials and goods?
- ✓ Whether all packing credit advances are covered under whole Turnover Packing Credit Guarantee by the bank and guarantee fee sent every month regularly?

- ✓ Whether ECGC policy is obtained by borrowers for individual buyers for their whole turnovers?
- ✓ Whether in cases where the exporter fails to effect shipment, normal rate of interest as well as penal interest charged for the entire period of advance and interest subsidy, if any claimed, is refunded to RBI?
- ✓ In case of Packing Credit remains outstanding beyond due date, is the branch transferring it to overdue head promptly and charging overdue interest?
- ✓ Is the branch taking following precautions with regard to ECGC cover?
 - Reporting of limits to ECGC with the time schedule.
 - Payment of premium by the Branch with stipulated period.
 - Reporting of overdues within the stipulated due dates.
 - Reporting of default of within stipulated dates.
 - Lodgment of claim within stipulated date from default.
- ✓ Is the branch endorsing order / LC against which Packing Credit is being permitted? (Further branches are to keep the ORIGINAL order / or LC in their record. In case original order/LC is to be released to party for some reasons branch must retain photocopy of confirmed order/LC indicating the endorsement of bank granting.
- ✓ Packing Credit against such confirmed order/LC in bank's record. In case running account, facility is permitted the order/LC is to be submitted in due course). Is the branch pursuing and receiving from the party the order/LC in stipulated time?

Post Shipment Advances / Export Bills purchased negotiated

- ✓ Whether the export bills purchased/negotiated are within discretionary powers of the Branch Manager or sanctioned limits?
- ✓ Whether the export bills purchased are covered under Whole Turnover Post Shipment Guarantee as well as the ECGC Policy obtained by the exporter?
- ✓ Whether the export documents are submitted to the bank for negotiation within the stipulated period of 21 days from date of shipment?
- ✓ Whether the export documents are thoroughly scrutinized before negotiation to ensure that they strictly conform to the terms of letter of Credit / firm order?
- ✓ Whether the documents are dispatched promptly and rate of exchange is correctly applied?
- ✓ Whether Packing Credit allowed against the order/LC is adjusted first out of purchase/negotiation of bills submitted there under and the balance amount is credited to exporter's account?
- ✓ Whether the bills, including those negotiated under reserve are realized without undue delay and within six months from the date of shipment?
- ✓ Whether in the cases where bills remain unrealized beyond the prescribed period, the matter is promptly taken up with the exporter and if he fails to arrange to remittance of proceeds, the matter is reported to RBI with reasons for delay?
- ✓ Whether proper steps are taken in case of dishonored bills viz protecting the goods by keeping in warehouse after obtaining margin to cover charges to be incurred by the foreign bank, noting/protesting of the bills obtaining concurrence of ECGC guarantee invoked, and systematically following up the matter of payment with the exporter, RBI and Foreign Bank till the bill is paid or disposed of as permitted by RBI?
- ✓ Is branch office taking permission of ECGC for accommodating parties beyond discretionary limit fixed by ECGC under Whole Turnover Post Shipment Guarantee?
- ✓ Whether the interest charged on export bills purchased/negotiated exceeds the rate stipulated by the RBI?
- ✓ In case bills remain outstanding beyond due date, is the branch transferring it to Overdue Head promptly and getting the bills protested and charging overdue interest thereof?
- ✓ Is the branch taking following precautions with regard to ECGC Cover?
 - Reporting of limit within the stipulated time.
 - Payment of premium by within the stipulated time.
 - Reporting of over dues within the stipulated time.
 - Reporting of default within the stipulated time?
 - Lodgment of claim within the stipulated time?
- ✓ Are the branch levying buyer charges on bills as per FEDAI rules?
- ✓ Is the branch charging interest on quarterly basis on all overdue bills by debiting current account of the party and the same are recovered promptly?

- ✓ Is the branch following exchange control regulations with regard to payment of agency commission, reduction of invoice etc?
- ✓ Is the branch maintaining record of Forward Contracts booked/used and charges applicable wherever are charged?
- ✓ Is the branch maintaining bill-wise/party-wise register?
- ✓ Is the branch crystallizing all bills remaining outstanding beyond due dates?

Export Bills Negotiated under Letter of Credit (ABLC)

- ✓ Whether it is ensured that documents pertaining to the title of goods i.e. bills of lading/airway bills are with full set of documents received under import letter and documents are thoroughly examined?
- ✓ Whether proper entries are made in the prescribed register and usance bills presented to the drawee / importers with the requisite foreign non-judicial import letter of credit and documents are thoroughly examined.
- ✓ Whether physical inspection of the goods imported under LC carried out and ensured that these are lying at port or stored in bonded warehouse?
- ✓ Whether it is ensured that adequate insurance cover is available and kept in force till the bill is retired?
- ✓ Whether due date or the fact of Non-acceptance, as the case may be, is promptly advised to the negotiating bank in case of usance bills?
- ✓ Whether it is verified that the importers concurrence or rejection is obtained in writing without delay in cases where negotiation by foreign bank is under "Reserve" or "Guarantee"?
- ✓ Whether it is ensured that where documents are in order, the drawee is not permitted to refuse the documents?
- ✓ Whether it is ensured that all the import bills are retired to the debit of importer's account with the branch?
- ✓ Whether it is verified that letter of credit liability is reversed on retirement of the bill?
 - Whether the outstanding bills in hand under import LC are checked by the Branch Manager personally once a week?
 - Is the branch levying charges as per FEDAI Rules?
 - Is the branch following rules relating to forward contracts strictly?
 - In case the bill is not paid, is the branch crystallizing the bill amount on receipt of the bill as per extent instructions?

Advances against duty drawback

- ✓ Whether advance is granted to exporters against their duty drawback entitlements, as provisionally certified by Customs Authorities pending final sanction & payment?
- ✓ Whether any interest is charged, if advance is adjusted within a period of 90 days?
- ✓ Whether normal commercial rate of interest is charged for the overdue period beyond 90 days?
- ✓ In case the advance remains outstanding beyond due date, is the branch transferring it to overdue head promptly?
- ✓ Is the branch taking following precautions with regard to ECGC Cover?
 - Reporting of limit within stipulated time.
 - Payment of premium with stipulated time.
 - Reporting of overdues within stipulated time of due date.
 - Reporting of default within stipulated due date of recall.
 - Lodgment of claim within of report default.

Imports

Import Letter of Credit

- ✓ Whether application of Form duly signed and stamped obtained from importer in each case?
- ✓ Whether proper records and registers like LC Register and liability register maintained?
- ✓ Whether the amount of LC issued plus previous outstanding of the party is within the discretionary powers/sanctioned limits?
- ✓ Whether the letter of credit issued are supported by valid import license or are under O.G.L.?
- ✓ Whether the stipulated margin and commission are recovered prior to opening of credit?
- ✓ Whether any back dated letters of credit are established subsequent to change in the import policies?
- ✓ Whether the contra entries for controlling the letters of credit are passed promptly?
- ✓ Whether the outstanding LCs is balanced at least once a month?

CREDIT MANAGEMENT (PRIORITY SECTORS)

Agricultural Advances

- ✓ Whether area of operation of the borrowers is within the controllable distance from the Branch concerned (to be verified from the record and not by actual visit to the said area)?
- ✓ Whether in case of term loans, a certificate from the field officer or Branch Manager regarding economic viability and Technical feasibility of the project Financed is held?
- ✓ Whether in case of crop loans, the amount of loan disbursed is in accordance with the approved scale of finance?
- ✓ In case of livestock loans:
 - Whether veterinary doctor's certificate in regard to age, health, etc. of the animals are held on record?
 - Whether animals have been insured against risk of mortality and are tattooed / branded with bank's name?
- ✓ Whether disbursement of loan in cash or kind is evidenced by the borrowers' receipt for cash and/or for the goods purchased within the amount of loan as well as by the seller's invoice, wherever possible? Whether loan documents are in order and have been kept alive by obtaining half yearly balance confirmation slips?
- ✓ Whether all the securities relating to agricultural advances viz Tractors, pump-set, implements etc. are fully insured against various risks with usual bank clause as prescribed?
- ✓ Whether pre and post disbursement inspections were properly conducted? Are securities periodically inspected as prescribed?
- ✓ In case where payments is not forthcoming:
 - Whether the default in payments is due to crop failure on account of natural reasons over which the borrowers had no control or it is due to some other reasons considered equally good as evidenced by record?
 - Whether in case of default for good reasons, rescheduling or repayment programme has been appropriately made or in case of crop loan, the loan has been converted into term loan repayable over a suitable period?
- ✓ Whether in case of willful default, notice has been served on the borrower and the guarantor, if any?
- ✓ Whether proper follow up measures have been taken by the branch to expedite recoveries? Is due date diary maintained to ensure effective and prompt action:
 - For recovery of installments in term loans.
 - In relation to proceedings initiated under the Agricultural Recovery Act or other summary enactments.
 - In suit filed or decreed accounts.
 - Have periodical balance confirmations as prescribed been secured from borrowers regularly on prescribed forms?
 - If any loan has become time barred or its limitation period is to expire within 6 months, has the Branch Manager taken appropriate measures to get the loan adjusted or to extend the limitation period?
 - Has the branch been invariably taking appropriate, prompt and effective steps (by regularly issuing reminders and notices to and making personal recovery of over dues? If so, what has been the cause of accumulation of arrears (whether willful default or misutilization of loans or unsatisfactory/poor repayment capacity of borrowers?

Advances to Primary Agricultural Credit / Farmer

Service Societies

- ✓ Whether loans to the societies have been allowed with the approval of higher authorities?
- ✓ Whether the resolution passed by the Managing Committee of the Society for borrowing from the bank is obtained?
- ✓ Whether it is ensured that the amount of loan was within the borrowing limits of the Society as specified in its bye-laws?

- ✓ Whether proper loan security documents as prescribed by Head Office obtained, including the deeds of assignment in favour of the bank of all rights the society has over the assets of its members through charge/mortgage of land?
- ✓ Whether the accounts of the societies are audited and the copy of the audited balance sheets held on record?
- ✓ Whether the bank's field staff supervises the working of the societies at regular intervals of time and ensures that there is a proper system to follow up the dues?

Educational Loans

- ✓ Whether advances have been extended to only deserving students whose parents/ guardians cannot afford such higher education without the bank assistance?
- ✓ Whether the borrowers are students of India Nationality with good academic record and have secured admission in Govt. recognized school/college/ educational establishment?
- ✓ Whether the amount of advance has covered all necessary items of expenses and repayment schedule provides sufficient gestation period to allow the students to settle down in life by securing suitable employment or by starting independent vocation/profession?
- ✓ Whether the requisite undertaking, as prescribed under the scheme has been obtained from the borrower viz.
 - That he would not participate in any unlawful activity?
 - That he would follow all the rules and regulations laid down by the educational institution.
 - That he would not change the course of studies or the place of study or the institution or take up employment during the course, without the bank's prior permission in writing?
 - That he would strive to secure a suitable employment immediately after the completion of the course and
 - That he will confine all his borrowings to this bank.

Advances against Vehicles

Direct Finance

- ✓ Whether all vehicles financed stand registered and hypothecation clause of the bank in insurance policy and the borrower and copies of Registration Certificate and Insurance held on record?
- ✓ Whether payment is released directly to the dealer and the invoice and payment receipts are held with the Bank in each case?
- ✓ Whether bank's name is exhibited on the vehicles?
- ✓ Whether periodical physical inspection of the vehicles is conducted and record maintained in the security Inspection Register?
- ✓ Whether the borrower holds a valid route permit to ply the vehicle?
- ✓ Whether the borrower holds valid driving license in case of owner driven vehicle?
- ✓ Whether in case of default, Regional Transport Authority is being informed not to renew route permit without bank's consent?
- ✓ In case of advances against second hand vehicles:
 - Whether valuation report from reputed automobile engineer is obtained?
 - Whether comprehensive Insurance Policy is available?
- ✓ Whether permission of competent authority is obtained?
- ✓ Whether bank's charge has been registered with the Registrar of Companies in case of Limited Companies?
- ✓ Whether undated letters from borrower, addressed to registration authority for transfer of vehicle in Bank's name are held?

Indirect Finance (Against Hire-purchase Agreement)

- ✓ Whether the Demand Promissory Notes and Hire Purchase Agreements duly endorsed in bank's favour are held by the bank?
- ✓ Whether Hire purchase agreements specially drafted by the bank for such type of business are held?
- ✓ Whether comprehensive insurance policy assigned in favour of the bank is held?
- ✓ Whether indemnity policy issued by an Insurance Company, wherever required in terms of sanction are held?

- ✓ Whether dealer's invoice, certified copy of Registration Certificate, duplicate keys of the vehicles, certificate of Registration of Charge (in case of Limited Companies) are held?
- ✓ Whether periodical statement of hirers with amount due from them giving the amount of arrears is obtained regularly from the finance company?
- ✓ Whether drawing power is revised according to latest statement?
- ✓ Whether Hire Purchase Agreements where default is continuous are excluded from security?
- ✓ Whether a notice of Bank's interest in the vehicles is sent to the hirers/ guarantors?

Advances to Retailers – Small Business

- ✓ Whether the advances to retailers/small traders made after assessing properly that the borrower comes under the purview of the definition?
- ✓ Whether the repayment programme is fixed keeping in view the expected generation of income from the business?
- ✓ Whether the installments in loan accounts are regular?
- ✓ Whether the branch has satisfied itself that the shop is owned by the borrower or is rented / leased in his own name?
- ✓ Whether the sale proceeds are being routed through the account?
- ✓ Whether the Branch Manager/Officials visit the borrower's premises periodically by surprise for verification of the goods charged to the Bank?

Advances to Professional & Self-Employed Persons

- ✓ Whether the borrower is holding a recognized degree and diploma or other-wise trained/professionally competent and satisfies the eligibility criteria in all respects?
- ✓ Whether the amount of credit facility sanctioned is adequate to take care of all the legitimate requirements?
- ✓ Whether repayment schedule has been fixed on a realistic basis keeping in view the gestation period required to establish the business/practice?
- ✓ Whether the income from professional service or from any other source regularly brought in the accounts?
- ✓ Whether the instalments of the loan accounts are regular?
- ✓ Whether the follow up and supervision of the branch is satisfactory vis-a-viz.?
- ✓ To know the progress of the borrower's business as also his practical problems with a view to helping him in tiding over his temporary difficulties and
- ✓ To effect recovery of the advance according to repayment schedule?

Advances to Small Scale Industries

- ✓ Whether the entrepreneur has the necessary technical or professional experience?
- ✓ Whether the loan applications are disposed of within the stipulated period and there is no undue delay in decision making?
- ✓ Has the Branch obtained prescribed loan application forms for term loan and working capital facilities?
- ✓ Have you verified/scrutinized carefully that assessment of working capital assessment of working capital requirements done properly/correctly and the projections submitted by the party are realistic?
- ✓ Whether permissible limits against raw materials, stock in process, finished goods and receivables worked out correctly and whether the branch has satisfied about the borrower's capability to meet permissible limits. (if any).
- ✓ Whether pre-sanction/post sanction inspection of unit done and branch maintains close and continuous contact with the unit to ensure that the funds are used for the purpose for which they are lent?
- ✓ Whether the problems, if any, faced by SSI units are immediately attended to by the Branch Manager?
- ✓ Whether installments are regular in term loan to SSI units?
- ✓ Where working capital limits have been sanctioned to SSI units against hypothecation of stocks, whether all check points as mentioned under hypothecation accounts have been observed?

D.R.I Loans

- ✓ Whether the loans under DRI Scheme have been allowed to eligible borrowers only, who satisfy eligibility criteria in all respects?
- ✓ Whether it is verified that margin money is not insisted upon?
- ✓ Whether only simple interest is being charged on current dues?

- ✓ Whether the assets purchased with the loan are hypothecated to the bank and in appropriate cases of loans to homogenous group of borrowers, group guarantees are obtained?

Guidance of Serious Irregularities

GENERAL ROUTINE AND HOUSING KEEPING

- ✓ Shortage/Excess Cash.
- ✓ Loss of securities/security forms (Draft books, FD Books, Cheque Books etc. / important keys).
- ✓ Large arrears in the balancing of various accounts / ledgers.
- ✓ Frauds / forgeries which have taken place since the previous Audit.
- ✓ Irregularities in staff account (Deposits of large amounts).
- ✓ Inordinate delay in submission of Periodical returns / statements etc.
- ✓ Excess stocking of stationery.
- ✓ Late payment of Income Tax Department in respect of income deducted at source from salary.
- ✓ Non disposal of the previous Audit Report.
- ✓ Irregularities brought out in previous Audit Reports which are pending despite the Branch Manager having certified in the relative remarks sent to Zonal Office that they have been rectified.
- ✓ A large number of instructions/recommendations in regard to Customer Service not being implemented.
- ✓ Irregularities in the calculation and recovery of income/recovery due to the bank.
- ✓ Complaints from customers.
- ✓ Suit filed against the Bank.

Guidance of Serious Irregularities

GENERAL ROUTINE AND HOUSING KEEPING

- ✓ Cash.
- ✓ Security arrangements.
- ✓ Branch documents.
- ✓ Branch Keys
- ✓ Securities held in Safe Custody.
- ✓ Customer service.
- ✓ Deposit accounts.
- ✓ Staff accounts.
- ✓ Safe Deposit Lockers.
- ✓ Housekeeping – Maintenance of Registers/Ledgers and other records.
- ✓ Correspondence (Inwards and Outwards).
- ✓ Security forms.
- ✓ Income leakage.
- ✓ Clearing
- ✓ Records and vouchers.
- ✓ Previous Audit and audit reports.
- ✓ Frauds
- ✓ Suits filed against the bank.

Guidance List of Serious Irregularities

CREDIT MANAGEMENT

- ✓ All outstanding in past due and dishonored bills.
- ✓ All clean overdrafts which are outstanding for more than six months.
- ✓ All advances which are irregular/overdue/sticky.
- ✓ Missing/Time Barred documents relating to advances.
- ✓ Large scale arrears in renewal of credit facilities/revision of credit reports and non-submission of renewal loans proposals.
- ✓ Non submission of control returns to controlling offices and nonfactual reporting.
- ✓ Irregularities in Bills purchased business such as frequent Purchase of Cheques/Bills without sanctioned limits, large scale returns of Bills purchased, delays in the dispatch of instruments.

- ✓ Lapses in periodical Audit of Discounted/securities of borrowers.
- ✓ Serious irregularities in the follow up of advances resulting in mounting of overdues.
- ✓ Serious lapses noticed in regard to appraisal, sanction, disbursal of loans and conduct of accounts, documentation, insurance etc. to the detriment of Bank's interests.
- ✓ Serious irregularities in the handling of bills business like kite flying etc.
- ✓ Violation of bank's instructions in regard to non-funded business.
- ✓ Violation of exchange control regulation/FEDAI Rules.
- ✓ Serious lapses in the opening of letters of credit like opening L/C after the validity period of import license, without valid import license etc.

Group Headings for Serious Irregularities (GHSI)

CREDIT MANAGEMENT

- ✓ General.
- ✓ Suits filed by the Bank.
- ✓ Particulars of irregularities in loan accounts (Priority Sector)
- ✓ Particulars of irregularities in loan accounts (other than Priority Sector).
- ✓ Particulars of Irregularities in Cash Credit Accounts.
- ✓ Particulars of Irregularities in Foreign Exchange Accounts.
- ✓ Govt. Sponsored Schemes.
- ✓ Staff Accounts.
- ✓ Inland Letter of Credit.
- ✓ Bank Guarantees.
- ✓ Deferred Payment Guarantees
- ✓ Bills Purchased (Others)
- ✓ Bills Discounted
- ✓ Import Letters of Credits.
- ✓ Import Bills under Letter of Credit.
- ✓ Bills of Entry Forms
- ✓ Pre-shipment Advances
- ✓ Post shipment advances.
- ✓ Non-Resident Accounts.

Role of Concurrent Auditors in Prevention and Detection of Frauds

The system of concurrent Audit is designed to serve as Administrative support to branches to work within the prescribed System & Procedure and to ensure prevention and timely detection of lapses and irregularities including fraud and malpractices.

In fact, the Auditors are eyes and ears of any organization as their effectiveness in conduct of audit can help prevention and detection of fraud. Generally, the main role of Auditor while conducting concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedure laid down but in particular it is the examination of the transactions as to whether these have properly being recorded / documented and vouched and have been carried out in conformity with the laid down procedure, regulation and legislations applicable and this examination, if proper and thorough, can result in prevention/ detection of frauds.

Most of the frauds take place due to the failure of System & Procedure and if there is a proper / timely checkup and / or examination of the various activities with a view that these are being carried out within the prescribed system and procedure can result in prevention and / or detection of the frauds to a large extent.

As per the recommendations of Narang Committee Report for prevention and detection of frauds, the modus operandi adopted for perpetrating bank frauds continued to be

- ✓ Opening of new fictitious deposits accounts by persons not properly identified by the bank followed by deposit of fake/stolen/forged instruments in such accounts and then immediate withdrawals of the proceeds,
- ✓ Submission of false stock/financial statements to avail of finance,

- ✓ Acceptance of deposits both Residents and Non-residents (from persons not properly identified by the bank) through middlemen and thereafter allowing/availing of overdrafts against fraudulent discharge of these deposit receipts by forging power of attorney and loan documents to third parties who were also not properly identified,
- ✓ Raising of accommodations bills,
- ✓ Kite flying,
- ✓ Manipulation in outward / inward clearing,
- ✓ Raising unauthorized debits on nominal heads of account,
- ✓ Manipulation and tampering with books of accounts by passing unauthorized entries,
- ✓ Sanction of one-time adhoc credit facilities to non-clients,
- ✓ Issue of letter of credit, bank guarantees without recording in branch books,
- ✓ Issue of pay orders/demand drafts without consideration,
- ✓ Fake documentation etc.

In order to obviate possibility of occurrence of frauds and prevention and detection of frauds, the Auditors are, therefore, expected:

- ✓ To get implemented the guidelines in respect of the sensitive areas as non-compliance with such guidelines may result in fraud / financial loss to the bank / financial institution.
- ✓ To plug the short-cuts evolved by the different branch functionaries in carrying out day to day transactions.
- ✓ To examine whether the account opening forms are complete in all respects and the accounts are properly introduced. This is a major fraud prone area.
- ✓ To examine whether there are any cases of exceeding discretionary powers and if so whether those have duly been reported to the competent authority for action confirmation.
- ✓ To examine whether any fictitious accounts are operating wherein the cheque purchase facilities have been allowed and loans have been granted with a view to concealing the fraudulent transactions.
- ✓ To examine impersonal accounts with a view to check whether any fraudulent transactions have been routed through such accounts and the cheque returned unpaid were debited to impersonal account to conceal the fraud and to see whether there is proper follow up for reconciliation of large outstanding entries in these accounts since there have been instances of passing unauthorized entries in impersonal accounts for balancing of bank's books.
- ✓ To check/examine any unauthorized opening of LCs and issue of DD/PO without consideration.
- ✓ That there is no continuance of staff at the same work seat.
- ✓ That handling of critical areas of the branch functioning are not single handed since it facilitates the manipulation of bank's books of accounts and concealment of fraudulent transactions.
- ✓ To examine large debit/credit entries in newly open accounts and it should arouse suspicion and alert to verify the genuineness of the transactions with respect to business/ profession of the account holder.
- ✓ To examine whether heavy cash transactions are being allowed in newly opened accounts.
- ✓ To examine the veracity of exercise of delegated authority of the functionary.
- ✓ Physical verification of collateral securities charge to the bank during currency of audit.

Further, it would not be out of place to mention here that for the growing tendency in frauds, the Auditors are to some extent also responsible sometimes as they certify false stock and financial statements submitted by the borrowers to the bank and also indulge in wrong reporting about the affairs of the borrowing company / borrowers, about stock statement, mortgage / pledged to the bank and diversion of funds to their sister concern on cash and fund flow statements.

CHAPTER - VII

RBI Guidelines - Concurrent Audit System

(A) Scope of Concurrent Audit

Concurrent audit is an examination which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person. There is an emphasis in favour of substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilant internal audit to preclude the incidence of serious errors and fraudulent manipulations.

A concurrent auditor may not sit in judgment of the decisions taken by a branch manager or an authorized official. This is beyond the scope of concurrent audit.

However, the audit will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office, they do not violate the instructions or policy prescriptions of the RBI, and that they are within the delegated authority.

In very large branches, which have different divisions dealing with specific activities, concurrent audit is a means to the in-charge of the branch to ensure on an ongoing basis that the different divisions function within laid down parameters and procedures.

(B) Coverage of Business / Branches

In view of significant developments in the banking sector during the past decade, it is required that new areas posing risk may be brought under the purview of concurrent audit. A large number of activities / operations are being carried out in a centralized manner at various units set up for that purpose and the scale of transactions / operations undertaken at these units is large. With a view to ensuring that the functioning of these units is as per the internal as well as regulatory guidelines and mitigating the risk associated with large-scale operations, such non-branch units may be brought under the purview of concurrent audit.

While selecting the branches for concurrent Audit, the Risk profile of the branches needs to be considered. The branches with high risk are to be subjected to concurrent audit irrespective of their business size. Further, all specialized branches viz., Agri, SME, Corporate, Retail Assets, Portfolio Management, Treasury, Forex, Back Office, etc., may be covered under concurrent audit.

Certain areas where risk has reduced on account of computerization, implementation of core banking system may be excluded from the purview of concurrent audit.

Concurrent audit at branches should cover at least 50% of the advances and 50% of deposits of a Bank. The following branches, business activities / verticals of a bank may be subject to Concurrent Audit:

1. Branches rated as high risk or above in the last Risk Based Internal Audit (RBIA) or serious deficiencies found in Internal Audit.
2. All specialized branches like Large Corporate, Mid Corporate, exceptionally large/very large branches (ELBs/VLBs), SME.
3. All Centralized Processing Units like Loan Processing Units (LPUs), service branches, centralized account opening divisions, etc.
4. Any specialized activities such as wealth management, portfolio management services, Card Products Division, etc.
5. Data Centres.
6. Treasury / Branches handling foreign exchange business, investment banking, etc. and bigger overseas branches.
7. Critical Head Office Departments.
8. Any other branches or departments where, in the opinion of the bank, concurrent audit is desirable.

(C) Activities to be Covered

1. The main role of concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down.
2. The scope of concurrent audit should be wide enough / focused to cover certain fraud - prone areas such as handling of cash, deposits, advances, foreign exchange business, off-balance sheet items, credit-card business, internet banking, etc.
3. The detailed scope of the concurrent audit should be clearly and uniformly determined for the bank as a whole by the bank's Audit Department in consultation with the bank's Audit Committee of the Board of Directors (ACB).
4. In determining the scope, importance should be given to checking high-risk transactions having large financial implications as opposed to transactions involving small amounts.
5. While the detailed scope of concurrent audit may be determined and approved by ACB, certain minimum items of coverage. In addition to the above, the items where RBI has specifically advised the banks to be covered under concurrent audit, may also be part of the checklist of the concurrent auditor.

(D) Appointment of Auditors and Accountability

1. The option to consider whether concurrent audit should be done by bank's own staff or external auditors (which may include retired staff of its own bank) is left to the discretion of individual banks.
2. In case the bank has engaged its own officials, they should be experienced, well trained and sufficiently senior. The staff engaged in concurrent audit must be independent of the Branch where concurrent audit is conducted.
3. Appointment of an external audit firm may be initially for one year and extended up to three years, after which an auditor could be shifted to another branch subject to satisfactory performance.
4. If external firms are appointed and any serious acts of omission or commission are noticed in their working, their appointments may be cancelled and the fact may be reported to RBI.

(E) Facilities for Effective Concurrent Audit

It has been represented to RBI that concurrent audit is not often effective because adequate facilities in terms of space, availability of records, etc. are not available. To improve the effectiveness of concurrent audit it is suggested that:

1. Banks arrange for an initial and periodical familiarization process both for the bank's own staff when entrusted with the concurrent audit and for the external auditors appointed for the purpose.
2. All relevant internal guidelines / circulars / important references as well as relevant circulars issued by RBI / SEBI and other regulating bodies should be made available to the concurrent auditors on an on-going basis.
3. Where adequate space is not available, concurrent auditors can commence work immediately after the close of banking hours.

(F) Remuneration

Terms of appointment of the external firms of Chartered Accountants for the concurrent audit and their remuneration may be fixed by banks at their discretion. Broad guidelines should be framed by ACB for this purpose.

Suitable packages should be fixed by each bank's management in consultation with its ACB, keeping in view various factors such as coverage of areas, quality of work expected, number of people required for the job, number of hours to be spent on the job, etc.

(G) Reporting Systems

1. The bank may devise a reporting system and periodicity of various check list items as per its sensitivity.
2. Minor irregularities pointed out by the concurrent auditors are to be rectified on the spot. Serious irregularities should be straightaway reported to the Controlling Offices / Head Offices for immediate action.

3. There should be zone / area-wise reporting of the findings of the concurrent audit to ACB and an annual appraisal/report of the audit system should be placed before the ACB.
4. Whenever fraudulent transactions are detected, they should immediately be reported to Audit Department (Head Office) as also to the Chief Vigilance Officer as well as Branch Managers concerned (unless the branch manager is involved).
5. There should be proper reporting of the findings of the concurrent auditors.
6. For this purpose, each bank should prepare a structured format. The major deficiencies/aberrations noticed during audit should be highlighted in a special note and given immediately to the bank's branch controlling offices. A quarterly review containing important features brought out during concurrent audits should be placed before the ACB.
7. Follow-up action on the concurrent audit reports should be given high priority by the Controlling Office/ Audit Department and rectification of the features done without any loss of time.

Banks are advised to:

1. Review the selection of Auditors.
2. Initiate and operate a System for appraisal of the performance of Concurrent Auditors.
3. Ensure that the work of Concurrent Auditors is properly documented.
4. Be responsible for the follow-up on audit reports and the presentation of the quarterly review to the ACB.

Minimum areas of coverage under Concurrent Audit (Vide Circular No: RBI/2019-20/64 DBS.CO.ARS.No.BC.01/08.91.021/2019-20 September 18, 2019)

- a. Cash transactions including physical verification of cash, etc.
- b. Loans & Advances including physical verification of securities, delegation of Powers for sanction, Security Charge Creation, end use verification of funds, monitoring of accounts with excess drawings, monitoring of projects, etc.
- c. Adherence to KYC / AML guidelines including monitoring of transactions in accounts, compliance with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS), monitoring of transactions in new accounts/staff accounts, reporting of CTR/STR, etc.
- d. Remittances/ Bills for Collection including SWIFT transactions, monitoring of overdue statements (bills purchased / discounted / negotiated, etc.).
- e. House Keeping including reconciliation of accounts, monitoring of General Ledger/Subsidiary General Ledger/Parking Accounts, opening of internal accounts, etc.
- f. Treasury operations.
- g. Non fund-based business.
- h. Foreign Exchange transactions.
- i. Clearing transactions.
- j. Verification of Merchant Banking Business.
- k. Verification of Credit Card / Debit card business.
- l. Conduct of employees, mis-selling of products, etc.
- m. Compliance to RBI guidelines and internal Policy guidelines issued from time to time.

CHAPTER - VIII

Operational Risk Management - ORM

The Concurrent Auditor will record his observations on deviations in every item of Audit area in 'Operations Risk Management (ORM)', External Compliance (EC) areas while assessing value of non-compliance posed by such deviations & classify them as Very Low, Low, Medium & high. A few of them are mentioned below:

Depositor Education and Awareness Fund (DEAF)

Reserve Bank of India vide notification DBOD.No. DEAF Cell.BC.114/30.01.002 /2013-14 dated 27.05.2014 issued Operational guidelines of The Depositor Education and Awareness Fund gist of the same is as follows:

- a) As per the scheme guidelines, the amounts to be credited to the Fund shall be the credit balance in any deposit account maintained with banks which have not been operated / claimed upon for ten years or more, or any amount remaining unclaimed for ten years or more.
- b) Banks are required to transfer to the Fund, the amounts becoming due in each calendar month (i.e. balances remaining unclaimed for ten years or more) and the interest accrued thereon on the last working day of the subsequent month.
- c) In case of demand from a customer / depositor whose unclaimed amount / deposit had been transferred to Fund, banks shall repay the customer / depositor, along with interest if applicable, and lodge a claim for refund from the Fund for an equivalent amount paid to the customer / depositor.
- d) The interest payable, if any, from the Fund on a claim shall accrue only from the date on which the balance in an account was transferred to the Fund to the date of payment to the customer / depositor. No interest shall be payable in respect of amounts refunded from the Fund, in respect of which no interest was payable by the bank to its customer / depositor.
- e) Rate of interest, if any, payable on the principal amount transferred to the Fund shall be specified by Reserve Bank from time to time. At present rate of interest is 4% p.a.
- f) In the case of a claim for refund of foreign currency denominated deposit accounts, instruments or transactions, irrespective of whether the banks have paid the depositor / customer in Indian rupees or foreign currency, the banks shall be entitled to claim refund of the eligible amount from the Fund, in Indian rupees only.
- g) Refunds made by a bank in each calendar month should be claimed for reimbursement from the Fund on the last working day of the subsequent month.
- h) Banks shall furnish returns to Reserve Bank in the form and manner as prescribed by Reserve Bank from time to time certified by concurrent auditors.
- i) The Fund shall be utilized for promotion of depositors' interests and for such other purposes which may be necessary for promotion of depositors' interest as may be specified by the Reserve Bank. The Committee shall function keeping in view the purposes contemplated in Section 26A (4) of the Act and in accordance with the purposes that may be specified by Reserve Bank in this regard from time to time.

Safe Deposit Lockers:

The below mentioned data are to be verified by Concurrent Auditors.

- ✓ Total No of Lockers (Size wise/ Unit wise & Total)
- ✓ Total No of Vacant /surrendered Lockers (Size wise / Unit wise & Total)
- ✓ Total No of Lockers rent is overdue (Break up with amount)
- ✓ Total No of Lockers Break open done and amount recovered if any
- ✓ Locker rent waived if any (details and amount)
- ✓ Notice Board to be displayed in the Locker room

"Have You Effectively Locked Your Valuable in Prominently"

- ✓ Nomination Facility for Lockers is well published.
- ✓ Interchange of Locks and Keys should be done wherever lockers are re-allotted afresh.
- ✓ Locker Module should be maintained in CBS and updated regularly for the visits.

- ✓ Locker Registration Charge (One time and Annual Locker Rent)
- ✓ Day End Certificate by an official to be incorporated in the Locker Access Register.

“Verified the Lockers Operated during the Day found them in Order”

- ✓ Account No, Locker No, Key No, Time of Access and signature of the Locker access should be invariably obtained in the Locker Access Register.
- ✓ Key Register – Signature of All Hirers to be obtained in the Locker key register/ Locker Card at the time of allotment.
- ✓ A Red Tape is tied to the Locker, whose rental is arrears. Locker Rent Overdue Charges.
- ✓ No of Visits allowed: 12 per year, thereafter per visit to be recovered charges to be recovered.
- ✓ Loss of Key Actual Expenses incurred for Break open to be recovered.
- ✓ All-important Clauses have to be incorporated in the Locker Agreements.

“In Case the Lockers remains unoperated for more than one year, the Branch would have right to cancel the allotment of the Locker and open the Locker, even if the rent is paid regularly”

Operational Risk Management-Common Deficiencies in ORM

- ✓ Proper custody & accounting of pre-printed INB Kit with ID / Password.
- ✓ Signature Scanning in CBS for all Deposit and Cash Credit A/cs.
- ✓ KYC deficient Customer Information Files (CIFs) since KYC documents not obtained.
- ✓ Un-reconciled Government Accounts.
- ✓ Un-authorized Parking accounts / Current Accounts & Non-reconciliation thereof.
- ✓ High Value undelivered Bankers Cheque-many favoring Branch Name, TDS, Government departments, difference in un-reconciled accounts / books.
- ✓ Un-reconciled ATMs physical balance with BGL balance.
- ✓ All Voucher Verification Reports (VVRs) are not checked & records kept.
- ✓ Signature Scanning of all accounts not done in CBS.
- ✓ False Compliance in Branch Manager’s Monthly Certificate.

ORM AREAS - CHECKLIST FOR BUSINESS LINES

- ✓ New Accounts transactions Monitoring (Newly opened accounts within 6 months – transaction of Rs 5 Lakhs. and above).
- ✓ High Value transactions monitoring and reporting.
- ✓ Passbook/ Welcome kit / ATM PIN handed over against proper acknowledgement
- ✓ Dormant / Inoperative accounts activation after routing through cheque referred and returned register.

List of Operational Risks in Bank Branches

- ✓ Branch Cash Balance Retention Limit.
- ✓ Record of Security Forms.
- ✓ Branch Keys (Original / Duplicate), Safe Custody Receipt for keys, Branch Key Register.
- ✓ Compliance with KYC Norms for all Products.
- ✓ Single Window Delivery System i.e., Assistants (Cash / Accounts / Operations).
- ✓ Income Leakage on account of service charges, appropriate rate of interest not recovered.
- ✓ Customer Service Meetings / Customer Service Relations Meeting.
- ✓ Outsourcing of ATM Cash Replenishment.
- ✓ Outsourcing of Assets Valuation / Verification.
- ✓ Recovery Resolution Agents.
- ✓ Business Correspondents / Customer Service Points.

ORM related Registers

- ✓ Complaint Register.
- ✓ Preventive Vigilance Register.
- ✓ Committee meeting Register.
- ✓ Fraud Register.

- ✓ Staff Account Scrutiny Register
- ✓ Mail Register / Mail Undelivered Register.
- ✓ System Room Access Register.
- ✓ Hardware Access Register.
- ✓ Branch security Information Register.
- ✓ RBI / GOI Instructions.
- ✓ Official Language Returns Register.
- ✓ Complaint Book.
- ✓ Customer Call Register.
- ✓ Customer Service Committee Meeting Register.
- ✓ Customer Relation Programme Register.
- ✓ Community Services Banking.
- ✓ Ombudsman/ COPRA/ Suit filed against the Bank.

Other ORM related Registers

- ✓ Pass Book Issued Register/ Duplicate Passbook issued Register.
- ✓ Cheque Book Issued by LCPC but Returned Undelivered.
- ✓ Cheque Referred & Returned Register.
- ✓ Stop Payment Register.
- ✓ Nomination Register.
- ✓ Concessions Register for Misc. concessions to customers.
- ✓ Handling of Dormant / Inoperative accounts.
- ✓ Account opening forms sent to LCPC.
- ✓ Account opening forms returned from LCPC.
- ✓ IOI Cancelled and Destroyed Register.
- ✓ Hologram Register.
- ✓ Register (CTS)
- ✓ Drop Box / Grahak Mitra Register.
- ✓ Pension Life Certificates.
- ✓ Government Commission Received/ Receivable Register.
- ✓ Penalty Paid for delayed reporting.
- ✓ Locker Applications Received Register.
- ✓ Locker Access Register.
- ✓ Locker Key Register.
- ✓ Locker Rent Monitoring Register.
- ✓ Lockers Nomination Register.
- ✓ Safe Custody Ledger.
- ✓ Safe Custody Register.
- ✓ Safe Custody Articles Register.
- ✓ Safe Custody Articles.
- ✓ Registered Letter Dispatch Register.
- ✓ Security Forms Received at Branch Register/ Security Forms Invoice file.
- ✓ Police Beat Register.
- ✓ Pest Control.
- ✓ AMC Register.
- ✓ Branch Key Register.
- ✓ Branch Document Register.
- ✓ Voucher Verification Register Allotment.
- ✓ Missing Voucher Register.
- ✓ ATM Card Applications Received Register.
- ✓ ATM Cards Received from LCPC (returned undelivered).
- ✓ ATM Cards Destroyed Register.
- ✓ ATM Card Hot listing / De-Hot listing Register.
- ✓ ATM Card reported Lost Register.
- ✓ INB Kit Issued Register.
- ✓ INB Applications File Retail /CINB INB User Creation.
- ✓ Mobile Banking Register.
- ✓ Tele Banking.

- ✓ Handing over and Taking over Register.
- ✓ Officiating Allowance Register.
- ✓ Office Order Issued Register.
- ✓ Fixed Assets Register.
- ✓ Fixed Assets Ledger.
- ✓ Lease Deed Register.
- ✓ Last Concurrent Audit / RFIA Reports.
- ✓ Last Statutory Audit Report.

REGISTERS TO BE MAINTAINED BY CASH OFFICER

- Intra Day Cash Verification Register.
- Cash Found Excess/Short Register.
- Remittance Received/Sent Register.
- Mutilated Notes Exchange Register.
- Forged Notes Detection / Impounding Register.
- Cash Receipt & Delivery Register.
- Branch Cash Balance Book.
- Vault Register.
- Strong Room access Register.
- Chest Verification Register.
- Deposit / withdrawal from Currency Chest.
- Excess Cash Retained Control forms.
- ATM Cash Replenishment Register.
- Excess/Short Cash in ATM Register.
- ATM Cash/Physical Cash Balance Register.
- ATM Cash Back Up Register.
- ATM Debits-Claim Register.
- ATM Maintenance Register.
- ATM Related Complaints settled.

BACK OFFICE OPERATIONS

- ✓ Time Lock is in use. Currency Chest Branches.
- ✓ Alarm System is in working condition.
- ✓ Smoke detectors installed.
- ✓ Pest Control last done on date.
- ✓ Adequate Fire Extinguishers at Branch.
- ✓ Lease Deed of Branch Premises/ ATM premises renewed on time.
- ✓ BCP/ DRP are current and approved.

CASH / CURRENCY CHEST / POSTAGE

- ✓ RBI Clean Note policy implemented.
- ✓ Cash retention limit properly maintained.

SAFE CUSTODY/ SECURITY/ LOCKERS

- ✓ Locker Module updated in CBS.
- ✓ Keys of vacant lockers are in joint custody.
- ✓ Break open of Lockers done if rent is overdue and Income Leakage recommended for waiver to controllers.
- ✓ All agreements duly filled in and adequately stamped.

GOVERNMENT BUSINESS

- ✓ Life Certificate obtained in due time.
- ✓ Timely reporting / submission of reports pertaining to Government business to avoid penalty.
- ✓ Compliance on RBI Inspection report on Government Business to be submitted by the Branch.

COMPENSATION POLICY OF BANKS (For Various Banking Services) Guidelines

Technological progress in payment and settlement systems and qualitative changes in operational systems and processes undertaken by various players in the market have improved efficiencies for providing better service to the users of the system. It has been the endeavour of the Banks to offer services to its customers with best possible utilization of its technology infrastructure. Migration of all branches to Core Banking Solution (CBS) platform is a great leap in this direction. Reserve Bank of India has also been issuing various instructions / guidelines, from time to time. With a view to improving the level of customer service available to the customers of the Banks, Limiting Liability of Customers in Unauthorized Electronic Banking Transactions in terms of RBI's recent Circular no. DBR. No. Leg.BC.78/09.07.005/2017-18 dated 06.07.2017, the Compensation Policy formulated.

Scope

- a) The Policy will be applicable for all banking services to customers of the Bank.
- b) The Policy is based on principles of transparency and fairness in the treatment of customers. It is designed to cover deficiency in service in areas relating to unauthorized/ erroneous debit, non-execution/delayed execution of debit/credit NEFT/NECS/ECS/NACH transactions including unauthorized Electronic Banking Transactions, issuance of ATM/Debit Cards without written consent of customers, Payment of Cheque after acknowledgement of Stop Payment Instructions/ Non-blocking of lost ATM card after acknowledgement of request for its blocking, delay in collection of local /outstation cheques and cheques drawn on foreign countries, adverse movement in exchange rates, loss of cheques/instruments in transit, delay in settlement of disputed ATM transactions/transactions on Cash Deposit Machine, delay in pension payment, delay in issuance of duplicate IOI, delay in release of securities after payment of all dues, etc. as specified in the Policy.
- c) Grant of compensation under this Policy is without prejudice to the Bank's rights in defending its position before any Court of Law, Tribunal or any other forum duly constituted to adjudicate banker customer disputes and does not constitute admission of liability or any other issue, of any nature whatsoever, for the purposes of Adjudicatory proceedings.

Recognition of deficiency and compensation

Unauthorized / Erroneous Debit

- a) If the Bank has raised an unauthorized/ erroneous debit to an account, the entry shall be reversed with value dated credit to deposit/overdraft/loan account immediately on being detected/informed, after due verification.
- b) Further, if the customer has suffered any financial loss incidental to return of a cheque or not carrying out of direct debit instructions due to insufficiency of balance on account of the unauthorized / erroneous debit, Bank will compensate the customer to the extent of such financial loss in addition to an amount equivalent to interest calculated on the unauthorized/ erroneously debited amount at applicable Savings Bank rate, minimum ₹.100/-, besides refunding the cheque return charges.
- c) In case verification of the entry reported to be unauthorized /erroneous by the customer does not involve a third party, the Bank shall arrange to complete the process of verification within a maximum period of 7 working days from the date of reporting of erroneous debit. If it involves a third party or where verification is to be done at overseas centres, the Bank shall complete the verification process within a maximum period of one month from the date of reporting of unauthorized /erroneous transaction by the customer.
- d) In case any amount has been debited to the account of a customer on account of fraudulent transaction(s) and the Bank is at fault the amount will be restored to the affected customer account without delay/demur, once the fraud is established, with due verification.
- e) If a fraud, in the account of a customer, has been committed by a member of staff, and has been so established, Bank will not only restore the amount, it will also pay compensation @ 1% above the applicable interest rate in respect of deposit/overdraft/loan account, for the period, on the amount involved.

ECS direct debits/other debits to accounts:

- a) The Bank undertakes to carry out, within the prescribed time, direct debit /ECS (Electronic Clearing System) debit instructions of customers. In the event of non-compliance/delayed compliance of instructions by the

- Bank to meet such commitments, the customer will be compensated to the extent of any financial loss the customer would incur on account of delay in carrying out the instruction/failure to carry out the instruction.
- b) Such compensation will in addition to an amount equivalent to the interest calculated on the amount to be debited, for the delayed period, at applicable Savings Bank rate, with minimum of Rs. 100/-, subject to a maximum of Rs. 1,000/-.
 - c) The Bank would debit the customer's account with any applicable service charge as per the schedule of charges notified by the Bank. In the event the Bank levies any charge in violation of the arrangement or inadvertently, the Bank will reverse the charges, subject to scrutiny of agreed terms and conditions, and compensate the customer with a sum equal to the charges reversed.

Penal interest payable for delays in credit / return of NEFT / NECS/ ECS transactions

In terms of the NEFT / NECS / ECS Procedural Guidelines of RBI, as also the relevant circulars / instructions issued by RBI from time to time, the Bank will afford credit to beneficiary accounts or return transactions (uncredited for whatever reason) to the originating / sponsor Bank within the prescribed timeline. Any delays in doing so will attract the following penal provisions:

NECS / ECS-Credit

Destination Bank would be held liable to pay penal interest at the current RBI Repo Rate plus two per cent from the due date of credit till the date of actual credit for any delayed credit to the beneficiary's account. Penal interest shall be credited to the beneficiary's account even if no claim is lodged."

NEFT

In case of delay in crediting the beneficiary customer's account or in returning the non-credited amount to the remitter in case of NEFT, the Bank to pay penal interest at the current RBI LAF Repo Rate plus two percent for the period of delay/ till the date of refund as the case may be to the affected customers Suo moto, without waiting for claim from customers.

During the NEFT operating hours, originating Banks should endeavor to put through the requests for NEFT transactions received by them, either online or across the counters, preferably in the next available batch but, in any case, not exceeding two hours (from the business hours next day), from the time of receipt of the requests. In the likelihood of any delay / possible delay in adhering to this requirement, the originators / customers should be informed of the delay / possible delay and the reasons for the same.

In terms of the RBI ECS (Credit Clearing) procedural guidelines, which clearly stipulate that if a destination Bank branch is not in a position to credit a particular transaction for reasons like "Account Closed / transferred"; "No such Accounts"; "Account description does not tally"; etc., it should report the same and forward it to the Service Branch / Main Branch on the same settlement day.

Issue of ATM / Debit Cards without written consent of customers:

Where the Bank had issued an ATM / Debit card without written consent of the customer, which has been disputed by the customer without using the card, the said ATM / Debit card will be taken back by the Bank and cancelled. The Bank would not only reverse the charges, if levied, immediately but also pay compensation to the customer @ ₹.100/-.

Payment of Cheque after acknowledgement of Stop Payment Instructions/ Non-blocking of lost ATM card after acknowledgement of request for its blocking:

The instruction for Stop Payment of cheque/ blocking of lost ATM card will be accepted at Home Branch /through Contact centre/ Internet Banking (alternate channel).

In case a cheque has been paid after acknowledgement of its stop payment instruction /ATM Card has not been blocked after such a request has been acknowledged by the Bank, the Bank shall reverse the debit on account of stopped cheque/ blocked ATM card with value dated credit within two working days of the customer intimating the transaction to the Bank, and also compensate the customer with ₹.100/-.

However, no compensation will be paid if cheque has been paid/ ATM Card transaction has occurred prior to acknowledgment of instructions for stop payment of cheque/ blocking of lost ATM Card.

Limiting Liability of Customers in Unauthorised Electronic banking transactions:

The systems and procedures in the Bank have been designed to make customer feel safe about carrying out electronic banking transactions. On receipt of report of an unauthorised transaction from the customer, bank to take immediate steps to prevent further unauthorised transactions in the account.

Reporting of unauthorised transactions by customers to banks:

- a) Customers will mandatorily register for SMS alerts and wherever available register for e-mail alerts, for electronic banking transactions. The SMS alerts shall mandatorily be sent to the customers, while email alerts may be sent, wherever registered.
- b) The customers will be advised to notify the Bank of any unauthorised electronic banking transaction at the earliest after the occurrence of such transaction, and informed that the longer the time taken to notify the Bank, the higher will be the risk of loss to the bank/ customer. To facilitate this, the Banks will provide customers with 24x7 access through multiple channels (at a minimum, via website, phone banking, SMS, e-mail, IVR, a dedicated toll-free helpline, reporting to home branch, etc.) for reporting unauthorised transactions that have taken place and / or loss or theft of payment instrument such as card, etc.
- c) The Banks will also enable customers to instantly respond by "Reply" to the SMS and e-mail alerts and the customers will not be required to search for a web page or an e-mail address to notify the objection, if any.
- d) Further, a direct link for lodging the complaints, with specific option to report unauthorised electronic transactions shall be provided by the Bank on home page of the website.
- e) The loss / fraud reporting system shall also ensure that immediate response (including auto response) is sent to the customers acknowledging the complaint along with the registered complaint number.
- f) The communication systems used by the Banks to send alerts and receive their responses thereto will record the time and date of the message sent and receipt of customer's response, if any, to the Bank. This shall be important in determining the extent of a customer's liability.
- g) The Banks will not offer facility of electronic transactions, other than ATM cash withdrawals, to customers who do not provide mobile numbers to the Bank.
- h) On receipt of report of an unauthorised transaction from the customer, the Banks will take immediate steps to prevent further unauthorised transactions in the account.

Limited Liability of a Customer:

Zero Liability of a Customer: A customer's entitlement to zero liability shall arise where the unauthorised transaction occurs in the following events:

- (i) Contributory fraud/ negligence/ deficiency on the part of the Bank (irrespective of whether or not the transaction is reported by the customer).
- (ii) Third party breach where the deficiency lies neither with the bank nor with the customer but lies elsewhere in the system, and the customer notifies the Bank within three working days of receiving the communication from the Bank (by SMS alert, email or letter) regarding the unauthorised transaction.

Limited Liability of a Customer:

A customer shall be liable for the loss occurring due to unauthorised transactions in the following cases:

- ✓ In cases where the loss is due to negligence by a customer, such as where he has shared the payment credentials, the customer will bear the entire loss until he reports the unauthorised transaction to the Bank. Any loss occurring after the reporting of the unauthorised transaction shall be borne by the Banks.
- ✓ In cases where the responsibility for the unauthorised electronic banking transaction lies neither with the Bank nor with the Customer, but lies elsewhere in the system and when there is a delay (of four to seven working days after receiving the communication from the Bank) on the part of the Customer in notifying the Bank of such a transaction, the per transaction liability of the Customer shall be limited to the transaction value or the amount specified by the banks, whichever is lower.

Further, if the delay in reporting is beyond seven working days, the customer liability shall be full. For such inordinate delays (beyond seven working days) the Customer shall bear the full liability/ loss and the Banks will not bear any loss or liability. However, the Bank may extend its support (by issuing required certificates/

statements free of cost) to the Customer, if specifically requested by the Customer, without incurring any liability in any manner, for his efforts for recovering the lost amount from the miscreants.

Reversal Timeline for Zero Liability/ Limited Liability of customer

On being notified by the customer, the bank will credit (shadow reversal) the amount involved in the unauthorised electronic transaction to the customer's account within 10 working days from the date of such notification by the customer. The credit shall be value dated to be as of the date of the unauthorised transaction.

Further, banks will ensure that:

- ✓ A complaint is resolved and liability of the customer, if any, established within 90 days from the date of receipt of the complaint, and the customer is compensated as per provisions of the Banks.
- ✓ Where it is unable to resolve the complaint, or determine the customer liability, if any, within 90 days, the compensation as prescribed in their compensation policy is paid to the customer; and
- ✓ In case of debit card/ bank account, the customer does not suffer loss of interest.

Note: Compensation Policy for various deficiency of Bank services, please refer to the concerned Banks' Compensation Policy which is available in their Websites / Branches etc.

RETENTION PERIOD OF RECORDS

S.NO	PARTICULARS	PERIOD IN YEARS
1	ATTENDENCE REGISTER	5
2	ASSETS HYPOTHECATION REGISTER	8
3	BRANCH MANAGER'S MONTHLY CERTIFICATE REGISTER	5
4	BRANCH DOCUMENT REGISTER	20
5	CASH BALANCE BOOK	8
6	CASH CREDIT INSURANCE REGISTER	5
7	CASH RECEIPT AND PAYMENT REGISTER	8
8	CHEQUE BOOK REGISTER	5
9	COMPLAINT REGISTER	3
10	CURRENCY CHEST BOOKS	8
11	VVR ALLOTMENT / VERIFICATION	8
12	DCB REGISTER	3
13	DEMAND LOAN REGISTER	10
14	DOCUMENT EXECUTION REGISTER	20
15	GOLD LOAN LEDGER	10
16	INSPECTION REGISTER	8
17	INSURANCE REGISTER	8
18	INWARD MAIL REGISTER	5
19	POWER OF ATTORNEY REGISTER	60
21	RBI REMITTANCES DRAWN REGISTER	8
22	RBI REMITTANCES ENCASHED REGISTER	8
23	SAFE CUSTODY REGISTER/ LEDGER	20
24	SAFE DEPOSIT LOCKER REGISTER	45
25	SAFE DEPOSIT LOCKER KEY REGISTER	45
26	LOCKER ACCESS REGISTER	10
27	PASSBOOK ISSUED REGISTER	5
28	SECURITY REGISTER/ LEDGER	20
29	SECURITY FORMS ISSUED REGISTER	5
30	SMALL COIN DEPOT BOOK	8
31	STOCK REGISTER / STOCK INSURANCE REGISTER	8

32	STOPPED CHEQUE REGISTER	5
33	SUSPENSE ACCOUNT REGISTER	8
34	TITLE DEED REGISTER	30
35	VAULT REGISTER	5
36	EQUITABLE MORTGAGE REGISTER	8
37	NOMINATION FORMS	8
38	LETTER OF INDEMNITY/ SUCCESSION CERTIFICATE	60
39	SURRENDERED SAFE CUSTODY/ DEPOSIT RECEIPTS	10
40	TERM LOAN DOCUMENTS EXECUTION REGISTER	20
41	DEMAND LOAN DOCUMENT EXECUTION REGISTER	10
42	USER IDENTITY ALLOCATION REGISTER	PERMANENT
43	COMPUTER HARDWARE ACCESS REGISTER	5
44	SYSTEM ROOM ACCESS REGISTER	5
45	LEASE DEED	PERMANENT
46	CASH VERIFICATION REPORT	5
47	DUPLICATE KEYS DEPOSIT/ WITHDRAWAL	5
48	ATM CARD APPLICATION RECEIVED REGISTER	2
49	DUPLICATE ATM CARD ISSUED	3
50	ATM CASH RELATED REGISTERS	8

AUDIT REPORTS

S.NO.	PARTICULARS	PERIOD
1	AUDIT REPORTS	Previous three fully dealt with audit reports to be retained. All earlier reports may be destroyed.

CHAPTER - IX

Evaluation Matrix of Concurrent Auditor

The concurrent auditors are required to verify / examine and report the deviations pertaining to all the transactions of the concerned branch broadly covering Cash, Deposit, Advances, AML, Housekeeping, Bills, Impersonal heads, Remittances, Ancillary Services. Government Business (if any), Customer service, Complaints, Submission of control returns, Merchant Banking (if any), Profitability, Computer operations/ Overseas Direct Investment transactions etc.

Transaction checking on continuous basis providing early warning signal in following areas:

- Detection & Realization of Revenue Leakage
- Documentation including equitable mortgage
- Quality of appraisal
- Compliance of Bank's Lending Policy
- Compliance of terms of sanction and procedural formalities.
- Credit Monitoring aspect (Credit Audit, Legal Audit, Stock Audit, Insurance coverage etc.)
 - Adherence to system & procedures. Top sheet implementation
 - Any fraudulent activity
 - Checking of observance of KYC norms/PAN
 - Submission of various key Returns
- Availability / generation of various reports for audit purposes in CBS platform
- Forex Business, wherever applicable.
- Verification of master data creation in borrowal accounts.

Important Areas

1. To submit certificate regarding verification, authentication & preservation of Exceptional transaction reports (monthly).
2. To submit certificate regarding submission of claims under Scheme of 1% / 2% interest subvention on eligible housing loans (monthly).
3. To ensure closure of all impersonal accounts opened in Current / Savings Bank account.
4. Top sheet has been properly filled in, evaluated and kept in the respective file of all new borrowal account and enhancement.
5. Unit Visits Report/ Asset verification Report properly filled in and evaluated.
6. Pseudo named accounts do not exist in the branch.
7. Compliance of Zero Tolerance Level (ZTL).
8. No junk PAN number / Aadhar Card number entered in the system.
9. To verify & report position of NPA classification on the prescribed formats on quarterly basis.
10. Checking of diversion of funds / willful defaulter to be reported to Recovery Dept. H.O. under copy to Concurrent Audit Cell H.O. by a Special report).
11. To check & issue a certificate about the bonafides of the forex transactions undertaken by the branch including the correctness of Form A-1 & A-2 (for branches dealing in foreign exchange)
12. To check & certify claims of turnover commission / agency commission on government business in case of link branches.
13. To conduct unit, visit as per advices contained in the Audit Manual.
14. The check-list is only indicative and the audit firm should also comply with and execute any given assignment subsequently with reference to the conduct of audit in any functional areas of the branch including visit of the units.
15. Certificate for intermediary accounts (wherever applicable) should be issued quarterly basis.
16. In terms of RBI guidelines certification for quarterly review for loan assets and other reports as also LFAR for annual audit in March ending to be made.

Flash Report: In case of detection of following serious irregularities, the auditors will submit a "Flash report" immediately to the Executive Director & the General Manager (Audit) Head office of the Bank under copy to the concerned Zonal office:

A. In advances having total credit limit of ₹.5.00 Crore & above

- ✓ If account remain continuously overdrawn for six months or more.
- ✓ No operation / turnover in the account for three months or more.
- ✓ Dilution of security without approval.
- ✓ Misappropriation / diversion of funds disbursed.
- ✓ If stock is not found as per stock statement.
- ✓ *Substantial unjustified decrease in hypothecated stock not supported by proportionate reduction in debit balance.*

W. Cash Shortage

- X. Special Report: In case of detection of fraudulent transactions involving malafide, corrupt practices and gross in-discipline or anything susceptible to be fraud or fraudulent activity or any act of exceeding vested power by the branch or if auditor smells out any foul play in any transaction, the same should not only be included in regular report but also should be **immediately** reported by a separate **Special Report** to the controlling office i.e., Zonal office / Audit office, the Chairman & Managing Director, Head Office as well as the General Manager Audit) Head office, the Chief Vigilance Office, Head office of the Bank and RBI, DBS, Central office, Mumbai when amount involved is ₹.100 lacs or more & to RBI, DBS. if amount involved is less than ₹.100 lacs.

A copy of such report sent to RBI must be endorsed to the Chairman & Managing Director of the Bank to enable us to take timely corrective action. In case of Special Report/Flash report, wherever rectification could be done on spot, the same may be referred to the branch/ZO before issuing Special Report / Flash report.

Example:

RATING OF CONCURRENT AUDITOR
(Differ from Bank to Bank)

Rating of the Concurrent Auditors' performance to be done as under:

Sl. No.	Indicative parameters	Allotted Marks
1	Branch Attendance	20
2	Submission of Report (timeliness) by mail	20
3	Reporting format and coverage	20
4	Quality of report	20
5	Visit/verification/authentication	20
6	Stock Audit/Stock verification/end use/asset Creation	20
7	Comments on documentation, charge creation & Reporting	20
8	Revenue leakage & recovery (eligible above ₹.50,000/- only)	10
9	KYC/Cash/Security items/SBI balance/Flabby Assets	20
10	Spot Rectification	60
11	Zero Tolerance Level (ZTL) of the branch	20
12	Improvement if rating percentage	20
13	Comments on FEX business wherever applicable	10
14	Liaison and relation with the branch / ZO	10
15	Submission of Special Report/fraud/flagging of alerts etc.	10
	Total	300

Evaluation:

Category	Average Marks	Incentives
Excellent	80% and above	<ul style="list-style-type: none"> • Will be renewed for next year. • Deserved motivation and should be encouraged with other assignments if otherwise is eligible. • Special job may be assigned during cooling period on

		merit and eligibility as per norms.
Good	60% to less than 80%	<ul style="list-style-type: none"> May be considered for second year, if other suitable auditors are not available. Preferably No other assignments will be allowed.
Fair / Average	Less than 60%	<ul style="list-style-type: none"> Preferably not to be continued for second year.

Negative Scoring:

If revenue leakages / fraud / special Reports / non adherence of internal control system, High level of slippage without any prior information / sanction of advance beyond MDA or without reporting in NPA, persisting irregularities of previous audit and not reported etc. Will attract negative scoring and may lead to terminal of empanelment.

Key Parameters	Particulars	Marks
Branch Attendance	1. Partner visit: per visit 2.5 marks. 2. Assistant visit: each visit 0.5 marks 3. Branch should maintain attendance register.	20
Submission of Report (monthly & Quarterly) Timeliness: by Mail / Hard Copy	Within 10 th of next month / quarter: 20 marks After 10 th of next month / quarter, except March quarter: No marks For March quarter: within 15 th April – 20 marks After 15 th April : No Marks	20
Reporting Format and Coverage	1. Report as per format & covered all features: 20 marks 2. Less than three mistakes identified: 15 marks 3. Less than five mistakes identified: 10 marks 4. Less than ten mistakes: 5 marks 5. Ten or more mistakes no marks	20
Quality of Report	Qualitative comments made /verified etc. like verification of ITR, Balance sheet, master data for borrowal accounts etc. Timely reporting, helping the branch in compliance, reconciliation of flabby assets, IBR/proof sheet etc. (qualitative aspects to be looked into).	20
Visit Verification / authentication	Unit visit to fresh sanctions, renewal/reviewed accounts and high value borrowal accounts not covered earlier. Asset creation, end use, verification and estimated valuation of mortgaged properties, past track record of borrower or any other information as may be appropriate.	20
Stock Audit / Stock Verification / End Use / Asset Creation	Verification of Stock statement registers, stock statements, Stock position and stock quality, book debts, age-wise classification, Sundry debtors/creditors, stock Purchase and movement, insurance etc.	20
Comments on documentation, charge creation & reporting	Customer acceptance, KYC of borrower/guarantor, due diligence, appraisal, recommendation, sanctioning, documentation, CIBIL/CERSAI/ Mortgage/ Valuation, ROC etc. Comments & reporting.	20
Revenue leakage & recovery (eligible above ₹.50000/- only)	Revenue leakages (including locker) detected through verification of all possible avenues and realization of the same. Revenue leakage beyond ₹.50,000/ will be eligible for consideration. Revenue loss detection and recovery beyond stipulated fees will attract bonus number (Ten)	10
KYC/Cash/Security items/SBI balance/Flabby Assets	KYC of deposit accounts, PAN number verification, Junk PAN, Pseudonymous accounts, Security items, e-products verification, reconciliation and adjustment of flabby assets, cash management, SBI balance etc.	20
Spot Rectification	This is most vital. Beyond 90%=60; 80-90%= 50; 70-less than 80%=40; 60 to less than 70%=30, 50 to less than 60%=20; 40-less than 50% =10 & Below 40% =Nil.	60
ZTL and FSI of the branch	In our system, the most vital parameters have Been segregated separately as Zero Tolerance Areas and Fraud sensitivity index 100%= 20; 90-less than 100%=15; 75 to less than 90=10; 60-less than 75%=5. Less than 60% Zero.	20

Improvement if Rating Percentage	Category Change-20, Percentage Changed: 10% above=15, 6-less than 10%=10, 2 to less than 6% = 5. Less than 2%= nil	20
Comments on FEX business wherever Applicable	Report about business growth, statutory report/returns submission, commission earning, KYC and documentation, market report and trend analysis.	10
Liaison and Relation With the branch /ZO	Regular attendance, irregularities to be jotted in Excel sheet every day and at the day end to be handed over in Medium/large branches and to concerned persons/branch. Regular meeting with Staff /officers/Awareness campaign and motivation for instant rectification. Pragmatic and proactive approach. Weekly meeting by the partner to ensure rectification. Old arrears /entries to be reconciled.	10
Submission of Special Report /fraud/flagging of alerts etc.	Any irregularities, lapses etc, if identified, must be tried to be rectified at the branches except exceptional cases as guided in the manual. If the branch does not attend within a week, refer the matter to ZO. If the same is not resolved within 15 days, report/mail to HO (GM Insp). However, in case of fraud, cash defalcation etc., matter should be flagged as per guidelines.	10
Recovery	In most of the branches, the scope of FEX business is limited. In such branches, the role of concurrent auditor towards recovery, follow up etc. may be considered during their course of unit visit, asset verification etc. in the field.	10

IMPORTANT CREDIT RISK AREAS

COMMON DEFICIENCIES IN CRM

- ✓ Submission of Control Forms / Returning of Scrutinized Control Forms.
- ✓ Documents not produced for verification.
- ✓ Completion of Equitable Mortgage formalities not done.
- ✓ Registration under CERSAI not done.
- ✓ Obtaining Revival letters.
- ✓ Timely Review / Renewal of Accounts
- ✓ Assets Classification as per IRAC Norms.
- ✓ CRA Rating not done.
- ✓ Purity of Gold is not tested before disbursement of Gold Loans.
- ✓ Conducting of Pre/Post sanction Inspection.
- ✓ Advances > ₹.1 Crores – Income Leakage – CRA Rating done but ROI not corrected, processing charges not recovered.
- ✓ Insurance not taken / in adequate.
- ✓ Follow up of irregular / SMA accounts.
- ✓ CGTMSE cover for the eligible accounts.
- ✓ Large number and amount of Time barred documents.

CREDIT DEPARTMENT REGISTERS

- ✓ Loan application Received & Disposed off Register.
- ✓ Inspection Register.
- ✓ Document Execution Register.
- ✓ Title Deed Register.
- ✓ Equitable Mortgage Register.
- ✓ Suit filed Register.
- ✓ Post Dated Cheque Register.
- ✓ Compromise / OTS Register.
- ✓ Cash Credit Register.
- ✓ Hypothecation Register.
- ✓ Loan sanction/ Disbursement Register.
- ✓ Non – Performing Asset Register.
- ✓ Failed SI / EMI Monitoring.

- ✓ Write off Register.
- ✓ NPA Monitoring Register.

REGISTERS TO BE MAINTAINED BY CREDIT OFFICERS

- Loan Application Received & Disposal Register.
- Inspection Register.
- Document Execution Register (For Cash Credit & Term Loan).
- Title Deed Register.
- Equitable Mortgage Register.
- Suit Filed Register.
- DCB Register.
- Post Dated Cheque Register.
- Compromise /OTS Register.
- Cash Credit Register.
- Hypothecation Register.
- Loan Sanction / Disbursement Register.
- Non-Performing Asset Register.
- Irregularity Reports.
- Tour Diary for Field Officers.
- Failed SI Monitoring.
- Failed Standing Instructions / Equated Monthly Installments Monitoring.
- Write off Register.
- NPA Monitoring Register.

OTHER AREAS IN CREDIT MANAGEMENT FOR VERIFICATION

- Inspection Details fed in CBS.
- Insurance Details fed in CBS.
- Opinion Reports fed in CBS.
- End use of funds verification.
- Monitoring of standard accounts.
- Identification of NPA Accounts.
- Suit filing / Recovery / Quarterly Reports.
- Appropriate Rate of Interest.
- CIBIL.
- Submission of irregularity reports Stock Statement.
- Review / Renewal of Accounts.
- Subsidy Back up.
- CERSAI Registration.
- EM/MOD/Latest EC after MOD.
- Valuation Reports.
- Title Deed Verification.
- PDC/ SI / Check off.
- Noting of Bank Charge.
- Sanction / Control forms
- Revival letter.
- Follow up of Accounts/ Court cases.
- Loan Documents are kept in FBR safe.
- Balancing of loan balance file with physical documents.
- Data sheet Preparation.

Obtention of quarterly reports from advocate for suit filed cases.

CIBIL

CIBIL Score is a 3-digit numeric summary of individual's credit history, derived by using details found in the 'Accounts' and 'Enquiries' sections on individual's CIBIL Report and ranges from 300 to 900. The closer individual's score is to 900, the higher are the chances of individual's loan application getting approved.

Individual's CIBIL Score is one of the most important parameters considered by lenders before approving individual's loan application. CIBIL Score also provides lenders necessary insights into individual's credit history through past patterns of credit usage and loan repayment behaviour. It acts as a guiding principle for lenders, making the loan approval process faster. Any score greater than 750 is a good CIBIL Score and helps lenders in assessing and approving individual's loan application.

There are 4 major factors that affect individual's CIBIL Score are:

- Making late payments or defaulting individual's EMIs or dues (recently or consistently) will negatively impact on individual's score.
- An increase in the current balance of individual's credit card indicates an increased repayment burden and may negatively affect individual's score.
- If individual's recently been sanctioned multiple loans and credit cards, then lenders will view individual's application with caution because this behaviour indicates individual's debt burden has increased, which will negatively impact individual's score.
- Having a balanced mix between secured loans (such as Auto, Home Loan) and unsecured loans (such as Personal loan, Credit Card) is likely to have a more positive effect on individual's score.

A CIBIL Score of 'NA' or 'NH' is not a bad thing at all. These scores can mean any 1 of 3 things mentioned below:

- a) Individual's do not have a credit history or individual's do not have enough of a credit history to be scored i.e. individuals are new to the credit system.
- b) Individuals have had no credit activity in the last couple of years.
- c) Individuals have all add-on credit cards and have no credit exposure.

It is important to note that while these credit scores are not viewed negatively by a credit institution, some lenders' credit policy prevents them from providing loans to an applicant with credit scores of 'NA' or 'NH' (applicants with no credit track record).

Hence, individuals may have a better chance of applying for a loan elsewhere.

Individual's CIBIL Report is a record of individual's credit payment history compiled from information received from banks and financial institutions.

The purpose is to help loan providers make informed lending decisions basis individual's credit history, quickly and objectively.

A healthy credit report can get individual's loan approved faster and often, at better terms.

Different Sections in CIBIL Score

CIBIL Score

This section reflects individual's credit score, which is widely used by loan providers to evaluate loan applications. An individual's CIBIL Score ranges between 300-900 and is calculated basis the information in the "Accounts" and "Enquiry" section of the credit report.

The closer the score to 900, the more confidence the loan provider will have in individual's ability to repay the loan and hence, the better chances of individual's application getting approved.

Personal Information

This section contains individual's personal details like Name, Date of Birth and Gender as reported to CIBIL by various members. Identification type section contains details like individual's Income Tax ID (PAN), Passport Number, Driver's License and Voter ID information reported by lenders.

Employment Information

This section provides information on individual's occupation and income (at the time of opening a credit facility) as reported by the lender for a particular credit account.

Account Information

The most important segment of individual's CIBIL Report, it contains details of all individual's loan and credit card accounts. It displays the name of the lender/s, the type of credit facilities (home loan, auto loan, credit card etc.), the account number/s, whether single or jointly held, when each account was opened, date of the last payment, loan amount, current balance, amount overdue (if any) and most importantly, a month on month record of up to 36 months of individual's payments.

A red box above the Account Details indicates that the section is under dispute will be removed when the dispute is closed. However, upon closure, the disputed information may or may not be changed as per confirmation received from the lender.

Contact Information

Individual's addresses, telephone, mobile numbers and email addresses as reported by lenders appear here. The address category also explains whether the address is a residential address, official address, permanent address or temporary address. Up to 4 addresses and email addresses are provided in this section.

Enquiry Information

This section provides details of all the enquiries made by the lender for individual's various credit applications and includes name of the lender, date of the application, the type of loan and its size

Understanding the terms and keywords

KEY TERM:	EXPLANATION																		
AC (ASSET CLASSIFICATION)	<p>It is important to note that some banks report DPD (please refer to the DPD description for more information) as per the Asset Classification norms defined by RBI, which are as follows:</p> <table><tr><th>DPD</th><th>Denotes</th><th>Explanation</th></tr><tr><td>STD</td><td>Standard</td><td>Payments are being made within 90 days. Any account overdue by more than 90 days is classified a Non-Performing Asset (NPA) by banks</td></tr><tr><td>SMA</td><td>Special Mention Account</td><td>Special account created for reporting Standard account, moving towards Sub-Standard</td></tr><tr><td>SUB</td><td>Sub-Standard</td><td>An account which has remained an NPA for up to 12 months</td></tr><tr><td>DBT</td><td>Doubtful</td><td>The account has remained a Sub-standard account for a period of 12 months</td></tr><tr><td>LSS</td><td>Loss</td><td>An account where loss has been identified and remains uncollectible</td></tr></table>	DPD	Denotes	Explanation	STD	Standard	Payments are being made within 90 days. Any account overdue by more than 90 days is classified a Non-Performing Asset (NPA) by banks	SMA	Special Mention Account	Special account created for reporting Standard account, moving towards Sub-Standard	SUB	Sub-Standard	An account which has remained an NPA for up to 12 months	DBT	Doubtful	The account has remained a Sub-standard account for a period of 12 months	LSS	Loss	An account where loss has been identified and remains uncollectible
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ACTUAL PAYMENT AMOUNT	Is the amount you have paid to your lender if it is different from the EMI Amount. This may be more or less than the EMI Amount.																		
AMOUNT OVERDUE	Indicates the total amount that has not been paid to the lender in a timely fashion (includes principal and interest amount).																		
CASH LIMIT	Applies to credit cards specifically. It is the amount of cash you are permitted to withdraw from your credit card.																		
CN (CONTROL NUMBER)	This is your report number and is essential if you feel you need to raise a Dispute Request.																		
COLLATERAL	Is provided to a lender as security to protect the lender in the event you are unable to repay your loan. This may be property, shares, gold, etc.																		
CREDIT LIMIT	Applies to credit cards and overdraft facilities. It reflects the total amount of credit you have access to with regard to that credit card or overdraft facility.																		
CURRENT BALANCE	Is the amount you still owe on a particular credit facility. Lenders typically take 30-45 days after your payment is received to update this information with CIBIL.																		
DPD (DAYS PAST DUE)	DPD or Days Past Due appears in the Account Information section of your CIR. The DPD indicates how many days a payment on that account is late that month. Anything other than "000" or "STD" (please refer to the ASSET CLASSIFICATION description for more information) is considered negative by a lender. Up to 36 months of this payment history (with the most recent month displayed first) are provided. On occasion you may see "XXX" reported for your DPD on a certain account which implies that information for these months has not been reported to CIBIL by the bank.																		
EMI AMOUNT	Is the EMI (Equated Monthly Installment) that you pay on the loan.																		
ENQUIRY	Enquiries are added to your report when you apply for a loan or credit card and the lender decides to access your CIR. Details such as the name of the loan provider size and type of loan are captured in this section. Please note that the date of the enquiry may differ from your actual application date because the lender may access your CIR a day or more after you have applied.																		
HIGH CREDIT	Applies to credit cards and facilities. It reflects the highest amount ever billed (including interest and fees) for that particular credit card or overdraft.																		
OWNERSHIP	<p>This field tells the lender who is responsible for payments on that loan or credit card. There are 4 types of indicators that can appear on your CIR:</p> <ol style="list-style-type: none">1. Single: You are solely responsible for making payments on the account.2. Joint: You and someone else bear joint responsibility for payments on these accounts. This will also reflect on the other individual's CIR3. Authorized User: This is used for 'add-on' credit cards that you may have. While this reflects on your CIR, lenders know that you are not responsible for paying dues on that particular account.4. Guarantor: A guarantor pledges to repay a loan on behalf of a third party who has taken a loan. Hence, he provides a guarantee to the lender that he will honour the obligation, in case the principal applicant is unable to do so.																		
REPAYMENT TENURE	Is the term of your loan. This field is to be read with the "PAYMENT FREQUENCY" field in order to accurately understand the term of the loan. For example, 120 at a monthly payment frequency would mean the term of the loan is 10 years.																		
SANCTIONED AMOUNT	This is the loan amount disbursed to you. Applies to account types other than credit cards and overdraft.																		
SETTLEMENT AMOUNT	When an amount owed on a loan account is disputed, the individual and lender settle at some amount in between. It's what the lender believes is owed and what the individual believes he should pay. This is the amount the individual has agreed to pay. The rest of the amount (that the lender believes is owed) is written-off by the lender.																		
SUIT-FILED / WILFUL DEFAULT	<p>In case the lender has filed a suit against you, there is specific reporting prescribed by the Reserve Bank of India (RBI). This is as follows:</p> <ol style="list-style-type: none">1. No Suit Filed (or the field will be blank)2. Suit filed3. Wilful Default4. Suit filed (Wilful Default)																		
WRITTEN-OFF AMOUNT (PRINCIPAL)	This field reflects the principal amount written-off by the lender. It follows that the difference between the total and principal written-off amounts is the interest amount that has been written-off on this account.																		
WRITTEN-OFF AMOUNT (TOTAL)	When a loan is written-off there is an interest and principal component. This field reflects the total interest and principal amount written-off.																		
WRITTEN-OFF AND SETTLED STATUS	<p>If this section is populated, the lender has either restructured your loan by offering you different terms (extended the loan tenure or reduced the interest rate, etc), written-off this amount, or settled at some amount less than what the lender believes it was owed.</p> <p>The possible values are as follows:</p> <ol style="list-style-type: none">1. Restructured Loan2. Restructured Loan (Govt. Mandated)3. Written-off (WO)4. Settled5. Post (WO) Settled																		

CERSAI

The Government of India vide their Notification dated November 26, 2015 authorized the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI), set up under sub-section (1) of Section 20 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002), to act as and to perform the functions of the Central KYC Records Registry under the said rules, including receiving, storing, safeguarding and retrieving the KYC records in digital form of a "client", as defined in clause (ha) of sub-section (1) of Section 2 of the Prevention of Money-Laundering Act, 2002.

The Central Government have also amended the Prevention of Money laundering (Maintenance of Records) Rules, 2005 vide Notification dated 7th July, 2015 for the purpose of establishment of Central KYC Registry. As per Prevention of Money-laundering (Maintenance of Records) Amendment Rules, 2015, Rule 9 (1A), every reporting entity shall within three days after the commencement of an account-based relationship with a client, file the electronic copy of the client's KYC records with the Central KYC Registry.

Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) is a company licensed under Section 25 of the Companies Act, 1956 and registered by the Registrar of Companies, New Delhi.

The Company is a Government Company with a shareholding of 51% by the Central Government and select Public Sector Banks and the National Housing Bank are also shareholders of the Company.

The object of the company is to maintain and operate a Registration System for the purpose of registration of transactions of securitization, asset reconstruction of financial assets and creation of security interest over property, as contemplated under Chapter IV of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. (SARFAESI Act).

The Registration would be applicable to transactions of security interest over property created to secure loans and advances from the banks and financial institutions as defined under the SARFAESI Act.

The Company is providing the platform for filing registrations of transactions of securitization, asset reconstruction and security interest by the banks and financial institutions.

Any person can also search and inspect the records maintained by the Registry on payment of fees prescribed under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (Central Registry) Rules, 2011.

Functions and Obligations of Central KYC Registry

The Central KYC Registry shall have the following functions and obligations:

- a) Shall have a secure electronic connectivity with the registered reporting entities. The web address of Central KYC Registry portal is <https://www.ckycindia.in>
- b) Shall have a secure data transmission link with the ID issuing authorities wherever feasible and use such electronic data, as permitted, and preserve it with the Central KYC Registry.
- c) Shall be responsible for electronically
 - i. Storing
 - ii. Safeguarding and
 - iii. Retrieving the Know Your Customer (KYC) records and making such records available online to reporting entities or Director.
- d) Information updated about a customer shall be disseminated on request by Central KYC Registry to any reporting entity that avail the services of the Central KYC Registry in respect of the customer.
- e) The services of the Central KYC Registry will be available on payment of prescribed fee, in advance.
- f) Shall process the KYC records received from a reporting entity for deduplication and issue a unique KYC Identifier for each client to the reporting entity.
- g) Ensure that the integrity of the electronic systems for records is maintained and accessible at all material times.
- h) Take all precautions necessary to ensure that the electronic Know Your Customer (KYC) records are not lost, destroyed or tampered with and that sufficient back up of electronic records is available at all times at a different place.
- i) Take all reasonable measures to prevent unauthorized access to its KYC database.

Functions and obligations of the reporting entity

The reporting entity shall have the following functions and obligations:

- a) Reporting entities shall be required to register with the Central KYC Registry in accordance with the processes and instructions issued.
- b) While commencing an account-based relationship, reporting entity shall verify the identity of the customer and perform the initial due diligence of the customer.
- c) Where a customer submits a KYC Identifier to a reporting entity, then such reporting entity shall download the KYC records from the Central KYC Registry by using the KYC Identifier and shall not require a customer to submit the documents again unless
 - i. There is a change in the information of the customer as existing in the records of Central KYC Registry.
 - ii. The current address of the client is required to be verified.
 - iii. The reporting entity considers it necessary in order to verify the identity or address of the client, or to perform enhanced due diligence or to build an appropriate risk profile of the client.

- d) The reporting entity shall not use the KYC data of a customer obtained from the Central KYC Registry for purposes other than verifying the identify or address of the client and shall not transfer KYC records or any information contained therein to any third party unless authorized to do so by the client or by the Regulator or by the Director.
- e) The reporting entity which performed the last KYC verification or sent updated information in respect of a client shall be responsible for verifying the authenticity of the identity or address of the client.

The prescribed fee is payable by the reporting entity for each type of transaction and Central KYC Registry will collect such fees from the reporting entities, in advance.

Fees

- a) Reporting entities can avail services of Central KYC registry on payment of prescribed fee, in advance.
- b) For every service availed, the requisite amount will be deducted from the advance payment made. If the available balance is insufficient, the reporting entity will not be able to avail the services until the balance is replenished.
- c) To make the advance payment, the reporting entity will be required to generate the proforma invoice through the Central KYC application. The reporting entity is required to make an advance payment through NEFT/RTGS in CERSAI's bank account and mention the system generated proforma invoice reference number as the remark.
- d) Upon confirmation of the payment receipt from the bank, balance will be updated. In case of the tax deducted at source (TDS), the reporting entity is required to submit a copy of the TDS certificate to the Central KYC Registry.
- e) Reporting entity will be intimated when the balance goes below the prescribed limit set by them. The reporting entity user can download / print the usage details till the previous day.

Following are the key Goals and Objectives of the Central Registry System:

- To provide mechanism for registration of transaction of securitization and reconstruction of financial Asset and security interest created under SARFAESI.
- Create a central data repository for collateral related information.
- To develop a web-based system for financial institutions and general public to access this information.
- To enable lenders and other stake holders to get real time current information regarding the collateral being mortgage by borrower.
- To prevent fraudulent transactions arising out of same asset being mortgage with multiple lenders.
- To collect and decimate information regarding the priority and amount secured by the charge on collateral.
- Provide potential buyers of assets with information about any encumbrances on the assets.
- Maintaining history of charges created and satisfied on a particular asset.
- Lenders can access the data on this registry to ascertain whether the same asset has been mortgage with any other institutions.

CHAPTER - X

Treasury Audit

Treasury operations is one of the most important function of a bank, responsible for the processing of all financial market transactions and usually much more, including a crucial role in managing risk. Treasury comprises two main components – Investments (comprising transactions related to domestic investments and money market operations) and Forex & Derivatives.

In a well-functioning risk management system, banks broadly position their balance sheet into Trading and Investment or Banking Books. While the assets in the trading book are held primarily for generating profit on short-term differences in prices / yields, the banking book comprises assets and liabilities, which are contracted basically on account of relationship or for steady income and statutory obligations and are generally held till maturity. Thus, while the price risk is the prime concern of banks in trading book, the earnings or economic value changes are the main focus of banking book.

The core areas of treasury operations in a bank can be functionally divided into the following broad compartments as mentioned below:

- Front Office Operations (Dealing room operations);
- Middle Office Operations (Market Risk Department / Product Control Group); and
- Back Office Operations (Deal Confirmation, Settlement, Accounting and Reconciliation).

Some of the main functions of Front Office, Mid-Office and Back-office operations are detailed below:

Front Office (Dealing Room)

- Money and fixed income dealings
- Forex & Derivatives
- Treasury Sales
- Equities
- Primary Dealers
- Debt Sales
- Credit Default Swaps

Mid Office (Risk)

- Identification, measurement and monitoring of risk
- Monitoring counter party, product and dealer limits

Back Office

- Settlement and follow up
- Reconciliations
- Accounting
- Valuation

Increasing regulation and compliance requirements and the need for risk management have made 'treasury front and back office efficiency' as one of the most critical factors in ensuring the well-being of any bank today. This is certain to continue as the operations of treasury becomes more onerous while financial products become increasingly complex, despite streamlining of processing systems.

Front office Operations

The front office operations consist of dealing room operations wherein the dealers transact deals with the various approved counterparties. Deals are transacted by dealers on various anonymous order matching

platforms such as NDS-OM, CROMS, NDS-CALL, FX-CLEAR, FX-SWAP, E-Kuber and over communication platform such as Reuters', Bloomberg, telephonic conversation with counter party or through empaneled brokers.

The dealers are primarily responsible to check for counterparty exposure limits, eligibility, and other requirements of the Bank before initiating any deal with the counter-party. Dealers must ensure that all risk/credit limits are available before transacting a deal. Also, the deal must not contravene the current regulations regarding dealing in INR with overseas banks/counterparties. All counterparties are required to execute the International Swaps and Derivatives Association ('ISDA') agreement as well as pass a board resolution allowing it to enter into derivative contract. As soon as the deal is struck with counterparty, the deal details are noted in a dealers' deal pad and thereafter captured in front office system of the Bank which gets queued in for authorization by back office.

Middle office Operations

Middle office is responsible for online risk measurement, monitoring and management reporting. The other functions of Mid-Office are:

- Limit setting and monitoring exposures in relation to limits;
- Assessing likely impact of market movements based on internal assessments and external /Internal research;
- Evolving hedging strategies for assets and liabilities;
- Interacting with the bank's Risk Management Department on liquidity and market risk;
- Monitoring open currency positions;
- Calculating and reporting VAR;
- Stress testing and back testing of investment and trading portfolios;
- Risk-return analysis; and
- Marking open positions to market to assess unrealized gain and losses.

Back office Operations

The mainstream role of the back office is in direct support of the dealing room or front office. Traditionally, this included the input of deal details in the settlement system, checking of deal input details, verification by confirmation from counterparty, settlement, checking existence of a valid and enforceable International Swap Dealers Association ('ISDA') agreement and reconciliation of positions and NOSTRO accounts. However, with the advent of online front office systems and, more importantly, online trading platforms, the input of deals has progressively moved to the dealing room.

An important development in the back office has been the advent of straight-through processing (STP), also called 'hands-off' processing. This has been made possible through enhancement of computer system to real time online input in the trading platform, which in turn has meant that the back office can authorize/confirm deals pending for authorization in the trading platform. In practice this is done automatically by matching incoming data from counterparties and thereby focusing on investigating exceptions. With the introduction of online trading systems, the deal is 'confirmed' as it is done, allowing the back office to concentrate principally on handling exceptions, settlement and monitoring and risk control. This is a completely different approach than the earlier system of input and checking of written paper-based deals that represented only a dealer's version of what the deal was before external verification could even commence.

One of the basic tenets for a treasury area in a bank is the strict segregation and allocation of duties between the front, middle and back office, the latter controlling confirmations, settlement and accounting of transactions. These are even more important in an era of straight-through processing where the checks are fewer and must essentially be independent. However, while this is straight forward for the processing functions, the independent monitoring and management of complex trading risks can be much more problematical, requiring the ability and market knowledge to understand how the trades and hedges in the dealer's book are structured.

Non-Performing Investments (NPI)

In respect of securities included in any of the three categories where interest / principal is in arrears, banks should not reckon income on the securities and should also make appropriate provisions for the depreciation in

the value of the investment. The banks should not set-off the depreciation requirement in respect of these non-performing securities against the appreciation in respect of other performing securities.

An NPI, similar to a non performing advance (NPA), is one where:

- (i) Interest / instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.
- (ii) The above would apply mutatis-mutandis to preference shares where the fixed dividend is not paid. If the dividend on preference shares (cumulative or non-cumulative) is not declared / paid in any year it would be treated as due / unpaid in arrears and the date of balance sheet of the issuer for that particular year would be reckoned as due date for the purpose of asset classification.
- (iii) In the case of equity shares, in the event the investment in the shares of any company is valued at ₹.1 per company on account of the non-availability of the latest balance sheet in accordance with the instructions contained in paragraph 3.5.5 of the RBI Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015, those equity shares would also be reckoned as NPI.
- (iv) If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities, including preference shares issued by the same issuer would also be treated as NPI and vice versa. However, if only the preference shares are classified as NPI, the investment in any of the other performing securities issued by the same issuer may not be classified as NPI and any performing credit facilities granted to that borrower need not be treated as NPA. The Auditor should review the mechanism adopted by the Bank for classifying the investments as NPI where the credit facility has been classified as NPA and vice versa and test the effectiveness of the mechanism followed particularly the timeliness of such classification.
- (v) The investments in debentures / bonds, which are deemed to be in the nature of advance would also be subjected to NPI norms as applicable to investments.
- (vi) In case of conversion of principal and / or interest into equity, debentures, bonds, etc., such instruments should be treated as NPA ab initio in the same asset classification category as the loan if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision should be made as per the norms. Further movement in the asset classification of these instruments would also be determined based on the subsequent asset classification of the restructured advance.
- (vii) In respect of an account that is classified as NPA as on the reference date, the Part B instruments shall continue to be classified as NPI and provided for as per the extant prudential norms, as long as such instruments remain in Part B. The sustainable portion (Part A) may optionally be treated as 'Standard' upon implementation of the resolution plan by all banks, subject to provisions made upfront by the lenders being at least the higher of 50 percent of the amount held in Part B or 25 percent of the aggregate outstanding (sum of Part A and Part B). For this purpose, the provisions already held in the account can be reckoned. As per para (iv) of the circular DBR. No. BP. BC. 33/21.04.132/2016-17 dated November 10, 2016 "In call cases, lenders may upgrade Part B to standard category and reverse the associated enhanced provisions after one year of satisfactory performance of Part A loans. In case of any pre-existing moratorium in the account, this upgrade will be permitted one year after completion of the longest such moratorium, subject to satisfactory performance of Part A debt during this period. However, in all cases, the required MTM provisions on Part B instruments must be maintained at all times.

Guidelines of the RBI regarding transactions in Securities

The Reserve Bank of India has issued the Master Circular dated July 1, 2015 on "Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks", consolidating instructions / guidelines issued to banks on matters regarding prudential norms for classification, valuation and operation of Investment portfolio of banks. It may be noted that the Reserve Bank of India has not issued consolidated master circular after issuing the above said circular. The amendments are being issued through various Notifications and Circulars and accordingly auditors are advised to refer various circulars and notifications related to treasury operations issued after 1st July, 2015.

Classification of Investments

Banks are required to classify their entire investments portfolio (including SLR securities and non-SLR securities) into three categories: Held-to-Maturity, Available-for-Sale and Held-for-Trading.

(i) Held-to-maturity (HTM)

This category would comprise securities acquired by the bank with the intention to hold them up to maturity.

(ii) Held-for-trading (HFT)

The investments classified under HFT would be those from which the bank expects to make a gain by the movement in interest rates/market rates. These securities are to be sold within 90 days.

(iii) Available-for-sale (AFS)

This category will comprise securities, which do not qualify for being categorized in either of the above categories, i.e., those that are acquired neither for trading purpose nor for being held till maturity.

Banks should decide the category of the investment at the time of acquisition and the decision should be recorded on the investment proposal / deal slip. Investments under HTM category should not normally exceed 25% of the total investments of the bank, except as specified in the Master Circular, wherein the limit of 25% can be exceeded. The Banks may hold the following securities under HTM:

- a) SLR Securities up to prescribed percentage of their DTL as on the last Friday of the second preceding fortnight (updated vide RBI notification RBI/2017-18/70 DBR.No. Ret.BC.90/12.02.001/2017-18 dated October 4, 2017), to the extent of 19.50%
- b) Non-SLR securities included under HTM as on September 02, 2004.
- c) Fresh re-capitalization bonds received from the Government of India towards their re-capitalization requirement and held in Investment portfolio, excluding re-capitalization bonds of other bank acquired for investment purpose.
- d) Fresh investment in the equity of subsidiaries and joint ventures.
- e) RIDF/SIDBI/RHDF deposits.
- f) Investment in long-term bonds (with a minimum residual maturity of seven years at the time of investment) issued by companies engaged in infrastructure activities.

The banks will have the freedom to decide on the extent of holdings under HFT and AFS. This will be decided by them after considering various aspects such as basis of intent, trading strategies, risk management capabilities, tax planning, manpower skills, capital position. RBI vide its circular dated 16th July 2015 decided that for accounting periods commencing on or after April 1, 2015, deposits placed with NABARD/ SIDBI/ NHB on account of shortfall in priority sector targets should be included under Schedule 11- 'Other Assets' under the subhead 'Others' of the Balance Sheet instead of disclosing under Schedule 8 "Investments".

Derivative Transactions

Banks transact in various treasury instruments with an objective of hedging their risks and also to generate trading profits. Apart from regular proprietary business, the treasury operations of a bank aim to continue to focus on enhancing returns from customer relationships that have been built, and successfully capitalize on this to rapidly increase income from foreign exchange and derivative transactions from customers, as also to assist them in covering and hedging their foreign currency and derivative positions.

The foreign exchange market encompasses transactions in which funds of one currency are sold for funds in another currency. These transactions take the form of contracts calling for the parties in the contract to deliver to each other on a fixed date a specified sum in a given currency. The exchange, the delivery of one currency on receipt of another, can take place at the time the contract is negotiated or at some future date, as stated in the contract.

Foreign exchange transactions, to be distinguished from transactions in foreign currencies, consist of contracts in which each party is committed to deliver one currency while, at the same time, receive another. Until the time of delivery, when settlement is to be made on the contract, the contract represents a future commitment of the Bank's resources. Thus, the maturity of a contract culminates in the realization of the transaction envisaged in the contract, at which time the counterparties are given value for the currencies the contract says they are to receive.

In foreign exchange contracts, the value date is the date on which the contract matures, that is the date on which settlement is to be made. For loans and borrowings, including those in the money markets, on the other hand, the value date is that date on which the borrower receives constructive use of the funds loaned, while the maturity date is that future date on which it will repay the funds it has borrowed.

Derivatives: In India, different derivatives instruments are permitted and regulated by various regulators, like Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI). Broadly, RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives. For regulatory purposes, derivatives have been defined in the Reserve Bank of India Act, vide circular No. DBOD. No. BP.BC. 86/21.04.157/2006-07 dated 20 April 2007 as follows:

“Derivative” is a contract that changes in value in relation to the price movements of a related or underlying securities like change in interest rate, foreign exchange rate, credit rating or credit index, price of securities or a combination of more than one of them and includes interest rate swaps, forward rate agreements, foreign currency swaps, foreign currency-rupee swaps, foreign currency options, foreign currency-rupee options or such other instruments as may be specified by the RBI from time to time.

A derivative is traded between two parties – who are referred to as the counterparties. These counterparties are subject to a pre-agreed set of terms and conditions that determine their rights and obligations.

Forex and Derivative Business

There are various types of foreign exchange and derivative contracts offered in normal course of banking business including inter-alia Cash, Tom & Spot, Foreign exchange forward, Swap, Currency Swap, Credit Default Swap, Currency Option, Forward rate Agreement, Interest rate swap, Interest rate futures, Interest rate cap & floor, Currency futures, Interest Rate Options. The following circulars are relevant and give guidance on these products:

- IDMC.MSRD.4801/06.01.03 dated June 3, 2003 on Exchange-Traded Interest Rate Derivatives.
- IDMD.PDRD.No. 1056/03.64.00/2009-10 dated September 1, 2009 on Guidelines on Exchange Traded Interest Rate Derivatives.
- RBI/2010-11/147 A.P. (DIR Series) Circular No. 05 dated July 30, 2010 on “Guidelines on trading of Currency Options on Recognized Stock /New Exchanges.
- DBOD.No.BP.BC.51 / 21.06.101 / 2010-11 dated October 28, 2010 on Introduction of Exchange Traded Currency Options – Permitting Banks to Participate in Currency Options on Recognized Stock / New Exchanges.
- DBOD.No.BP.BC. 44/21.04.157/2011-12 dated 2 November 2011 modifying the 20 April 2007 circular.
- DBOD.BP.BC.No. 61/21.06.203/2011-12 of 30th November 2011 regarding credit default swaps.
- RBI/2016-17/199 FMRD.DIRD.12/14.01.011/2016-17, December 29, 2016 on Introduction of Interest Rate Options in India, detailed directions of which are given in Notification No. FMRD-DIRD.11/2016 dated December 28, 2016.
- Further, RBI vide its circular RBI/2017-18/198 FMRD.DIRD.9 /14.01.020/2017-18 dated June 14, 2018 decided to permit Interest Rate Swaptions in Rupees so as to enable better timing flexibility for the market participants seeking to hedge their interest rate risk and issued a Notification No.FMRD.DIRD.8/2018 dated June 14, 2018 enabling the introduction of swaptions.

Operations Risk

Basel-I defined operational risk as “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events”. Basel II, however, defined operational risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. As per RBI Guidelines on Basel III Capital Regulations, Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. For emergence of such a risk four causes have been mentioned and they are people, process, systems and external factors.

- a) **People Risk**–Lack of key personnel, lack of adequate training/experience of dealer (measured in terms of opportunity cost/employee turnover), unauthorized access to the dealing room, tampering voice recorders, nexus between the front and back offices, etc.
- b) **Process Risk**–Wrong reporting of important market developments to the management resulting in faulty decision making, errors in entry of data in deal slips, non-monitoring of exposure in positions, loss of interest owing to the liquidity beyond prescribed limits, non-revision of card rates in cases of volatility, non-monitoring of closing and opening positions, wrong funding of accounts (wrong currency, wrong way swap), lack of policies, particularly in respect of new products.
- c) **Systems Risk**–Losses due to systems failure, hardware and software failures, telecommunication problems, and utility outages such as CCIL- not maintaining secrecy of system passwords, failure of dealing platforms, valuation engines, system issues with deal blotters interrupting deal flows to back-office etc.
- d) **Legal and Regulatory risk**- Treasury activities should comply with the regulatory and statutory obligation. As per RBI Guidelines, Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Deal Initiation & Recording

For the selected samples, the auditor should check whether deals carried out by the front office are appropriately recorded in the deal slips and whether the same is correctly entered in the front office deal recording system.

- For the selected samples check whether the deal ticket is complete and accurate with respect to all transaction details like counterparty name, contract rate, notional amount, transaction date / maturity date, value date / settlement agent and buy / sell date.
- Check the flow of transaction from initiation of deal to the verification and approval.
- Check whether deal tickets are generated automatically by front office systems, or trader should use sequentially numbered deal tickets.
- Check whether the dealers use dedicated calling lines and all the telephone lines are linked to a voice recording machine.
- Verify the adherence to the voice recording mechanism.
- Check whether the proper back-up of voice recordings is being maintained.
- Verify whether user IDs of dealers left / transferred/ on leave is deactivated / suspended on timely basis.
- Verify whether, the Use of Mobile Phones is restricted in the Dealing Room and mechanism for ensuring adherence thereto.
- Verify the recordings for few of the selected samples to ascertain that the recording machine is working in order.
- Check whether there is access of unauthorized persons in the dealing room. If yes, whether proper approvals have been taken.
- Check whether dealers entering the deals have signed the code of conduct for respective segment in which trades dealt in (e.g. FIMMDA, FEDAI, FX Global etc.).

Deal Authorization

Following audit procedures may be followed by the auditor while checking the procedures for deal authorization.

- Check the process flow of authorizations of deals in the system and check areas of manual intervention in the system.
- Check whether proper authorization levels are set for treasury operations and observe and verify whether the prescribed procedure is followed.
- For the selected samples, check whether deals entered in front office system are authorized by the back-office team after verifying the deal details with external evidences like Reuters' conversation, telephonic conversation with customers' back office, etc.
- Examine the selected deals from the front office and establish that they are confirmed by the back-office operations.
- Check that all sampled deals are authorized at the proper levels of authority against the deal slip.
- Check whether alterations and cancellations on deal slips are duly authorized.

- Check whether bank is preparing trade amendments sheets and whether the reasons for such amendments are mentioned in the sheet.
- Check whether any exceptional reports are being generated.

Segregation of Duties

For this aspect, the audit procedure may include:

- There will be complete segregation between Dealing room, Market risk group and Back office.
- Checking and ascertaining that segregation of duties is in place. Under no circumstances staff involved in initiating deals should be involved in checking or receiving deal related documents.
- Verify whether there is any overlapping of duties.
- Verifying that there is clear segregation, functionally and physically, between the front office, back office and middle office in respect of derivative transactions.
- Checking that there is segregation between functions of authorization, execution and recording of transactions.
- In cases where management override has taken place, ascertain that satisfactory reasons for doing so were recorded and produced for audit verification.
- Checking whether treasury personnel have availed minimum leave during the financial year.
- Check whether any duties have been outsourced to external parties.

Counterparty Confirmations

For this aspect, the auditor would inter alia:

- Understand the process of sending and tracking the confirmations including follow – up procedures. Exchange of deal confirmations is mandatory. The counterparties should exchange the rate fixing notices. However, in the case of an OTC Overnight Index Swap (OIS) the trades are reported to CCIL. If the counterparties have a bilateral agreement waiving the requirement to exchange of confirmations, then exchanging of physical confirmations may not be required for such IRS deals.
- Understand the process of MIS reporting to the senior management in respect of the non-receipt of counterparty confirmations.
- Verify that confirmations from Bank to counterparty are sent within a reasonable time and there exists a mechanism for follow-ups for pending counterparty confirmations.
- Determine the status of any missing / pending confirmations (currently in the Confirmation Tracking List) and assess whether there are any provisioning concerns on the trades.
- Check whether the format of the counterparty confirmation is as approved by the Local Legal Counsel of the Bank from time to time.
- Verify controls implemented by the bank to ensure completeness of all deal confirmations.
- Check whether there is any persisting non-receipt of Counterparty confirmation.
- Inquire of any exception report or other mechanism of tracking missing confirmations.

Customer Complaints

As per the Comprehensive Guidelines on Derivatives, while undertaking derivative transactions with or selling structured derivative products to a user, a market-maker should establish internal procedures for handling customer disputes and complaints. They should be investigated thoroughly and handled fairly and promptly. Senior management and the Compliance Department / Officer should be informed of all customer disputes and complaints at a regular interval. For this, the auditor should verify controls over recording and handling of customer disputes and complaints and ensure the Bank's adherence to RBI requirements.

Position Reconciliation

The audit procedures include:

- Checking whether daily position reconciliations are performed between front office deal positions and back office deal positions by the treasury back office and position differences if any are appropriately enquired into.

- Checking whether the Bank maintains customer wise, currency wise and deal wise positions on a daily basis in-order to monitor customer limit breaches and sectoral limit breaches.
- Checking whether the inter branch reconciliations between the Treasury Branch and the Authorized Branches are carried out on a periodic basis and there are no old and long outstanding items uncleared.

Deal Settlements

The audit procedures include:

- Checking whether there exists effective mechanism for settlement of deals on due date and whether deals due for settlement are generated on a daily basis by back office.
- Examining whether customer intimations are sent across as soon as the deal is settled and the respective customer accounts are debited / credited.
- Check whether separate responsibilities are in place between authorization and release of settlement.
- Examining whether the Settlement desk ensures proper settlement of funds through CCIL/RTGS/SWIFT networks. Any deal rejected by CCIL should be examined and settlement through any other means should be taken up only after thoroughly examining the deal/deal confirmation as in most of the cases the rejection is on account of improper deal entry.
- Examining whether deal is settled / cancelled in case no confirmation is received from customers till expiry dates.
- Check whether any settlements defaults were made.

Nostro / Vostro Reconciliation

In respect of old unreconciled entries in NOSTRO Accounts, the RBI vide its Circular DBOD No.BP.BC.67/21.04.048/99 dated July 1, 1999 has allowed, as a onetime measure, a netting off procedure.

The auditor may consider the following aspects in respect of NOSTRO reconciliation:

- Whether a system of periodical reconciliation is in place and is upto date.
- Whether the reconciliation process followed ensures matching of each item and not for overall matching of total amount.
- Whether logs are generated for any change made in entry and whether maker checker is implemented for authorizing changes made in entry, if any, for reconciliation.
- Whether confirmations from the foreign banks are obtained on a periodic basis. This may be either through physical confirmations, swift messages, emails, etc.
- Whether Information to the controlling office is sent on a timely basis.
- Whether long outstanding are taken up and cleared.
- Random check of the method of reconciliation.
- Debits outstanding in the NOSTRO accounts are to be verified and recommended for provision wherever necessary.
- Set off the credit against debits only at the permission of the head office for long outstanding entries.
- Whether payments are promptly advised and effected and receipts are suitably recorded in the "Nostro" account.
- Whether large balance has been held in an inoperative account, for a long period and if so, the reasons thereof.
- Whether bank has been submitting the BAL Statements periodically to RBI.

RBI's circular no. DBOD.BP.BC.16/21.04.018/2001-02 dated August 24, 2001 has also clarified that the balances carried in "Sundry Debtors/ Unclaimed Deposits Accounts" under NOSTRO Accounts, represent unreconciled entries which may be large in a few cases and hence susceptible to frauds. Accordingly, the banks should transfer the following balances in the "Sundry Debtors/ Unclaimed Deposits Accounts" appearing in the books of the bank as on September 30, 2001 to distinct "Blocked Accounts" and shown under "Other Liabilities and Provisions" (item no. iv of Schedule 5) in the balance sheet:

- (i) the net credit balance arising out of the netting of entries pertaining to the period prior to April, 1996; and

- (ii) credit entries originated on or after April 1, 1996 and remaining unreconciled in NOSTRO/ mirror accounts for more than three years.

Further, the balances in the Blocked Accounts will be reckoned for the purposes of maintenance of CRR/ SLR.

Any adjustment from the Blocked Accounts should be permitted with the authorization of the two officials, one of whom should be from outside the branch concerned, preferably from the Controlling branch/ head office if the amount exceeds ₹. one lakh.

The audit considerations for this aspect include:

- Examining whether currency wise NOSTRO reconciliation is performed on a day-to-day basis and check for long outstanding items.
- Checking whether there exists a policy of following up for outstanding reconciliation items with the counterparties or with the respective banks.
- Outstanding debit items over 90 days attract provisioning under RBI provisioning norms.
- Examining whether the statement of account is sent to the Vostro account holder and periodic confirmation is obtained and discrepancies, if any, is properly dealt in the books of accounts.
- To verify the bank submitted statement of Nostro / Vostro account balances on monthly basis to RBI.
- Verify if reconciliation is done by separate department and not by treasury department who operates Nostro accounts.
- Check for write off any un-reconciled item / number / amount and see if details are sent to RBI for approval.
- Whether MIS of unreconciled entries of NOSTRO account is being sent to senior management periodically and does the senior management review the same.

Evaluation of Internal Audit/Concurrent Audit

The audit considerations for this aspect include:

- Examining whether treasury transactions are separately subjected to concurrent audit by internal auditors / external auditors and monthly reports containing their findings are submitted to the management for corrective action.
- Obtaining the monthly concurrent audit reports of the treasury operations and check whether deficiencies if any, mentioned in the report are rectified or noted for corrective action by the management.
- In internal audit reports, examining whether major control weaknesses are highlighted and a management action plan to remedy the weaknesses are agreed with a timeframe.
- Check whether any persisting irregularities are being highlighted in the audit reports.
- Management should periodically monitor newly implemented systems and controls to ensure they are working appropriately. Failure of management to implement recommendations within an agreed timeframe should be reported to the Audit Committee.

Risk Management

The audit considerations for this aspect include:

- Checking whether the bank has adequate risk management process, sound risk measurement procedures, sound information systems, continuous risk monitoring and frequent management reporting for treasury operations.
- Examining whether the mid-office monitors the exchange and gap positions for cut loss limits, overnight limits, daylight limit, liquidity, counterparty exposure limit and aggregate gap limit fixed in the banks trading policy/ guidelines.
- Reviewing the adequacy and effectiveness of the overall risk management system, including compliance with policies, and procedures.
- Investigating unusual occurrences such as significant breaches of limits, unauthorized trades and unreconciled valuation or accounting differences.
- Inquiring whether there is a 'New Product Approval' process prior to undertaking transactions in new or structured derivative products and verifying whether the 'New Product Paper' for all new derivative products is approved and signed-off by the Chief Compliance Officer of the bank.

- Obtaining the 'Risk Management Policy' of the bank and verifying whether risk management pertaining to derivative transactions is an integral part of the policy.
- Verify whether the Policy is updated on a periodic basis in line with the dynamic market and regulatory changes.
- The Board should have overall responsibility for management of risks and should decide the risk management policy of the bank and set limits for liquidity, interest rate, foreign exchange and equity price risks and verifying that the policy inter alia covers the following aspects:
 - i. Defines the approved derivative products and the authorized derivative activities;
 - ii. Details requirements for the evaluation and approval of new products or activities;
 - iii. Ensures appropriate structure and staffing for the key risk control functions, including internal audit;
 - iv. Establishes management responsibilities;
 - v. Identifies the various types of risks faced by the bank and establishes a clear and comprehensive set of limits to control these;
 - vi. Establishes risk measurement methodologies which are consistent with the nature and scale of the derivative activities;
 - vii. Requires stress testing of risk positions;
 - viii. Details the type and frequency of reports for monitoring risks which are submitted to the Board (or committees of the Board);
 - ix. Typical risks and commonly used risk limits in respect of derivative transactions;
 - x. It is essential that banks have interest rate risk measurement systems that capture all material sources of interest rate risk and that assess the effect of interest rate changes in ways that are consistent with the scope of their activities. The assumptions underlying the system should be clearly understood by risk managers and bank management.

Information Technology ('IT') Controls

The audit considerations for this aspect include:

- Check controls over creation of all masters, e.g. counterparty, broker, limit, dealer, etc.
- Check the integration of various treasury application with Core Banking Application.
- Check interface controls between various applications used in treasury department (viz. SWIFT and CBS, Finacle Treasury and Finacle core, etc.)
- To verify the integration of CBS, including Trade Finance and/or aligned software/modules, with SWIFT system and status of automation thereon.
- The auditor should specifically verify whether any special privileges or rights are given for operating SWIFT system allowing direct initiation of transactions through SWIFT without initiating the transactions through CBS. And whether such transactions are reflected correctly in CBS?
- Obtain IT related information from the bank for treasury operations and review, as appropriate, minutes of any committees responsible for overseeing and coordinating IT resources and activities to determine user involvement and organizational priorities.
- Check functional separation in the system.
- Verification of limit system and determination and reconciliation of positions and results.
- Check whether there were any changes in EDP systems.
- Review organizational charts, job descriptions, and training programs to ascertain that the bank has sufficient number of technology personnel and that these personnel have the expertise the bank requires.
- Review MIS reports for significant IT systems and activities to ascertain that risk identification, measurement, control, and monitoring are commensurate with the complexity of the bank's technology and operating environment.
- Evaluate the separation of duties and responsibilities in the operation and data processing of treasury functions.
- Evaluate the adequacy of input/output controls and reconciliation procedures for batch capture and image capture systems.
- Review controls and audit trails over master file change requests (such as address changes, due dates, commission / interest rates, and service charge indicator) and also consider individuals authorized to make changes and potential conflicting job responsibilities and documentation/audit trail of authorized changes and procedures used to verify the accuracy of master file changes.

- Assess adequacy of controls over changes to systems, programs, data files, and PC-based applications and consider procedures for implementing program updates, releases, and changes.
- Check if controls are in place to restrict and monitor use of data-altering utilities and adequate process management to select system and program security settings (i.e., whether the settings were made based on using sound technical advice or were simply default settings).
- Check whether controls are established to prevent unauthorized changes to system and programs security settings.
- Evaluate the effectiveness of password administration for employee and customer passwords considering the complexity of the processing environment and type of information accessed and consider confidentiality of passwords - (whether only known to the employee/customer), procedures to reset passwords to ensure confidentiality is maintained, frequency of required changes in passwords, password design (number and type of characters), security of passwords while stored in computer files, during transmission, and on printed activity logs and reports.
- Check whether any system audit has been conducted by the bank.
- Determine whether the bank has removed/reset default profiles and passwords from new systems and equipment and determine whether access to system administrator level is adequately controlled.
- Check whether the data hands off process from one product processor to another or to any other system is conducted under a secure environment and without or with least but controlled manual intervention.
- Check whether proper backup of records is being maintained.
- Whether any dealer/employee has accessed the dealing room on holidays. If yes, verify the reasons and approvals for the same.
- Check mandatory leave policy has been adhered to.
- Check BCP details of the bank in relation to Treasury activities.
- Check whether the voice recording systems are periodically tested by the operations team and process to tag trades and corresponding unique voice records. Concurrent auditors are also required to verify this at periodic intervals.
- Check compliance with Internal Control Guidelines issued by RBI vide FE.CO.FMD. No. 18380 /02.03.137/2010-11 February 3, 2011.

Asset Liability Management (ALM)

The Management of banks has to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. Banks are exposed to several major risks in the course of their business - credit risk, interest rate risk, foreign exchange risk, equity / commodity price risk, liquidity risk and operational risk.

It is, therefore, important that banks introduce effective risk management systems that address the issues related to interest rate, currency and liquidity risks. Banks need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability Management (ALM) practices than has been done hitherto. ALM, among other functions, is also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity, interest rate, foreign exchange and equity and commodity price risks of a bank that needs to be closely integrated with the banks' business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks.

Banks should give adequate attention to putting in place an effective ALM System. Banks should set up an internal Asset-Liability Committee (ALCO), headed by the CEO/CMD or the ED. The Management Committee or any specific Committee of the Board should oversee the implementation of the system and review its functioning periodically.

In order to capture the maturity structure of the cash inflows and outflows, the Statement of Structural Liquidity should be prepared. Also, in order to enable the banks to monitor their liquidity on a dynamic basis the statement of Short-term Dynamic Liquidity should be prepared.

The ALM process rests on three pillars:

- ALM Information Systems
 - o Management Information Systems

- o Information availability, accuracy, adequacy and expediency
- ALM Organization
 - o Structure and responsibilities
 - o Level of top management involvement
- ALM Process
 - o Risk parameters
 - o Risk identification
 - o Risk measurement
 - o Risk management
 - o Risk policies and tolerance levels.

Banks are required to disclose the maturity pattern of Deposits, Advances, Investments, Borrowings, Foreign Currency assets, Foreign Currency liabilities as on balance sheet date. The maturity pattern needs to be disclosed in several time buckets.

Measuring and managing liquidity needs are vital for effective operation of commercial banks. By assuring a bank's ability to meet its liabilities as they become due, liquidity management can reduce the probability of an adverse situation developing. The importance of liquidity transcends individual institutions, as liquidity shortfall in one institution can have repercussions on the entire system. Banks management should measure not only the liquidity positions of banks on an ongoing basis but also examine how liquidity requirements are likely to evolve under different assumptions. Experience shows that assets commonly considered as liquid like Government securities and other money market instruments could also become illiquid when the market and players are unidirectional. Therefore, liquidity has to be tracked through maturity or cash flow mismatches. For measuring and managing net funding requirements, the use of a maturity ladder and calculation of cumulative surplus or deficit of funds at selected maturity dates is adopted as a standard tool.

Auditors Approach

- Auditors should obtain the Board approved policies for Asset Liabilities Management (ALM), Liquidity Risk Management and Liquidity Coverage Ratio (LCR).
- Auditors should examine the process manuals across risk management units and ALM/ALCO functionaries.
- Auditors should carry out complete process walkthrough.
- Auditors should obtain and examine all the key ALM, ALCO and Risk Management Committee meeting details and analyze the minutes of meetings.

CHAPTER - XI

e-Concurrent Audit

INTRODUCTION

eTHIC in some banks is a 'Web-Based Software Application' and is designed by the Banks to cater to the needs of Banks in carrying out the complete Internal Audit process in electronic form. Public and Private Sectors Bank's 'Concurrent Audit Process' flow and report formats are brought out in the application to ensure that the users find it easy to use the application.

Web Based Concurrent Audit System (WBCAS)

What is eTHIC

It is software procured by the Banks for the implementation of Web based Concurrent Audit System (WBCAS) and Offline Transaction Monitoring system (OTMS).

Which are the files to be uploaded into the WBCAS

For branches attached to Central Process Centers (CPCs) Entities: At the introduction of software, Cash Credit Accounts (CC) / Over Draft (OD) balance file and Loan balance file from the date of opening of the branch to the date of introduction of software. Thereafter the files will have to be uploaded at regular intervals on day today basis.

For Non-CPC Centre Branches (Where Agri. advances are maintained at the branch itself): At the Time of implementation of Concurrent Audit System, CC / OD balance file from the date of opening of the branch to the date of roll out and loan balance file. SME Term loans of earlier period to be uploaded through a separate menu.

Will all accounts as mentioned above be uploaded?

Only advance accounts will be uploaded. Deposit accounts are to be audited under 'Area wise Observations'.

What if some account is not captured in the WBCAS?

Such accounts can be added to the system through the menu 'Add Accounts' under 'Audit' menu in the main menu.

How to be sure that all accounts have been captured?

The system will display the number of records uploaded, which can be tallied with the CBS figures.

What if compliance officer fails to comply with the observations to the satisfaction of CA?

The Con. Auditor will reject the compliance in which case the observation will go back to the Compliance officer for compliance till complied with to the satisfaction of the Con. Auditor.

What if it is not possible to comply with the observations for reasons beyond the control of compliance officers?

The compliance officer will have to get the approval of the appropriate authority to defer the compliance for a future date. The system will in such cases pop up the compliance requirement on the future date.

Can the Concurrent Auditor view the observations which have been closed by him?

Once the observation is closed, it can be seen by the Concurrent Auditor in the "Reports" menu in the main menu.

Within how many days a particular observation should be normally closed?

Normally an observation should be closed within seven days.

Are the Concurrent Auditors required to scrutinize all accounts opened at the branch after roll out date?

Yes. They should upload the accounts at regular intervals depending upon the number of new accounts opened per day and then scrutinize all such accounts.

What if there is a difference of opinion between the branch-head and the Con. Auditor on a particular observation?

This may be referred to the Controllers.

Is there any provision of penalty to External Concurrent Auditors if they overlook some irregularities / Income leakages which are subsequently detected in RFIA?

Penalty provisions are included as part of the Service Level Agreement.

What is the stipulated interval for uploading of files by Concurrent Auditor? Within how many days of such uploading should the Concurrent Auditor give his observations?

Though there is no stipulation regarding this, the Concurrent Auditor should upload the accounts at regular intervals depending upon the number of new accounts opened per day. The Concurrent Auditor has to scrutinize the accounts and give his observation.

What if a particular value statement is not applicable to a loan?

The Con. Auditor can leave alone that particular value statement without any remarks.

Can an observation made by a Con. Auditor be complied by any of the compliance officers?

No. Compliance officer can comply with only those observations which are marked to him by the Con. Auditor.

Under Operational Risk Management (ORM), can the Con. Auditor give observations under "Account wise Observations"?

No. He can give observations under "Area wise Observations" only.

While uploading the files, what will be the impact if there is an overlapping of dates?

System takes care of such overlapping of dates. Accounts will NOT be uploaded twice. Only the latest balances will be reflected.

If one compliance officer is transferred, can the observations marked to him be transferred to another compliance officer by the Concurrent Auditor?

No. If necessary, this can be done at the back end. Recently the concept of marking an observation to a particular Compliance Officer has been done away with.

Can one Concurrent Auditor audit more than one Branch?

No. Cluster approach is being done away with under WBCAS.

What, if the Concurrent Auditor could not observe any deviation in the advance account?

The Concurrent Auditor should at least mark one Value Statement as 'Yes', so that it counts for 'number of accounts scrutinized'

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Behind every successful business decision, there is always a CMA