

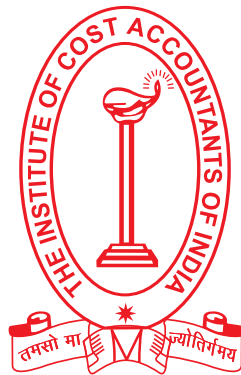


GUIDANCE NOTE ON THE CONCURRENT AUDIT OF COMMERCIAL BANKS



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

GUIDANCE NOTE ON THE CONCURRENT AUDIT OF COMMERCIAL BANKS



July, 2016

PROFESSIONAL DEVELOPMENT COMMITTEE

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

HQ: CMA Bhawan, 12, Sudder Street, Kolkata-700 016

Delhi Office: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi-110 003

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The President

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Any mistake, error or discrepancy noticed may be informed to Director (Professional Development), The Institute of Cost Accountants of India, CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi-110003, which will be taken care of in the next edition.

CMA PRAMOD KUMAR BHATTAD

President



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

H.Q.: CMA Bhawan, 12, Sudder Street, Kolkata – 700016

Tel.: +91-33-2252-2128/6549-0085

Fax: +91-33-22527993/1026

E-mail: president@icmai.in, Website: www.icmai.in



FROM PRESIDENT

The genesis of “Concurrent Audit” in the Bank goes way back in the year 1992 when this term came out as a result of the recommendation of the Ghosh Committee on Frauds and Malpractices of Bank. The committee, in its report, recommended for introduction of a system of Concurrent Audit at large and exceptionally large branches to serve as administrative support to branches help in adherence to prescribed system and procedures and timely detection of lapses/irregularities.

Based on the recommendations of Ghosh committee, in the very next year-1993, the Reserve Bank of India, for the first time, directed all banks to introduce system of concurrent audit.

Later on a working group was also formed headed by Mr. Jilani, the then CMD of Punjab National Bank which recommended some improvements in the system of concurrent audit. One of the important suggestions of this working group was that effective measures should be initiated by Banks to remove areas of ambiguity and overlapping as also to reduce multiplicity of different types of Inspection/Audit.

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 cover FOREX transactions.

I am happy to note that the Professional Development Committee has brought out the Guidance Note on the Concurrent Audit of Commercial Banks. This Guidance Note is an endeavour of the Institute to guide the members of the Institute on matters pertaining to Concurrent Audit of Commercial Banks.

I am thankful to CMA Vijender Sharma, Chairman- Professional Development(PD) Committee, other members of the PD Committee and also the PD Department for their contributions in bringing out “Guidance Note on the Concurrent Audit of Commercial Banks” in the present form.

(CMA PRAMOD KUMAR BHATTAD)

15 July, 2016

New Delhi

CMA VIJENDER SHARMA
Chairman
Professional Development Committee



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

H.Q.: CMA Bhawan, 12, Sudder Street, Kolkata – 700016
Tel.: +91-33-22521031/1034/1035
Fax: +91-33-22527993/1026/1723, Website: www.icmai.in



PREFACE

Concurrent audit is an examination, which goes hand-in-hand to the occurrence of transaction or is carried out as near to it as possible. Thus it is a regular process which is to be carried out incessantly all through the year at a branch. It is also 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.

Another objective of Concurrent Audit is to perform substantive checking in key areas and on the spot rectification of deficiencies to preclude the incidence of serious errors and fraudulent manipulation. It also seeks to ensure that all internal guidelines and also the guidelines/policies/instructions issued by the RBI and Government and relevant to the operations of the to the auditee branch/department, are complied with.

This Guidance Note, besides explaining the Concurrent Audit, dwells upon its objective, scope, and coverage. It also throws light on stages to complete concurrent audit viz. Audit Plan, Audit Programme, Execution of Audit, Audit Procedure, Audit Documentation and Reporting. Further, Illustrative Check Lists and Do's and Don'ts of Concurrent Auditor add value to this Guidance Note.

I would like to acknowledge the sincere efforts of technical team of Professional Development Department of the Institute for preparing this Guidance Note.

My sincere thanks are due to all members of the Professional Development Committee for their highly valuable contribution in finalization of this Guidance Note.

I would like to convey my special thanks to CMA P. V. Bhattad, President and CMA Manas Kumar Thakur, Vice President of the Institute for providing guidance and able leadership in the affairs connected with the PD Committee.

I am quite hopeful that this Guidance Note will provide useful guidance to all the Members and enable them with the knowhow to undertake such audits.

Date : 15 July, 2016
New Delhi

CMA Vijender Sharma
Chairman, Professional Development Committee

CMA Amit Anand APTE
Central Council Member
Chairman, Committee on Banking &
Insurance



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

H.Q.: CMA Bhawan, 12, Sudder Street, Kolkata – 700016
Tel.: +91-33-22521031/34/35, Fax: +91-33-22527993/1026
Mobile: +91-9326571549, Website: www.icmai.in



FOREWORD

It is my pleasure to place before you the **Guidance Note on the Concurrent Audit of Commercial Banks**. Concurrent Audit is a contemporary issue and professionals like CMAs have huge scope of practical opportunities in this domain.

Indian Bank's Association vide its circular No C&I/Cir/2015-16/1217 dated August 12, 2015 has recognized the competencies of the Cost Accountants (CMAs) and recommended all its member banks to consider Cost Accountants / Firms of Cost Accountants for Stock Audit, Risk Based Internal Audit and Other Operations. I feel that with this background this is the right time for the Institute to come up with this guidance note.

Concurrent audit system is regarded as part of a bank's early warning system to ensure timely detection of irregularities and lapses, which also helps in preventing fraudulent transactions at branches, the bank's management may continue to bestow serious attention to the implementation of various aspects of the system such as selection of branches/coverage of business operations, appointment of auditors, appropriate reporting procedures, follow-up / rectification processes and utilization of the feedback from the system for appropriate and quick management decisions. 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 to preclude the incidence of serious errors and fraudulent manipulations. The CMAs with their professional expertise can act as a concurrent auditor to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance as per the guidelines.

Constructive management of Non Productive Assets is an utmost necessity for growth and sustainability of the business. Here also, CMAs can carry out Concurrent Audit to facilitate banks in identifying potential Non Performing Assets (NPA) which would help the management to take necessary action before the assets become bad.

I take this opportunity to express my gratitude for my fellow members, the committee all other contributors for their earnest effort to publish this volume in time.

I welcome the readers to come forward with their valuable feedback towards up-gradation of this Guidance Note.

Date: 15 July, 2016
Pune

CMA Amit Anand Apte
Chairman, Committee on Banking & Insurance

ACKNOWLEDGMENTS

Professional Development Committee The Institute of Cost Accountants of India (2015-16)

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CMA B. B. Goyal	Former Addl. Chief Advisor Cost, Ministry of Finance, Government of India
CMA Kushal Sen Gupta	Joint Director (PD) and Secretary to the PD Committee

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Chapter I: Concurrent Audit of Commercial Banks

1. Genesis:

- The idea of Concurrent Audit in the Bank was first coined into the recommendation of the Ghosh Committee on Frauds and Malpractices of Bank. The committee recommended in its report in June 1992 for introduction of a system of Concurrent Audit at large and exceptionally large branches to serve as administrative support to branches help in adherence to prescribed system and procedures and timely detection of lapses/irregularities.
- RBI directed all 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 Bank.
- The committee also suggested that effective measures should be initiated by Banks to remove areas of ambiguity and overlapping as also to reduce multiplicity of different types of Inspection/Audit. However, concurrent audit and regular inspection/audit should not be construed as overlapping as the perspective and focus of concurrent audit are qualitatively different from that of regular inspection /audit.
- 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 cover FOREX transactions.
- Since 1997 Banking activities underwent a significant change in its organizational structure, business models, use of technology (implementation of Core Banking Solution), etc. All these changes necessitated RBI to have a relook at the concurrent audit system in the banking sector which culminated in issuance of a revised guidelines regarding concurrent audit in bank on July 16, 2015 modifying various aspects of concurrent audit.

2. Objectives of Concurrent Audit:

- To act as a means of special resource to the Branch Manager/Officers in charge of different departments in bringing about an ongoing improvement in the standard of internal housekeeping and identifying the areas of deficiency and weakness for initiating a process of rectification at the earliest possible time.
- To act as a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilant internal audit. It aims a shortening the interval between transaction and its examination by an independent person.



- 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 which is to be carried out all through 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.
- 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 manipulation
- It aims at improving the functioning of the branch leading to qualitative up-gradation of the working of the branch and to act as a means and mechanism for prevention of frauds.
- It also seeks to ensure that all internal guidelines and also the guidelines/policies/instructions issued by the RBI and Government and relevant to the operations of the to the auditee branch/department, are complied with.
- It aims at substantive checking in key areas rather than resorting to test checking therein.

3. Scope of Concurrent Audit:

- The detailed scope of the concurrent audit should be clearly and uniformly determined for the bank as a whole by the bank's Inspection and Audit Department in consultation with the bank's Audit Committee of the Board of Directors (ACB).
- In determining the scope, importance should be given to checking high-risk transactions having large financial implications as opposed to transactions involving small amounts.
- 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.
- Before acceptance of assignment of concurrent audit, it seems to be imperative for auditor to go through carefully the terms and conditions of audit and scope of the concurrent audit. Scope of Concurrent Audit is very wide and extensive. Expectations of Banks and RBI are very high from the concurrent auditors.
- Although the broader scope of concurrent audit is determined by his terms of engagement within the regulatory framework, a concurrent auditor , in general, is expected to check :

- * That the transactions or decisions taken by the relevant branch/department are with the policy parameters laid down by the head office and they do not violate the instruction, guidelines, policy prescription and are executed/taken within the delegated authority.
- * That the transactions are properly recorded, documented and vouched. The concurrent auditor should report the minor irregularities, wrong calculation etc. to the branch manager for spot rectification and reporting compliance.
- A concurrent auditor should not sit on judgment/decision taken by the Branch Manager or an authorized official of the branch. The concurrent auditor is not meant to interfere or stand against the day to day working of the branch. Their purpose is to give a second look of the operations of the audited branch/department and to supplement the working of the management in instilling a confidence that the chances of any irregularity, fraud, malpractices are minimized and if occurred, is detected as early as possible. That all provisions of systems and procedures are complied with and delegated authority has not been exceeded.
- A concurrent auditor is also required to see that where sanctions are received from higher authorities, terms and conditions of such sanctions are duly complied with. Where the branch to be audited is a large one having different departments and sections dealing with specific activities, concurrent auditor should act as a means to the branch manager/departmental in-charge to ensure that different sections functions as per laid down norms, systems and procedures on an ongoing basis.
- Whenever the concurrent auditor encounters serious irregularities, these should be immediately reported to the H.O. Inspection department and to the Regional office/zonal office of the concerned branch.
- In case of any observations regarding (a) an act of corruption or bribery on the part of the branch officials, frauds/misappropriation, misuse of power to gain undue personal advantage or pecuniary benefit at the expense of the interest of the bank or any other serious malpractices, the concurrent auditor in consultation with the Branch manager may not report that irregularity in its regular report but in a special confidential/flash report to the H.O. Inspection department.

4. Coverage of Concurrent Audit:

- Since there has been a significant development in the banking sector during the last decade, the RBI in its latest guidelines issued on 16.07.2015 has emphasized that the new areas posing risks should be brought under the purview of concurrent audit.
- Banks have adopted different innovative means of delivering services and opened specialized outlets meant for giving services of some specialized nature. 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 is required to be considered. The branches with high risk are to be subjected to concurrent audit irrespective of their business size.
- 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 and 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:
 - i. Branches rated as high risk or above in the last Risk Based Internal Audit (RBIA) or serious deficiencies found in Internal Audit.
 - ii. All specialized branches like Large Corporate, Mid Corporate, exceptionally large/very large branches (ELBs/VLBs), SME.
 - iii. All Centralized Processing Units like Loan Processing Units (LPUs), service branches, centralized account opening divisions, etc.
 - iv. Any specialized activities such as wealth management, portfolio management services, Card, Products Division, etc.
 - v. Data Centers.
 - vi. Treasury/branches handling foreign exchange business, investment banking, etc. and bigger overseas branches.
 - vii. Critical Head Office Departments.
 - viii. Any other branches or departments where, in the opinion of the bank, concurrent audit is desirable
- Usually the bank at the time of appointing the concurrent auditor provides them with the manual of instructions for the assignment. The focus of the manual is normally more on the areas required to be covered by the RBI through its various circulars on concurrent audit.



5. Initiation of Concurrent Audit:

In order to fulfill the objective of a concurrent audit and to meet the level of expectation from him by the bank management, a concurrent auditor after having an engagement of concurrent audit may undergo the following stages to complete his audit.

- A. Audit Plan
- B. Audit Programme
- C. Execution of Audit
- D. Audit Procedure
- E. Audit Documentation
- F. Reporting

A. Audit Plan:

Planning is a process of conceptualizing in advance the auditory work to be undertaken. Auditors must properly make an effective plan for Bank Branch concurrent Audit allotted to them so as to generate and deliver proper and acceptable final result. An effective plan helps the audit personnel to execute the audit process in a systematic and organized manner to check the different aspects of the branch activities as per his engagement in a timely manner much to the expectation of the Bank management.

1. Attributes:

- i) Audit plan should be a comprehensive one. It should capture the area of work, establish the audit universe, decide the allocation of resources, the months to be checked and probable date of completion of the audit.
- ii) It should be consistent with the terms of engagement.
- iii) It should establish the objective and scope of engagement.
- iv) It is a dynamic document and required to be modified and updated as per demand of the situation.
- v) It should be reviewed at least once in a quarter to accommodate any changes in the operations in the branch.
- vi) Any change made in the audit plan should be properly documented.
- vii) It should establish the audit programme.

2. Background information:

- i) Types of branches to be audited and nature of activities performed therein.
- ii) Branch detailed profile
- iii) Types of accounting and other software used to capture the activities of the branch.



- iv) Internal control system in force.
- v) Pre-commencement work of Audit.
- vi) Bank branch audit process
- vii) Use of Audit Software.
- viii) Checklist and audit procedure
- ix) Audit Manual given by the bank
- x) RBI and Govt. relevant circulars, guidelines.
- xi) Bank's prevalent policy, system and procedure
- xii) Sufficient and required knowledge about the subject branch activities
- xiii) The terms of engagement
- xiv) Reporting system of the Bank
- xii) Working paper management
- xiii) Effective discussion with the concerned branch officials.
- xiv) MIS Reports
- xv) Identifying the activities warranting special focus based on the materiality and criticality of the activities and their overall effect on the entity.

B. Audit Programme:

A concurrent auditor should devise a suitable audit programme incorporating therein all required audit procedures to fulfill the objective of the audit plan. The form, content and details of audit programme may vary with the circumstances of each case, but all audit programmes should be so designed as to help fulfill the objectives of the engagement of the concurrent auditor. The audit programme should be finalized after consultation with the appropriate authority before commencement of work.

A well-deliberated Audit program becomes a useful guide for carrying out the Audit by the staff in an effective manner. It helps proper execution of the work as per plan and facilitates supervision, direction and control of the performance of the engagement team in a co-ordinated and organized manner.

The Audit program of the bank branch audit should generally include, physical verifications, testing of internal controls, comparative analysis, etc. Physical verifications could include cash, valuable securities, stocks pledged under key cash credit schemes, loan documents of borrower accounts, fixed assets of the branch. It is also desirable that verification of the stock / receivables of the top borrowers of the branch are also undertaken.

1. Reference:

While drawing an audit programme, the reference may be drawn to the followings:

- Book of Instruction of the Bank
- Manual of documentation of the Bank

- Relevant circulars of RBI
- Audit and Inspection Reports of
 - * RBI
 - * Internal Audit
 - * LFAR of Statutory Audit
 - * Visit Report of executives from R.O/Zonal Office/H.O.

2. Use:

Audit programme once prepared, a copy of it should be kept in the concurrent audit file. Within the broad landscape of this audit programme, the various areas of the bank branch operations are to be audited.

Although verification of transactions in detail should primarily be point of emphasis in an audit programme, the auditor should also apply his own wisdom and judgment to audit in areas beyond what has been instructed to him in writing, if he senses these areas are critical and may, if not timely taken care of, cause financial loss to the bank. Each concurrent auditor should draw his own audit programme. In order to ensure that all the required areas for audit have been duly accommodated in audit programme, the auditor may list out all the areas and items to be audited separately in a primary hand out. An Audit programme may consist the column like 1. Serial No. 2. Area of work 3. Person responsible at the branch for that area 4. Done by whom 5. Date

RBI has, in its latest guidelines on 16.07.2015 has specified minimum audit programme for different area of activities of the Bank as follows:

Minimum Audit Programme for Concurrent Audit System in Commercial Banks

Sr. No.	Items
A	Cash transactions -Verify
(i)	Surprise physical verification of cash at branch and ATM along with safekeeping and custody.
(ii)	Daily cash transactions, particularly any abnormal receipts & payments.
(iii)	Surprise verification of cash by an officer other than the joint custodian.
(iv)	Proper accounting of and availability of insurance cover for inward and outward cash remittances.
(v)	Accounting of currency chest transactions and delays/omission in reporting to RBI.
(vi)	Reporting of Counterfeit Currency.
(vii)	All cash transactions of Rs. 10 lakh and above reported in CTR.
(viii)	That all cash transaction of Rs. 50,000 and above invariably indicate Pan No./ Form 60.



Sr. No.	Items
B	Clearing transactions -Verify
(i)	Reconciliation with bank's account at Clearing House and review of old outstanding entries for reconciliation.
(ii)	Drawings allowed against uncleared instruments - sanction by the controlling authority.
C	Remittances/Bills for Collection -Verify
(i)	Remittance of funds by way of DDs/TTs/MTs/TC/NEFT/RTGS any other mode in cash exceeding the prescribed limit.
(ii)	Documents of title (lorry receipts, railway receipts, etc.) obtained in favour of the bank and the concerned transporters are on the IBA approved list.
(iii)	Outstanding balance in DP and other transit accounts pending payment beyond prescribed period.
D	Deposits -Verify
(i)	Adherence to KYC/AML guidelines in opening of fresh accounts and monitoring of transactions in such accounts.
(ii)	Large term deposits received and repaid including checking of repayment of term deposit in cash beyond permissible limit.
(iii)	Accounts opened and closed within a short span of time i.e., accounts with quick mortality.
(iv)	Activation and operations in inoperative accounts.
(v)	Value dated transactions.
(vi)	Settlement of claims of deceased customers and payment of TDRs against lost receipts and obtention of indemnities, etc. To check revival of dormant accounts and accounts with minimum activities.
(vii)	Examination of multiple credits to single accounts.
E	Treasury operations -Verify
(i)	If branch has acted within HO instructions for purchase and sale of securities.
(ii)	Periodic confirmation of Derivative contracts with counterparties.
(iii)	Adherence to regulatory guidelines with respect to Treasury deals/structured deals.
(iv)	Controls around deal modification/cancellation/deletion, wherever applicable.
(v)	Cancellation of forward contracts and passing/recovery of exchange gain/loss.
(vi)	Gaps and OPL maintained in different currencies vis-à-vis prescribed limit for the same.

Sr. No.	Items
(vii)	Reconciliation of Nostro and Vostro accounts-balances in Nostro accounts in different foreign currencies are within the limits prescribed by the bank.
(viii)	Collection of underlying documents for Derivative & Forward contracts. Delays, if any.
(ix)	Instances of booking and cancellation of forward contracts with the same counterparty within a span of couple of days or a few days.
(x)	Sample check some of the deals and comment on the correctness of computation.
(xi)	Checking of application money, reconciliation of SGL account, compliance to RBI norms.
(xii)	Checking of custody of unused BR Forms & their utilization in terms of Master Circular on Prudential Norms on Classification, Valuation and Operations of Investment Portfolio by banks.
(xiii)	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	Loans & Advances-Verify
(i)	Report Bills/cheques purchased, if in the nature of accommodation bills.
(ii)	Proper follow-up of overdue bills purchased/discounted/negotiated.
(iii)	Fresh loans and advances (including staff advances) have been sanctioned properly and in accordance with delegated authority.
(iv)	Reporting of instances of exceeding delegated powers to controlling/head office by the branch and have been confirmed or ratified by the competent authority.
(v)	Securities and documents have been received as applicable to particular loan.
(vi)	Securities have been properly charged/ registered and valued by competent person. Whether the same has been entered in the bank's system.
(vii)	All conditions of sanction have been complied with.
(viii)	Master data relating to limit, rate of interest, EMI, moratorium period details have been correctly entered and updated/modified in the system.
(ix)	Value dated entries passed in advances accounts.
(x)	Post disbursement supervision and follow-up is proper, such as timely receipt of stock and book debt statements, QIS data, analysis of financial data submitted by borrower, verification of securities by third parties, renewal of limits, insurance, etc.
(xi)	Whether there is any mis-utilisation of the loans and whether there are instances indicative of diversion of funds.



Sr. No.	Items
(xii)	Compliance of prudential norms on income recognition, asset classification and provisioning pertaining to advances.
(xiii)	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.
(xiv)	Recovery in compromise cases is in accordance with the terms and conditions of the compromise agreement.
(xv)	To check review and renewal of loans.
G	LC/BG -Verify
(i)	LC/BG issued/amended as per the approved format/model guarantee prescribed and standard limitation clause incorporated. Whether counter indemnity obtained as prescribed.
(ii)	Any deviation from the terms of sanction in regard to margin, security, purpose, period, beneficiary, collection of charges, commission/fee, etc.
(iii)	Whether payment is made to the debit of party's account on due date without creating overdraft/debiting suspense, in case of deferred payment guarantee.
H	Foreign Exchange transactions-Verify
(i)	Recovery of charges as per HO Guidelines.
(ii)	Packing credit released, whether backed by LC or confirmed export order.
(iii)	Availability of ECGC cover and compliance with ECGC terms.
(iv)	Submission of statutory returns on export/ import transactions, like BEF statements, XOS, write off of export bills, etc. Follow up of outstanding export bills and exchange control copy of bill of entry.
(v)	Irregularities in opening of new accounts and operation in NRO, FCNR, NRE, EEFC, etc., and debits/credits entries permissible under the rules.
(vi)	Whether operations in FCRA accounts are as permitted by MHA and FCRA guidelines.
(vii)	Booking, utilization, extension and cancellation of forward contracts.
I	House Keeping -Verify
(i)	Exceptional transaction reports are generated and verified by branch staff as prescribed.
(ii)	Review of all balance sheet heads and outstanding entries in accounts, e.g., suspense, sundry and inter-bank accounts. Review of follow up of entries pending for reversal.

Sr. No.	Items
(iii)	Scrutiny of daily vouchers with more emphasis on high value transaction including high value expenses and debit entries in Suspense account.
(iv)	Debits in accounts where signatures are pending for scanning.
(v)	Whether records related to KYC/vouchers and other critical areas are sent to specific places like archival center, record room as per stipulated periodicity.
(vi)	Adherence to KYC/AML guidelines in opening fresh account and subsequent modifications of records and monitoring of transaction.
J	Verification of Merchant Banking Business-Verify
(i)	Whether the instructions given by the controlling branch are properly followed where the branch acts as a collecting branch for issue business.
(ii)	Whether daily collection position is advised to the controlling branch.
(iii)	Whether recovery of the commission/fees and out of pocket expenses as agreed with the respective companies and whether the competent authority has duly authorized any waiver or reduction of such charges.
(iv)	Whether the prescribed preventive vigilance measures are observed by the branch.
(v)	Where data entry or data processing work is entrusted to outside agencies, the competent authority duly approves these and the prescribed stamped indemnity has been obtained from such agencies.
(vi)	Whether dividend interest warrants/refund payment accounts of companies are funded prior to dispatch of the relative warrants by the companies and there is no misuse of the facility.
(vii)	Whether Claims for reimbursement of amounts of paid warrants received from paying branches are processed and debited to the concerned company's account promptly.
(viii)	Whether charge on security has been created, wherever debenture trustee activity is undertaken by bank.
K	Verification of Credit Card/Debit card –Verify
(i)	Application for the issue of credit card has been properly examined and record of issue of the same has been maintained.
(ii)	Whether overdraft/debits arising out of the use of credit cards are promptly recovered and informed to higher authorities.
(iii)	Whether undelivered credit cards are properly kept as security items and followed up with credit card department for further instructions.



Sr. No.	Items
(iv)	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.
L	Others –Verify
(i)	Compliance of provisions relating to Tax Deducted at Source, service tax, trade tax, other duties and taxes.
(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 issues.
(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.

C. Execution of Audit

- a) The concurrent audit is a continuous audit conducted on day to day basis and that too of the huge number of transactions. Now almost all the banks have become computerized and most of them are on CBS platform. It is not unlikely that there may be still a few banks/branches under TBM platform i.e. under standalone platform where each branch works under its own server and maintains its own database.
- b) Since all banks have been computerized, effective conduct of concurrent audit presupposes having computer knowledge. But this does not mean he should have to be technically sound in computer. In fact, there are various menus in all applications used by various banks which are useful in generating useful information, which can in turn be used to analyze or there are some reports which itself will provide the reporting material.
- c) However, to become more conversant with the system and to build up some confidence, the bank management may be requested to arrange for providing some on-site training of computer system. It is wise that one senior member of the audit team along with other staffs appointed for audit, as per situation, attend the training.

- d) On the whole, auditor is required to get himself acquainted and inured with the Application the Bank is using for its operations. Initially he may require to spend some time with the Bank officials to understand different menus, how to surf the information, how to generate & from where to generate various information & reports from the Application. Different Banks use different applications
- e) The auditor should get an access to the system from the system administrator. It should be noted that the access given to the Auditor should have browse option only. It should not have edit/ modify or entry option.
- f) Different Applications have different types of MENUS. The auditor is required to understand the application software used by the Bank
- g) The auditor should take some personal initiative to devote some time to browse all the MENUS available in the system on his own. This might help him to understand the various kinds of reports available on the system which he can use for different analysis purposes relevant to Audit.
- h) The appointment letter for the concurrent audit should be carefully checked to see the audit material to be provided by the bank and the percentage of checking is required to be done.
- i) A check-list covering audit program should be provided to audit staff along with % of checking to be done as prescribed by bank
- j) The audit staff may give Query sheet to branch officials on day to day/weekly basis as prescribed.
- k) Replies of the branch officials should be pursued on a regular basis and updated in draft report.
- m) It is wise that senior partner/proprietor visits the branch periodically to discuss the query sheets with branch manager and compliance of the same.
- n) Efforts should be made for spot rectification. It will help in minimizing the incidence of the serious irregularities and fraudulent manipulations.
- o) Proper records of attendance of staff in the branch should be maintained as specified by appointment letters.
- p) Wherever audit has been conducted on sample basis, records of sample should be documented in working papers files for future reference.

D. Audit Procedure:

1. Different Methods:

- a. Inspection
- b. Observation
- c. Verification



- d. Inquiry and Confirmation
- e. Computation
- f. Analytical Procedure

2. Types:

General Audit Procedure may be of two types:

- a. On-site
- b. Off-site

3. An illustrative list of Audit Procedure:

- i) Verification of all loan and other documents
- ii) KYC norms
- iii) Checking of all reports that are generated daily
- iv) Verification of all vouchers relating to Income and Expenses
- v) Cash related operations, clearing related operations
- vi) Verification of stock statement
- vii) Unit Inspection
- viii) Audited and Projected financials of the borrowers
- ix) Interest application both on deposits and advances
- x) Realization of all service charges, penal interest
- xi) Verifying the suspicious transactions in all accounts including the staff accounts
- xii) Checking of various compliance functions like TDS and Service Tax (Realisation, Remittance and Reports), Sending of all required reports and returns to the RBI and controlling office.
- xiii) Physical verification of cash, security items like blank DDs, Cheque Books, Bankers Cheque, Term Deposit Receipts etc.
- xiv) Analysis of various reports generated from CBS like- a) Day-end Reports b) Exception Reports c) Irregular /Overdue loans d) Excess Drawing allowed e) NPA and Special Mention Accounts f) Interest Deviation g) P&L and Balance Sheet Transactions report etc.
- xv) Identification of accounts and transactions that are subjected to further verification (this can be done on-site and off-site)
- xvi) Comparison and analysis of branch performance with the targets given and actual achievement.
- xvii) Comparative analysis of Balance Sheet and Profit and Loss

4. Frequency of Checking Different Items

- The frequency of checking of different items by the concurrent auditor depend on many factors e.g., the guidelines given by the bank in the scope of work, circulars issued by the RBI from time to time, etc.
- A concurrent auditor is required to devise his own strategy/timeframe covering all the areas. In order to do this, the auditor needs to first identify the areas at the branch which deserve greater attention, the areas which require to be monitored regularly, the items which need to be checked daily, and the items which may be checked less frequently.
- The concurrent auditor also needs to go through the previous reports such as the statutory audit report, internal inspection reports, RBI inspection reports, and concurrent audit reports of the branch as well for this purpose.

E. Audit Documentation:

Documentation is an important aspect of all sorts of Audit work and Concurrent Audit is no exception to it. Documentation acts as an evidence that the audit work has been carried out in accordance with the basic principles of audit and as per terms of engagement. Documentation enables the review of the audit process employed as to what were the information called for, whether sufficient appropriate audit evidence has been called upon, what are the records, registers and evidences – internal and external, furnished by the client, based on which the audit opinion was expressed. The entire audit process, information called for, information obtained, information perused and copies thereof form part of the audit documentation. Audit documentation may be on paper, on electronic mode or other media. The form, content and extent of documentation depend on a number of factors e.g., size and complexity of the branch, nature of audit procedures to be executed, and nature of audit evidence obtained-its reliability, significance etc.

1. Purposes of Documentation:

- a) Acts as evidence that the audit work has been carried out in accordance with the basic principles of audit and as per terms of engagement.
- b) Enables a review of the audit process employed regarding the details of the information sought, information obtained, the interaction with the branch officials, records, registers and evidences furnished by the client etc.
- c) Assists the engagement team to plan and perform the audit, enables the branch auditor to supervise the audit done by the assistants, enables the audit team members to be accountable for their work.

2. Contents:

Audit documentation may generally include:



- a) Letter of Engagement, undertaking of the firm to the bank.
- b) Audit Programmes
- c) Information asked for, submitted and perused
- d) Records obtained and issues observed therein
- e) Analysis during the course of audit
- f) Summary of significant matters observed
- g) Letters of confirmation and representation
- h) Periodic correspondences with the concerned branch officials including audit and post-audit which covers e-mail communications also.
- i) Irregularities intimated to the controlling office
- j) Checklists of various modules audited.
- k) Discussion of the audit report
- l) Particulars of big borrowers, depositors etc.
- m) Manual of instructions, Circulars, guidelines issued by the bank.

F. Reporting:

1. RBI in its latest guidelines (dtd. 16.07.2015) has specified the followings in respect of 'Reporting System' of Concurrent Audit.
 - a) The system of Reporting of concurrent audit of a bank will be decided by the concerned bank who will also devise the periodicity of various checklist items as per its sensitivity.
 - b) Minor irregularities that the concurrent auditor points out are to be rectified on the spot. But serious irregularities should straightaway be reported to the Controlling Offices/Head Office for immediate action.
 - c) There should be zone/area-wise reporting of the findings of the concurrent audit to Audit Committee of Board (ACB) and an annual appraisal/report of the audit system should be placed before the ACB.
 - d) Whenever fraudulent transactions are detected, they should immediately be reported to Inspection & Audit Department (Head Office) as also to the Chief Vigilance Officer as well as Branch Managers concerned (unless the branch manager is involved).
 - e) There should be proper reporting of the findings of the concurrent auditors. 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.



On perusal of the above RBI guidelines, the following important points are gathered.

Individual bank will devise structured format for reporting of concurrent audit. Although the periodicity of Reporting is the individual bank's concern, any major irregularity/aberration, and fraudulent transactions should be immediately reported. The Bank must submit a Quarterly Report containing important features revealed in the course of Concurrent Audit before the Audit Committee of Board of Directors.

Although structure of Reporting System and periodicity of the concurrent audit is bank specific, we specify below a Reporting System as an illustrative case.

2. Quality of Reporting:

- a) There should not be any ambiguity in audit report. It should be clear and auditor's observations should be specific. It should not be in vague and infernal terms like "in few instances" or "in some cases". All his comments should be substantiated with citing of instances.
- b) Where the audit is conducted on sample basis, same should be mentioned in audit report. Where as per special importance of some specific area, audit assignment prescribes cent percent checking that should be ensured and be disclosed in the audit report.

3. Periodicity of Reporting:

Concurrent Auditors, in the course of their audit, may have to make observations of various types. Some of these observations may be of a routine type like ordinary short-comings or deficiencies in observance of the system and procedures. Some may be general comments made for the guidance of branch people. There may be some other findings which are grave in nature and warrants a different kind of treatment in reporting of the same so that the controlling offices can act upon them without wasting time to set right the deficiencies. As a matter of fact, the findings of routine irregularities are first to be reported to the branch and if rectifications or appropriate steps thereof are not taken these are to be brought to the notice of an appropriate higher authority in the form of the report. This would help in minimization of irregularities as well as prevention of fraud. The reporting format may be daily/weekly, monthly, quarterly, half-yearly and annually as per the terms of engagement. Besides, there are special confidential reports. However, it must be examined that the report should not be ambiguous or contrary to bank's policy guidelines issued from time to time and practical aspects of banking are not over looked.



Guidelines for furnishing such reports are given here below:

a) Daily Report:

Discrepancies observed in the adherence of systems of procedures on daily basis have to be given to the Branch Manager/Officer In charge of different Departments on daily basis.

1. The daily reports are to be prepared in triplicate. Two copies are to be handed over to the Branch Manager or Branch in- Charge. Branch will be required to hand over one copy of the daily report back to the Auditors duly mentioning the actions taken on the irregularities pointed out. Un-rectified items shall be reported in monthly report to Branch and Regional Office.
2. If no action is taken by the branch, the same has to be reported in the relevant formats by the Auditors. As at the end of the quarter all un-rectified items of the comments shall be reported to Branch/RO/HO in quarterly report.
3. If branch is not setting right the irregularities on the spot, the Auditor shall report it to Regional Office/Head Office.
4. In case of perpetration of fraud / or other serious irregularities affecting bank's interest the same is to be reported instantly after arriving at definite conclusion of the same (through monthly flash report).

Instead of using daily report, some banks prefer to use weekly report and has devised separate format for that.

b) Monthly Report:

There may be two types of Monthly Report.

- i) Monthly Report
- ii) Monthly Flash Report

i) Monthly Report

- Monthly reports should not be sketchy. It should be factual, clear, and in details and wherever necessary, should indicate the action that the branch has initiated. 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.
- Monthly Report shall be submitted to the Branch under copy to the Regional Office within 7 days from the end of the related month.



- Consolidation of all uncertified observations of monthly Audit reports shall be made at quarter end and quarterly Concurrent Audit Report in the prescribed format be prepared and submitted to the Branch, Region & Head Office separately within 10 days after the end of the relevant quarter (i.e. the quarterly report should also contain the uncertified observations of monthly Audit reports)

Monthly Concurrent Audit Report may contain the following:

- i) Profile of the Concurrent Auditor
 - ii) Certificate of the Concurrent Auditor regarding compliance of terms of engagement and coverage of audit
 - iii) Branch Manager's Certificate regarding Concurrent Audit
 - iv) Branch Profile (at the end of same month of the previous year, at the end of the previous month, at the end of current month)
 - v) Summary of the Irregularities observed during Concurrent Audit regarding different area of activities.
- ii) **Monthly flash** report should contain the serious irregularities that the concurrent auditors happen to find out which needs urgent attention of the controlling office. The Report should be submitted within 10th of every month. This report may contain -
- a) Cash shortage observed on surprise verification of Branch Cash and Cash in ATM.
 - b) KYC Norms not complied with in newly opened accounts.
 - c) Limit sanctioned including Temporary Overdrafts/Adhoc allowed beyond Discretionary Power, within discretionary Power but not reported to controlling authority, allowed but not regularized within the stipulated period.
 - d) Limit released without complying terms and conditions of sanctions/against incomplete loan documentations/security not created or partially created as per terms of sanction/without obtaining the permission of sanctioning authority(where applicable).
 - e) Pre-sanction Inspection/ Post disbursement Inspection not conducted for newly sanctioned borrowable accounts.
 - f) Unit Inspection not conducted beyond three months in case of Working Capital accounts.
 - g) Stock Audit in the accounts having fund based Working Capital limit of Rs 2.00 crore and above not conducted during one year by empanelled Stock Auditor.
 - h) Devolvement of DPG installments/LCs or invocation of LGs and its nonpayment within 15 days.



- i) Review overdue beyond 3 months for limit of above Rs.5 lac.
 - j) All outstanding in Past due and dishonored bills (PDDDB), Protested Advances and recalled debts.
 - k) All clean overdrafts which are outstanding for more than six months. All advances which are irregular/overdue/sticky.
 - l) Missing/Time Barred documents relating to advances.
 - m) Large scale arrears in renewal of credit facilities/revision of credit reports and non submission of renewal loans proposals.
 - n) 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)
 - o) Non submission of control returns to controlling offices and non factual reporting
 - p) Serious lapses noticed in regard to appraisal, sanction, disbursement of loans and conduct of accounts, documentation, insurance etc. to the detriment of Bank's interests
 - q) Violation of bank's instructions in regard to non-funded business.
 - r) Violation of exchange control regulation/FEDAI Rules.
 - s) 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.
 - t) Loss of securities/security forms (Draft books, MC Books, FD Books, Cheque Books etc. /Important keys)
 - u) Irregularities in staff accounts (cheques Purchased and Deposits of large amounts)
 - v) Revenue leakage detected and remained unrealized up to the date of reporting
 - w) TDS deducted but not deposited within 7th of next month and Quarterly return not filed within stipulated time.
 - x) Irregularities brought out in previous Inspection Reports which are pending despite the Branch Manager having certified in the relative remarks sent to controlling Office that they have been rectified.
 - y) Any unusual transactions/other observations, the concurrent auditor feels necessary to report.
- c) Quarterly Report:**
- The format of Quarterly Report is similar to that of Monthly Report. Quarterly report contains the followings-

- i) Profile of the Audit Firm conducting Concurrent Audit
- ii) Concurrent Auditor's Certificate regarding audit of different areas as per terms of his engagement.
- iii) Branch Manager's Certificate regarding Concurrent Audit
- iv) Branch Profile as at the end of the same quarter previous year, at the end of the previous quarter, at the end of the current quarter.
- v) Details of irregularities reported in earlier Audit Reports and Flash Reports but yet to be rectified
- vi) Summary of irregularities observed in auditing different areas of activities as per terms of engagement.

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

d) 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 Inspection Department with a copy to respective R.O/Zonal Office. Before drawing up the Report, the Concurrent Auditor may have a thorough discussion with the Branch Manager regarding the relevant points to be included in the Report. The Concurrent Auditor must give his opinion/observations/comments against the points mentioned in the Report.

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) Observations, if any, from the angle of Limitation Act.
- c) Observations, if any, regarding under stamping/non-stamping of Demand promissory notes and the security documents.

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 the



controlling authorities and it has issued necessary instructions to the Branch relating 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 ZO/RO/HO Inspection Department.

- c) All Special reports submitted should be referred to in the Quarterly audit report under relevant head.
- d) In case of observations acts of
 - (i) bribery/corruption on the part of the branch officials
 - (ii) frauds /mis-appropriations
 - (iii) abuse of power to get pecuniary benefit at the expense of the bank
 - (iv) improper use of discretionary powers
 - (v) undue favoritism and nepotism
 - (vi) 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 Dy. General Manager/General Manager (Inspection).
- e) 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 General Manager(Inspection).
- (g) Conduct and follow up of concurrent audits:
Follow-up action on the concurrent audit reports should be given high priority by the Controlling Office/Inspection and Audit Department and rectification of the features done without any loss of time.

Every bank in its policy of audit should specify how this conduct and follow-up of audit in that bank should be held. We put the following as an illustrative representation.

- a) Each branch / audit unit should identify nodal officer/s as a single point contact for coordinating the concurrent audit work. The audit units should ensure rectification of the deficiencies without any loss of time so as to achieve the very purpose of concurrent audit.
- b) The bank should provide the concurrent auditor with requisite initial induction to the branch activities and further support the auditor with the MIS generated from the CBS system.



- c) Audit Head/Inspection Department should put in place necessary systems to initiate follow up on the concurrent audit reports with the respective branches / units under intimation to the controllers of the functions. However the Controllers should be responsible for further follow up with the branches / units to ensure compliance.
- d) A formal wrap-up discussion with the branches and non-branch segments along with the concurrent auditor's may be held once in six months for the more important branches in each region. Initially the focus would be on those branches having significant corporate exposure including critical non-branch segments.
- e) At present significant findings on concurrent audit reports are reported to Audit Committee of Executives and thereafter to Audit Committee of Board on quarterly basis.
- f) In line with RBI's directive the audit reports should be formally closed once a quarter.
- g) The pending issues of the previous reports need to be mentioned as a persisting irregularity / deficiency in the subsequent reports
- h) Audit department should ensure that the deficiencies pointed out in the concurrent audit are closed within a reasonable period.
- i) Any serious observation requiring attention of Audit Committee of Board needs to be placed before them at the first available opportunity.
- j) 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.



Chapter II: Illustrative Check Lists

The Monthly and Quarterly Concurrent Audit Report, as has been specified above, should contain a summary of all irregularities observed by the Concurrent Auditor in respect of various activities of the auditee branch/department. A detailed checklist of audit in respect of various activities of a branch should be provided by the concerned bank to the concurrent auditor so that while auditing he does not miss any important aspect. RBI has devised minimum audit programme in respect of different important areas which we have already mentioned against point No. B 2 above while discussing Audit Programme. In addition to what has been already specified by the RBI, we append below an illustrative list of checklists which will help the auditor to develop an idea about different audit points in different activities of the bank. A knowledge thus acquired will be a shot in the arm of the auditor when he will engage in audit assignment with the bank's own checklist. The auditor should annex this checklist with his Monthly/Quarterly Audit Report with his comments/observations.

A. Cash:

- Physical verification of cash in hand and the date when it was last verified.
- Whether it tallies with the Cash balance as reflected in the General Ledger.
- Verification of cash scrolls for receipts, token books for payments.
- Verify that no paid cheques/debit vouchers held along with the cash purporting to represent payments made but not yet brought into account.
- Verify whether surprise verification of cash is done by the Manager at least once in a month and a record of the same is maintained and date when the cash was last verified.
- Whether any cash shortages/excess noticed on surprise verification of cash by the concurrent auditor/manager and if so the date and amount.
- Verify the number of days cash balance has exceeded the Retention Limit.
- Verify whether late receipts/payments are regular features at the branch.
- Verify whether soiled notes held are within reasonable limit and these are exchanged at the RBI/Currency Chest at regular intervals? Amount of soiled notes held.
- Verify the amount held in Sealed Packets at the advice of H.O.
- Verify whether instances of shortage or excess cash found are recorded with proper explanation and wherever necessary reported to ZO/ HO
- Verify whether there is any abnormal receipt and payment of cash.
- Verify whether cash brought over to the counter normally exceeds the usual requirements

- Whether cash bundles are stitched with prescribed cash slips and signed in full by the cashier/officer concerned
- 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 the presence of auditor?
- Whether replaced set of keys is lodged back.
- Whether effective follow up of the entries outstanding under Cash Remittances is being done for their immediate adjustment.
- Verify whether proper accounting of inward and outward cash remittances with prescribed security measures is adhered to and noting is made in Cash Movement Register and other prescribed Registers with the names of the persons carrying, accompanying and escorting the concerned remittances.
- Have you verified that cash and other valuables are being checked by Regional Office/ Zonal Office
- Verifying whether exchange of cash between cashiers is made after making entry in the register
- Whether branch follows the stipulated cash limit as per extant guidelines with respect to the following during inward and outward remittance:
 - ? Limit of Cash in Transit _____ Yes/No
 - ? Remittance without Armguard _____ Yes/No
 - ? Remittance with one arm guard _____ Yes/No
 - ? Remittance with two arm guards _____ Yes/No
- Verify whether all Currency Chest Branches and Link Offices shall submit the system generated chest slip to Security Department, HO on the same day
- Verify whether the Currency chests report all transactions through ICCOMS on the same day by 9 PM
- Verify whether PAN is mentioned in deposit slip for all cash deposits of Rs 50,000/- or more.

B. ATM (For Branch Managed ATMs only)

- Whether every time when the cash is loaded in ATM, cash in ATM is reconciled physically?



- Whether date-wise Journal Prints (JP) are taken out and preserved after loading cash into ATM or verification/ reconciliation of cash in the ATM, as the case may be
- Whether poster containing details of procedure to be followed in case of problems relating to ATM transactions and contact information displayed inside the ATM site?
- Whether Video Surveillance System (VSS) installed in ATM room is running satisfactorily and images captured by VSS is verified at regular periodicity.
- Whether there is surprise physical verification of cash.
- Verify the retention limit of cash at ATM
- Insurance coverage
- Verify the retained cards at machine
- Verify daily statement prepared by branch officials at the time of loading of cash
- Verify RBI license for ATM
- Verification of ATM account in GL with physical cash
- Verify reconciliation of account of cash replenishment agency if ATM are being operated by outsource agency

C. Capture of Counterfeit Notes:

- Verify whether counterfeit note detected across the counter are impounded and stamped instantly and acknowledgement receipt is issued to the tenderer.
- Verify whether reporting of counterfeit note (FICN) is forwarded to Bank District Nodal Officer detected during the month.
- Verify whether FIR is lodged in case of detection of Five (5) & more pieces of FICN in a single transaction from a single customer irrespective of the denomination.

D. Cash Management:

- Verify whether correct assessment of daily cash requirements is made by the BM
- Verify whether minimum cash balance is maintained by the branch for daily transactions
- Verify whether proper utilization of cashier manpower including paying cashiers is made for sorting and bundling of notes denomination-wise
- Verify to satisfy that the cashier staff has full day's job and that he attends and leaves the office according to scheduled working hours?
- Verify whether the branch is depositing surplus cash (if not otherwise disposed of) with the nearest branch/currency chest/RBI/SBI etc. (Inspectors should furnish figures of average cash holding on fortnightly basis as against the Retention Limit fixed for the branch since the date of last inspection)



- Verify 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.
- Verify whether adequate escort is provided for transit cash remittances in accordance with HO Security Department Circular.
- Verify whether the branch furnishes weekly statement to RO/ ZO in respect of cash movement as per HO. Circular, if any.
- Verify whether cash remittance and cash drawn registers maintained
- Miscellaneous

E. Security Arrangements:

- Verify the present condition of alarm bell, gun license, reinforcement of Cash Counters and General security of Cash Counters and comment on them.
- Verify Custody and movement of duplicate keys (please mention branch name where it is placed in safe custody and duplicate key last exchanged date)
- Verify whether copy of the monthly CTR generated and preserved at the Branch.

F. Verification of Security Items:

- Verify whether all security items like S.B and C.D cheque books, Pay Orders, ATM cum Debit Cards, D.D books, Term Deposit Receipts, Gift Cheques, Others if any, have been physically checked and compared with the Stock as per Stock Register.
- Verify whether there is any discrepancy.
- Record the date of verification
- Verify and see whether the Stock Register has been properly maintained showing clearly the stock received, stock issued and the Balance.
- Verify whether monthly surprise verification of security items is done by the Branch Manager.
- Verify whether updated specimen signatures of RBI Officials are maintained in the safe custody of the Branch. Date of such specimen signatures is to be noted.

G. Deposit:

i) Account Opening: Demand Deposits

- Verify the number of accounts (S.B, C.D and other demand deposit accounts) opened during the quarter.
- Record the number of account opening forms remaining incomplete
- Verify whether KYC norms have been duly observed and all the required Photos and KYC documents have been obtained and duly filed.



- Verify whether introduction has been duly obtained and the signatures of the introducers have been verified.
- Verify whether letter of patronage and letter of thanks have been sent to the person opening the account and to the introducers and whether records of them have been preserved.
- Verify whether formalities have been duly observed before issuing cheque book to the accountholders and whether these cheque books have been delivered to the accountholder as per prevalent circular.
- Verify whether the formalities regarding issuance of cheque book to the bearer have been observed. Where the circular specifies that cheque books should be sent by registered post to the residence of the accountholders only, verify no cheque book has been issued in the counter either to the accountholder or to the bearer.
- Verify whether the specimen signatures have been duly captured in the system.

ii) Deposit Accounts- Term Deposits

- Verify the number of accounts (S.B, C.D and other demand deposit accounts) opened during the quarter.
- Record the number of account opening forms remaining incomplete
- Verify whether KYC norms have been duly observed and all the required Photos and KYC documents have been obtained and duly filed.
- Verify whether introduction has been duly obtained and the signatures of the introducers have been verified.
- Verify whether higher/lower rate of interest offered in violation of RBI/H.O. guidelines.
- Verify in how many accounts rate of interest has been given back date effect.
- Verify whether security deposit of MDSS agents have been kept in F.D. under lien to the bank.

H. Operation in Demand/ Term Deposit Accounts:

- Whether Account Opening Forms and Specimen Signature Forms, if any, have been properly maintained.
- Whether signature on the Cheque requisition slips is duly verified with the recorded specimen signature
- Whether Service Charges are levied in SB/CD A/cs. as per Bank's rules.
- Whether Cash scroll system is maintained and cash receipt tallies with the scroll on daily basis.



- Instances of value dated transactions observed (if Yes, please mention account No. and date of transactions along with Transaction Id)
- Verify whether claims of deceased customers remain pending for settlement.
- Verify whether there are instances of multiple credits to single accounts.
- Verify whether customers have requested in writing for making their inoperative accounts operative.
- Verify whether signatures of the customer as given in his letter of request have been tallied with their recorded specimen.
- Verify whether fresh KYC documents have been obtained for accounts transferred from inoperative.
- Verify whether operations in the Inoperative account have been authorized by the Manager/ concerned officer.
- Verify whether minimum required balance is maintained in the a/cs as per prevalent circular.
- Whether penal interest for late payment of installments in R.D. Accounts as well as charging of penalty for premature closure of FDs being done as per HO guidelines?
- Whether counter foils of deposit receipts issued are checked by the In charge of the Branch in the evening with the relative books/vouchers/cash books etc. to ensure the genuineness of the transaction?
- Whether the facility of automatic renewal of FDRs is provided to the customers
- Whether ledger keepers are rotated periodically and the same employee is not allowed to work on the same desk for an unduly long time (office orders issued for the allocation of duties issued since the date of last inspection should be seen in this regard)
- Verify whether the branch is charging penalty in respect of premature closure of FDRs when the same are renewed on account of hike in the rate of interest?
- Verify whether that stopped cheques are promptly recorded in the system. Verify also the system regularly marks off entries in respect of stale cheques.
- Verify the accounts opened and closed within a short span of time i.e., accounts with quick mortality.
- Verify whether laid down guidelines have been followed while issuing duplicate term deposits.
- Verify whether lien is noted in computer system whenever some loan is given against security of term deposits (either primary or collateral)
- Verify whether permission from General Manager (Treasury) has been obtained for term deposit account opened with Rs. 1.00 crore and above.



- Verify whether Agency of the Mini Deposit Agents is renewed as per rule.
- Verify whether periodical Balance Confirmations are obtained from Mini Deposit A/c holders.
- Verify whether Cash payment of Rs.20,000 and above are made in violation of I.T. Act
- Verify whether updation of maturity instructions given by depositors at the time of opening of FDR in computers like Automatic Closure, Automatic Renewal, Linking of FDR with operating accounts is done.
- Verify the following important aspects with regard to deposits
 - i) Senior Citizen interest benefit is not applicable to Non resident
 - ii) Extra rate of interest to staff
 - iii) Renewal of overdue FDR
 - iv) Renewal of deposit which are frozen by authorities
 - vi) Minimum tenor of deposits
 - vii) Checking of process of premature closure of accounts in case account is in E or S/ F or S/ joint accounts
 - viii) Periodicity of payment of interest on rupee saving/term deposits
 - ix) Operation in minor accounts

I. KYC/AML Norms

- Verify whether there is a general awareness among the staff about KYC norms and Anti Money Laundering Act.
- Verify whether all circulars relating to KYC/AML are available in the branch.
- Verify whether Branch while opening accounts follows the system of identification of the accountholder/holders.
- Verify whether the Bank on sample basis undertakes verification to find out whether there are multiple accounts in the same name and address.
- Verify whether the Bank collects all prescribed documents for identification of the account holder under KYC norms including his address proof and photos.
- Verify copies of all prescribed documents have been verified with their originals and the verifying officials put their signatures as a proof of such verification.
- Verify whether enhanced due diligence for high-risk customers (Non Resident customers, High net worth individuals, Trusts, Charities, NGOs and organizations receiving donations, firms with sleeping partners, politically exposed person of foreign origin, Non face to face customers, those with dubious reputation as per public information available etc.) is followed by obtaining additional information as may necessary

- For customers that are legal person or entities whether Branch is following :-
 - a) Verification of legal status of the legal person through proper and relevant documents.
 - b) Verify that any person purporting to act on behalf of the legal person is so authorized and identity of that person is established.
 - c) Understand the beneficial ownership and control structure of the customer and determine the natural person who ultimately controls the legal person.
 - d) Verify whether all account holders while opening any account put their signatures in front of the Bank officials.
- Verify whether Branch sends letter of thanks to introducer and any response if received is available on record.
- Verify whether the introducer's signature are properly verified
- Verify whether the introducer maintains account in the branch for a minimum prescribed period as per guidelines of the bank.
- Verify whether branch obtains PAN when :
 - a) Cash Deposit for purchase of foreign currency in connection with travel to any foreign country of an amount of Rs.25000/- & above at any one time.
 - b) Any cash deposit aggregating Rs. 50000/- and more in any one day.
- Verify whether separate record for cash transactions of above Rs. 10/- Lacs is maintained by the Branch
- Verify whether the branch monitors suspicious accounts.
- Verify whether reduced KYC norms are applied for the persons belonging to Low Income Group to facilitate financial inclusion?
- Verify whether any instance of purchase of multiple cash DDs/POs below the threshold limit of Rs 50,000/-leading to restructuring the transactions.
- Verify the new accounts opened particularly current accounts. Operation in new current/SB accounts may be verified for initial periods to see whether there is any unusual operations
- Check compliance of AML guidelines in connection with foreign currency/TC/Travel card purchase and sale
- Check, banks should ensure that any remittance of funds by way of demand draft, mail/telegraphic transfer or any other mode and issue of travellers' cheques for value of Rupees fifty thousand and above is effected by debit to the customer's account or against cheques and not against cash payment.



J. Deposit Vault/Lockers

- Verify whether working of the safe deposit vault is in accordance with the prescribed procedure?
- Verify whether locks of surrendered lockers are inter-changed before leasing them again?
- Verify whether KYC procedures have been duly observed before letting out lockers.
- Verify whether stamped agreement has been obtained for each locker.
- Locker operation register is maintained and each operation is recorded and authenticated by the authorized official
- Verify whether proper safeguards are observed in respect of control of vault and its main key.
- Verify whether keys of vacant lockers tally with the chart provided for this purpose. If not, give details
- Verify whether proper custody of master keys and keys of vacant lockers is maintained.
- Verify whether all the lockers have been entered in CBS system
- Whether nomination facility being provided and relevant forms obtained and kept properly in record? Verify also the details of locker rent in arrears and actions taken there against.
- Verify whether safe custody facility provided to customers for keeping articles, envelopes, documents etc.
- Verify whether locker operation by customers is being done by recording check-in and checkout through systems
- Verify whether locker rent is realized through system and not by any manual operation.

K. Loans & Advances:

i) Loan processing, appraisal and sanctions:

- Verify whether loans /advances have been sanctioned properly observing pre-sanction formalities/scrutiny and at the appropriate level within the delegated authority and as per RBI/HO guideline.
- Verify whether the branch is maintaining the register of “Credit Applications received and disposed”.
- Verify whether loan application received by the branch has been entered into online loan tracking system.
- Verify whether the set time norms for disposal of credit proposals relating to SSI/ other Priority sector/weaker Section are followed.



- Verify whether Credit Disbursement Monitoring Sheet (CDMS) is sent to sanctioning authorities in applicable cases within 15 days from the date of disbursement. Whether the branch is promptly submitting certificate on compliance with terms and conditions of sanction in respect of sanctions made by RO/HO.
- Verify whether discretionary power statement for all loans sanctioned has been sent to controlling office every month and observations/notings of controlling authority has been duly perused and complied with (Please mention details if not complied with).
- Verify whether different relevant provisions of lending policy have been ritually followed in sanctioning the loan.
- Verify whether group approach has been followed in all sanctions of loan.
- Verify whether technical feasibility, financial and economic viability has been duly assessed before sanctioning any loan.
- Verify whether prudential exposure limits, different cap limits suggested in the Lending policy, circulars regarding risk mitigation, if any, have been followed while processing loan.
- Verify whether the loan has been duly rated to determine risk-return set-off.

ii) Documentation:

- Verify whether all documents as required as per type of the loan have been actually taken. The auditor can refer the 'documents manual' and all other circulars/guidelines of the bank in this respect. In case of Retail Loans like Car Loan, Education Loan, Housing Loan etc. the loan circular itself specifies the documents to be taken for that type of loan. So, the auditor should verify whether correct set of documents have been taken.
- Verify whether all documents have been correctly filled up and properly executed. He should see that the documents are correctly stamped as per Stamp Act.
- Where charge on immovable property is created on deposit of title deeds, the auditor should see the Title Deed Register to verify whether proper entries have been made therein regarding charge creation. He should see all formalities in this respect including execution of memorandum of deposit of title deeds by borrower/guarantor as per documentation manual have been complied with.
- He should verify whether search and non-encumbrance certificate and valuation certificate by the approved lawyer and valuer of the bank have been taken and also up-to-date tax receipt.



- Ascertain authenticity of signatures of borrowers/guarantors from their current correspondence file or from some other authentic source.
- In case of Limited Company:
 - i) whether copy of Board Resolution authorizing the company to avail credit facilities from bank is on record.
 - ii) whether authorized signatories as mentioned in the Board Resolution have executed the documents.
 - iii) Verify whether common seal have been affixed on the documents where applicable.
 - iv) Verify whether bank's charge or modification thereof has been duly registered with the ROC.

iii) Charge Creation:

- Verify whether Search and Marketability Report has been given by the bank's approved lawyer in the bank prescribed format.
- Verify whether search and marketability report which remains in record is the latest.
- Verify whether Valuation Report has been duly obtained for immovable property to be charged from the approved valuer of the bank and whether the Report is latest. In case of creating charges against immovable property, the auditor should verify whether the immovable property is revalued once in every three years (for tea finance it is two years).
- Verify whether Branch obtained the periodical ROC search report to confirm the Bank's charges on the concerned company.

iv) Disbursement:

- Verify whether initial disbursement of loan has been made by DD/PO or through NEFT, RTGS to ensure end-use of funds .
- Verify whether borrower's margin has been duly collected before initial disbursement of loan.
- Verify whether the disbursements of loan have been made in stages commensurate with the actual need.
- Verify cash disbursements are made in cases of sufficient justification.
- Verify whether bills/invoices/Engineers Valuation Report are available on record for assets created out of Term Loans/ Deferred Payment Guarantee.
- Verify whether cash disbursement exceeding 5% of working capital limit per month noticed without approval of RO.(if yes, please submit the account nos. separately)



- Verify where there is a terms of sanction of opening ESCROW account and routing all transactions through this account, the terms have been duly complied with.
- Verify whether there is some instances that indicate of a possible diversion of funds.

v) Collateral Security:

- Verify whether the identity of the mortgager has been proved by obtaining the necessary documents evidencing the proof of residence?
- Verify whether original title deed of the property to be mortgaged has been sent directly to the advocate by the bank.
- Verify whether search report and marketability report of the advocate has been received directly by the bank.
- Verify whether the bank has received a certified copy of the title deed?
- Verify whether the branch manager or any designated official made any pre-sanction inspection of the property.
- Verify whether the manager or designated official has submitted his inspection report that should contain the eye estimated valuation and marketability of the property.
- Verify whether the approved valuer of the property has inspected the property before submitting valuation report of the property.
- Verify whether valuation report has been submitted in the prescribed format of the bank.
- Verify whether there is any discrepancy as regards information of the property about its Dag no., Mouja No., Area of the Property, boundaries of the property etc. as shown in the valuation report and those in the Title Deed.
- Whether bank has examined the title deed of the property to substantiate its genuineness especially in case of high value loans where the property is taken as collateral security. Where loan is extended against the security of the land, see whether reports from local revenue authorities have been obtained.
- Where the borrower has submitted Chartered Accountants Certificate, Lawyer's Certificate, Valuers' Certificate etc. regarding the property- whether their genuineness have been verified by directly communicating with the concerned issuing authority. Sometimes, it is possible to have an indirect confirmation indicating to the issue that in case there is not response by a certain deadline, it would be assumed that the certificate is genuine.



vi) Credit Supervision:

- Verify whether operations in an overdue account are allowed, if yes, what are the reasons behind and whether permission from the sanctioning authority has been obtained for the same.
- Verify whether cash withdrawals are supported by end-use letters of the borrower.
- Whether, in eligible cases, the branch is insisting the borrower to submit audited financial statement timely.
- Verify whether the bank is insisting the borrower to timely submit renewal proposal and whether detailed review of the borrowable account is made inviting all required information from the borrower.
- Verify whether the borrower's unit has been inspected by the bank at least for the number of times as specified in the guideline of the bank and whether detailed inspection report in the prescribed format (if any) has been prepared and kept in record properly.
- Verify whether the borrower has been issued letters specifying the irregularities observed in the course of inspection and has been urged to take action to remove them. Also verify whether the steps have actually been taken for their removal.
- Verify whether in reviewing the account branch has duly studied the audited balance sheet of the borrower in eligible case and duly made a credit rating and if required modified the interest rate to make proper risk-return set-off.
- Verify whether the bank is taking balance confirmation certificate twice a year and verify whether all documents remain in order.
- Verify whether there is proper monitoring of Escrow/Trust and Retention Account arrangement, build up and maintenance of Debt Service Monitoring Account if stipulated in Terms of Sanction.
- Verify by surprise check, goods pledged to the bank to ensure that keys of the godown are held in dual custody. Verify also that goods pledged to the bank gets tallied with the records maintained in the godown and invoices in both quantity and value.
- Verify whether godowns are inspected periodically, records are maintained and submitted to the desired authority.
- Verify whether the duplicate keys of godowns are sealed by the godown-keeper in a box and placed in Safe custody under dual control of the Manager and the Officer In-charge Loans Department?



vii) Post Sanction Follow-up

- Whether regular follow-up is made with the borrower for recovery of dues, to see his business condition, whether sales is being effected as per projected financial statement submitted, whether there has been right end use of loan proceeds etc.
- Whether there is any tendency of the deterioration of the borrower's business or his intention to repay the loan like a voluntary defaulter. Whether this early sign of deterioration has been detected, whether inspection report records this, whether letters/ reminders have been issued to the borrowers mentioning this observation.
- Whether any irregularity/deficiency has been mentioned in the concurrent audit report, RBIA, Inspection Report of H.O. regarding the concerned unit and whether the branch has rectified the same.
- Whether the branch has been prompt in bringing any major development in the borrowable account to the notice of the controlling office.
- Whether any assets seized in the process of recovery of loan has been disposed of within a reasonable time and the proceeds adjusted with the loan.
- Verify whether the Branch, in case of housing loan, car loan, mortgage loan, personal loan etc., where monthly installments are supposed to be deposited, follows a system of tracking to ensure that they are actually deposited within the month and if not, is taking pro-active action at its earliest.

viii) Consortium/ Multiple Finance

- Verify whether in case of Consortium finance, bank is the consortium leader and if so whether joint meetings are held quarterly and minutes are circulated.
- Verify where the bank is the consortium leader whether drawing power is calculated by it and communicated to all member banks.
- Verify whether 2nd charge is created in fixed and other assets where stipulated.
- Verify whether joint inspection is done as per norms. If yes, please inform the last date of inspection.
- Verify whether the certified copies of joint documents are obtained and kept on record.
- Verify whether necessary declarations from the borrowers / Due Diligence Report from designated professional is obtained and quarterly exchange of information is taking place among members Banks/ FIs (of the Consortium / Multiple Banking Facility) in the manner as prescribed in the guidelines of the bank.



- ix) List of loans and advances newly sanctioned/enhanced (including those which are sanctioned/enhanced by R.O. /H.O. excluding Staff Loan and Loan against T.D) during the quarter and irregularities therein.**
- Verify whether all terms of sanction are complied with. If not, mention the areas where it has not complied.
 - Verify whether loan application form duly filled in and signed by borrower kept on record
 - Verify whether Pre sanction inspection report, opinion sheet kept in file
 - Verify whether proper credit appraisal and assessment done(in case of branch sanction)
 - Verify whether terms and of conditions accepted in writing by borrower
 - Verify whether documentation has been properly done, documents are complete in all respects, documents are adequately stamped.
 - Verify whether securities have been taken as per terms of sanction, both primary and collateral securities have been properly insured with bank clause.
 - Verify whether mortgage, where applicable, has been created properly with proper searching and issuance of non-encumbrance certificate by the bank's approved lawyer, and issuance of valuation certificate by the approved valuer. See the title deeds deposited are original, properly entered in the Mortgage Register and the guidelines of the bank in respect of charge creation have been duly followed.
 - Verify the loan account details as available in the system with that of the particulars mentioned in the sanction letter and see whether they are correct
 - Verify all the loans sanctioned by the Branch during the quarter have been sanctioned within the discretionary power of the Branch Manager, a committee approach has been followed in the process of recommendation of the loan where lending policy suggests so and discretionary power statement has been timely and duly sent to the controlling office for noting the same.
 - Verify whether applicable charges (e.g. processing charges, documentation charges, etc) realized.
- x) List of Borrowable accounts where disbursements made during the quarter (newly sanctioned & enhanced limit excluding Staff Loans & Demand Loans against Bank's own Term Deposits) and irregularities observed, if any.**
- Verify whether disbursements have been made as per terms of sanction.
 - Verify whether post disbursement inspection has been made and date of such inspection.

- Verify the mode of disbursement of loan amount whether through cash, crediting S.B./ C.D./C.C. /O.D. account or in any other mode. In case of supply of plant and machinery etc. see whether payment has been made directly to the supplier through D.D./P.O./NEFT/RTGS etc.
- Verify whether matching margin of the borrower has been obtained at the time of disbursement.

xi) Review involving enhancement/reduction of sanctioned limit in existing accounts during the quarter:

- Verify where the enhancement/ reduction of existing limit has been made within the discretionary power of the Branch Manager, whether the reporting of the same to the controlling office has been made by the branch and whether the confirmation of the same from the controlling office has been obtained by the branch.
- Verify where this enhancement/reduction happens under the discretionary power of the controlling office, branch has ritually followed the terms of this enhancement/reduction as communicated by the R.O.
- Verify the review date as noted in the system actually tallies with the date of the review note found in the loan document file. Any deviation, if found, should be noted account wise.
- Verify all the documents, re-executed by the borrowers whose existing limits have been enhanced/ reduced, for the revised sanction terms and found the same in order and has been properly recorded in the Security Register.
- Verify whether all the borrowers whose sanctioned limits have been renewed/ enhanced/reduced, were duly informed by the bank with renewed terms of sanction.
- Verify whether charge has been registered with CERSAI [Central Registry of Securitization Assets Reconstruction and Security Interest of India] where applicable.
- Verify whether Charge has been filed with ROC (in case of Company).
- Verify whether Limit/Rate of interest /no. of installments / frequency of installments / Moratorium are entered into CBS is as per terms of sanction.

xii) Cash credit including temporary overdraft

- Verify whether cash credit account shows any of the following irregularities and report these accounts individually specifying the type of irregularity occurred in that account.



- i) Excess drawing over the limit
 - ii) Excess drawing over the drawing power
 - iii) Faulty/Deficiency in documentation
 - iv) Non inspection of securities
 - v) Unsatisfactory/Irregular/No operation
 - vi) Drawing against unclear effects.
 - vii) Non-verification of the securities
 - viii) Non-Inspection of the unit
 - ix) Non-Recovery of Interest
 - x) Frequent instances of cheque return
 - xi) Passing of cheques issued to the parties not related to the business
 - xii) Unreported excesses
 - xiii) Drawing power not properly calculated
 - xiv) Stock statement/QIS statement not submitted on a regular basis
- Verify whether the sale proceeds are routed through the CC account and are comparable to the party's sales turnover?
 - Verify that clean loan/overdrafts facilities are not allowed to borrowers to enable them to maintain the prescribed margins.
 - Verify that the borrower is not having CC facility with other bank and not hypothecated the same stocks to another bank.
 - Verify 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.
 - Verify whether the branch is maintaining the following registers properly?
 - i) Limit Register
 - ii) Drawing Power Register
 - iii) Insurance Register.
 - iv) Godown Register
 - v) Godown visit register
 - vi) Key Movement register
 - vii) Title Deed Register
 - Verify that the godown does not contain goods which are not pledged to the bank unless specifically permitted and adequately insured.
 - Verify 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.



- Verify that there is no variation in the stocks as per Balance sheet and the stocks hypothecated/pledged as on the date of Balance Sheet.
- Verify whether any undesirable feature has been noticed while conducting the audit and mention the same.

xiii) Submission of stock & book-debts statements, QIS-I & II, Half Yearly Operating Statement/MSOD by borrowers

To be reported for Cash Credit (Hypo.) / Packing Credit (Hypo.) only

- Verify whether the borrower in case of Cash Credit and Packing Credit submits timely and on a regular basis Stock and Book-Debts Statement, QIS-I and QIS-II, Half-Yearly Operating Statement. MSOD statement in applicable cases.
- Verify whether the borrower has submitted latest audited Balance Sheet.
- Verify whether penal interest has been charged for delayed submission of stock, QIS, MSOD statement.
- Verify that Stock statement submitted by the borrower has been promptly and accurately entered into the system.
- Verify that drawing power has been correctly calculated from the stock statement. While calculating stock, unpaid stock, slow-moving stocks, obsolete stocks has been deducted. Also verify whether margin of the borrower has also been deducted from the stock statement.
- Verify whether the valuation of stocks pledged/hypothecated has been made on the basis of cost price or market price, whichever is lower.

xiv) Excess Drawing/Overdrawing in Overdraft/Cash Credit Account, beyond sanctioned limit/drawing power

(OTHER THAN BY APPLICATION OF PERIODICAL INTEREST)

- Verify whether over drawing/ excess drawing has been allowed in the Cash Credit account. If so name and account no. of the accounts.
- Record the dates when the overdrawing were allowed, the amount of overdrawing and the outstanding balance on the date of overdrawing.
- Verify whether the cases of excess/over-drawing have been notified to the controlling office and if so date of such communication.
- Verify whether the confirmation from the controlling office regarding this overdrawing has come and date of such confirmation.
- Verify whether this overdrawing has been regularized by the borrower and if yes what the date of such regularization was.
- Verify whether any adhoc limit has been sanctioned and if so the period for which the sanction has been given.



- Verify in case of ad-hoc sanction, whether after expiry of the period for which sanction has been given, this ad-hoc limit has been regularized. If the same is not regularized, the same should also be mentioned.

xv) Renewal of Insurance Policy (Fire, Burglary, Theft etc.)

- Verify whether the bank has taken required insurance cover for its primary, collateral securities. Whether the value of Insurance covers the full value of the subject matter of Insurance to avoid application of Average Clause.
- Mention the value as well as the insurance cover for primary securities like stock, plant and machineries (including factory premises in case of term finance) as per nature of loan and also the value and insurance cover for insurable collaterals for each borrowal account.
- Verify whether the period of insurance for each case still is in force or whether it has been expired.
- Verify whether insurance policy includes the required Bank Clause and the policies have been duly recorded in the Insurance Register.
- Verify whether Insurance Register is regularly followed to identify beforehand the possible dates of expiry of insurances in different accounts and whether steps are adopted to renew the insurances accordingly before expiry of the policies.

xvi) Physical Verification of stocks and/ or book debts under loans/ cash credit account during the quarter

- Verify the number of borrowable accounts eligible for quarterly inspection and the number of actual inspection made out of that during the quarter.
- Mention the names and account number of the units actually inspected by the concurrent auditor during the quarter.
- Concurrent auditor should make a programme of physical inspection of stock/ godown/ fixed assets under pledge or hypothecation in such a way that all units are inspected at regular interval say once in 3/6 months as per gravity of the situation. He should prepare inspection report. He should also see whether Inspection Register is there and is properly maintained.
- During inspection of stocks, he should see the system how the borrower maintains stock register; should verify with invoices, challans and other basic documents to get satisfied that all stocks receipts and issued have been correctly reflected in the stock register by the borrower and see the correctness of their valuation. He should see that quantity of the stocks gets reconciled with those reflected in Bin Card. If there is any non-moving and obsolete stock, he should report that also.

- In respect of consortium advance, the concurrent auditor should conduct inspection as per decision of the consortium where the turn comes to the particular branch for inspection.
- Mention the value of actual primary and additional securities as found and verified in physical inspection against the respective borrowable units visited/inspected.
- Verify whether prescribed supervision charges have been debited to the borrowable accounts for every inspection made.
- Enclose a separate sheet giving the detailed observations of the visiting borrowable units

xvii) Review of Borrowable A/Cs

- Verify the guidelines regarding review of accounts in a bank and verify whether the same has been followed. Normally, all the accounts should be reviewed once in a year. See whether annual reviews of all borrowable accounts have been done.
- In Bank, there may be a guideline that annual review for some borrowable accounts having credit limit upto a certain amount (say Rs. 5 lakh), will be complete through entry in the Book-Debt statement.
- When there is a rule that annual review of some accounts (say with credit limit of Rs. 10 lakh and above) should be undertaken on the basis of Audited Financial Statement, CMA data and other relevant information about the firm/company, the auditor should see review has been properly done with the above information.
- While verifying 'REVIEW' of borrowable accounts, the auditor should take a note of the number of accounts that was overdue for review at the beginning of the quarter, the number of accounts that fell due for review during the quarter, the number of accounts that was reviewed during the quarter, the number of accounts that remained overdue at the end of the quarter and the number of accounts which was overdue for review for more than 3 months.
- Verify whether Review Register is properly maintained and see that this Register is regularly updated and consulted to take note of the impending review dates so that proactive actions may be undertaken for collecting required information for review sufficiently ahead of actual review date.
- Verify that the review information percolated from the system is correct and not misleading or erroneous in nature.
- Verify that the required review papers are submitted by the borrower to the Branch in due time and the Branch, where the Review is under the discretionary power of the controlling office, has sent the required papers to them timely.



- Verify and record the number of accounts where short review has been made by the branch; See the prevalent circular in this respect and if short review is required to be followed by full review within a specified time, see that is also done if it falls within the quarter.

xviii) Time-Barred Documents

- Verify the number of time- barred documents as at the beginning of the quarter and the documents became time barred during the quarter. The name of the borrowable accounts, Account numbers, outstanding amount and the Type of the loan for the documents time-barred should be mentioned.
- Notify the date of last documentation of each of these borrowable accounts.
- Notify the actions taken for renewing the documents and give observations on the efforts of the bank.
- Verify whether limitation register is properly maintained.
- See the number of documents that are going to be time-barred in the coming quarter and the amount outstanding of each of these accounts.
- Any other observation/comment regarding the time-barred documents that the auditor wants to bring to the attention of the R.O/Z.O/H.O.

xix) NPA Details:

- Verify the number of accounts and amount of NPA as per followings:

No. of accounts	Amount Rs.
i) Outstanding as on previous quarter	xxx
ii) Realised during the quarter	xxx
a) Cash Recovery	xxx
b) Upgradation	xxx
c) Write-off	xxx
iii) Fresh generation during the quarter	xxx
iv) Outstanding as on current quarter [(i)-(ii)+(iii)]	xxx

- For fresh generation of NPA , keep a detailed record of the account—i)Name of the borrower, ii) A/C No., iii)Type of Loan, iv) Date of sanction of the loan, v) Sanctioning Authority etc.
- Verify the date of NPA and its present status of classification. See whether the date has been correctly calculated and it tallies with the date as generated from the system.
- Verify the actions taken by the branch in recovering the NPAs. The auditor may put his observations/comments in this respect in his report.
- Where Recovery and write-off have been due to the compromises, please see

that the compromises have been as per the guidelines of the bank and there is no deviation. If he finds any deviation, he should put that in his report.

xx) Quick/Early mortality accounts:

- Quick mortality accounts are those freshly sanctioned loan accounts that have become NPA within 12 months from the date of their last disbursement.
- Early mortality accounts are those freshly sanctioned loan accounts that have become NPA within 24 months from the date of their last disbursement.
- The auditor should carefully verify whether any such mortality takes place during the quarter under audit and should mention the name of the borrower, the account number, date of sanction, sanctioning authority, sanctioned limit, type of loan, the date of last disbursement, outstanding balance etc. in respect of these accounts.
- Verify the reasons for this mortality and should give his observations/comments in this respect.
- Verify whether the account has been taken over from any other Bank. If so mention the name of the Bank and Branch.
- Verify the actions taken by the bank in regularizing the account.
- Verify if staff accountability report is required to be submitted for this quick/early mortality of accounts, whether they have been duly submitted.
- Verify whether sanction was made following the guidelines of the Lending Policy and other pertinent circulars of the bank.
- Verify whether all the terms of sanctions have been complied with.
- Verify whether proper documentation was made and all the securities both primary and collateral as per terms of sanction were taken and charges thereon were created properly.
- Verify whether inspection of the unit both pre-sanction and post-sanction was made and disbursements of the loan were done as per terms of sanction.
- Since the quick/early mortality accounts are usually monitored by the bank very closely and critically to see whether there remains any vital lapse/default in sanctioning the loan and to determine staff accountability etc., the auditor should be very vigilant in this respect and should not miss mentioning any of these types of accounts.

xxi) Letter of credit/bank guarantee

a) Issuances:

- Verify whether BG/LCs issued were within the sanctioned limit or issued with the specific approval of the competent authority.



- Verify whether LC/BGs were issued as per approved format or model guarantee prescribed.
 - Verify whether LCs are issued for genuine transactions.
 - Verify whether Bank guarantees are properly worded and recorded in the proper Register of the bank. Also verify whether the Bank Guarantees have been issued following extant guidelines of the bank.
 - Verify whether Bank Guarantees have been issued with the standard limitation clause.
 - Verify whether counter guarantees have been obtained as per guidelines of the bank.
 - Verify whether there is any deviation from the terms of sanction regarding margin, purpose, security, period, beneficiary, collection charges, Commission/fees etc.
 - Verify whether expired guarantees are surrendered to the bank. In case of non-returned expired guarantee, verify whether procedure as contained in H.O. circular has been followed.
 - Verify whether expired guarantees have been cancelled.
- b) Bank Guarantees (inland and foreign) expired but neither renewed nor cancelled**
- Verify and record the name of the parties on whose behalf the guarantees were issued.
 - Note the details of such guarantees individually including its name, amount, period, margin, nature of guarantees, date of issue, Name of the beneficiaries, Commission realized, validity period (claim period) etc.
- c) Bank Guarantees invoked but not paid up to end of the quarter (both Inland and Foreign)**
- Note the name of the parties on whose behalf these guarantees were issued.
 - Note the Guarantee No. and date of issue.
 - Record details of such guarantees individually e.g., the names of beneficiaries, amount of guarantees, date of issuing such guarantees, Margin held, Validity period, Purpose and nature of such guarantees etc.
 - Verify the dates of invocation of these guarantees, reasons for such invocation and why the payment has not been made.



- d) **Devolved Inland and Foreign Letter of Credit**
- Verify the number of LCs devolved, the amount involved, name of the borrowers
 - Verify the date of opening such LCs and record the LC. Nos.
 - Verify the date of devolvement and reasons of devolvement of such LCs.
 - Verify the steps taken by the branch for realization of such LCs.
- e) **LC backed bill discounting (LCBD)**
- Verify the details of these bills and mention the names of the borrowers and the nature of their businesses.
 - Verify and mention the dates of sanction and sanctioning authority.
 - Verify the limit sanctioned and the outstanding against LCBD/LCBN.
 - Verify the bills sanctioned/negotiated against confirmed LC.
 - Verify the date of confirmation obtained from the LC issuing bank in writing.
 - Verify whether there is any overdue LCBD, steps taken against that and put your observations on that.
- xxii) **Overdue bills and cheques for collection, bills/ cheques purchased including instant credit (Instruments returned or unadjusted)**
- Verify whether various instruments for collection like OBC, IBC, CP, Instant Credit etc. remaining unadjusted for 6 months and above. In case of cheque for collection, specify the total number of cheques and their amount along with reasons for remaining unadjusted for more than one month and upto one month.
 - Specify the details of these instruments individually, their nos., their amount and reasons for their remaining unadjusted.
 - Verify also the instruments for collection remaining unadjusted for less than 6 months, specify the details of each of them and reasons for their remaining unadjusted.
 - Verify the bills that have been returned without recovery, give details regarding date of return, reasons for non-payment, status of goods covered etc..
 - Examine total number of bills and amount returned and recovered during the period under review.
 - Does the branch ensure dispatch of the returned cheques if not collected immediately by registered post? If there is any deviation please give details.



- Verify in case of supply bills whether the bank has ascertained the genuineness of the underlying contract or the power of attorney registered in favour of the bank.
- Verify the system of follow-up for recovery of returned bills.
- Verify whether the bills relate to genuine trade transactions.
- In respect of all overdue and returned bills, examine and comment on the fate of goods and report details of such bills indicating actions taken by the branch.
- In respect of foreign bills purchased and discounted expressed in foreign currency whether overdue bills were promptly converted into rupees under report to the controlling office.
- Verify whether packing credit has been adjusted.
- Verify whether any unusual features noticed in handling of bills.
- Verify whether the Bill/Cheque purchased/ discounted Register is upto date and properly maintained.
- Verify whether discount/commission/interest have been realized as per norms.
- Verify whether Documents of title (Lorry Receipts, railway receipts, etc.) obtained in favour of the bank and the concerned transporters are on IBA approved list.
- In case of purchase of cheque, please verify whether bank's guidelines in this respect have been followed.
- Specify if any other reason is found for return/non-adjustment of bills/ purchased/dischanted.

xxiii) Agricultural Advance

- Verify whether crop loan has been disbursed in accordance with the approved scale of finance.
- Verify whether in case of term loan, the loan account has been duly processed to see the technical feasibility and economic viability of the project and the Rural Development Officer or the Branch Manager has certified that.
- Verify in case of crop loan, the concerned BLRO (Block Level Revenue Officer) or other appropriate authority has certified about the area of land in possession of the borrower either as owner/Bargadar/Patta holder where he makes his cultivation.
- Verify in case of live stock loans, whether veterinary doctor's certificate in regard to age, health etc. of the animal are on record
- Verify also the animal also insured against risk of mortality and are tattooed branded with bank's name.

- Verify whether no dues certificates have been obtained from other financial agencies concerned or a certificate from the Rural Development Officer of the branch, on the basis of local enquiries, affidavits from the borrowers in respect of state of their indebtedness are held by the branch?
- Verify 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 sellers invoice, wherever possible.
- Verify whether loan documents are in order and are kept alive by taking half-yearly balance confirmation.
- Verify all the securities relating to agricultural advance like Tractor, Pump-sets or other implements etc. are fully insured against various risks with usual bank clause as prescribed.
- Whether pre-sanction inspection and post disbursement inspections have been made and inspection report has been properly kept in the file. Verify also whether periodical inspection as prescribed is made. Verify whether there is Inspection Register and whether it is properly maintained.
- In case where payment is not forthcoming or very irregular, the concurrent auditor should verify:
 - i) Whether the default has been due to crop failure or any such other reason over which the borrower had no control.
 - ii) Verify where there is any genuine reason beyond the control of the borrower for non-payment, rescheduling of the payment terms as prescribed by the bank has been undertaken or where in case of crop loan whether the loan has been converted to a term loan repayable over a suitable period.
- Where the borrower is a willful defaulter, verify whether proper notice for repayment has been served on the borrower/guarantor.
- Where the default is persistent and the ordinary methods of recovery do not bear any result, verify whether provisions of Agriculture Recovery Act have been invoked (in the states where such Act is in force).
- Where the term loans show a highly irregular character, verify whether the fact of the case has been duly reported to the controlling office and his permission for transferring the account into Protested Advances.
- Verify whether proper follow up measures have been taken by the branch to expedite recoveries? Also verify whether due date diary is maintained to ensure effective and prompt action.
 - i) in relation to realization of term loan installments timely.



- ii) in relation to proceedings initiated under the Agriculture Recovery Act or such other summary enactment.
 - iii) in regard to Protested Advance Account
 - iv) in relation to suit filed or decreed accounts.
- Verify whether the Branch Manager has taken proactive steps to renew the documents or adjustment of loan where the loan has become time barred or its limitation period is to expire within 6 months.
 - Verify whether the branch is particular in initiating effective steps for recovery of loan through issuing of reminders and notices and making personal visit to the borrowers and taking other persuasive measures. But despite all sorts of efforts if the loan gets sticky, verify the underlying causes whether the borrower is a willful defaulter or has he diverted/misutilised the loan or the business is not generating sufficient return with a consequent poor repayment capacity of borrowers.

xxiv) Educational Loan

- Verify whether the branch has followed the laid-down guidelines for Educational Loan of the borrower.
- Verify the bank has taken reasonable care in selecting meritorious students as per guidelines and see the loan has been given to deserving students whose parents could not afford his/her education without such bank assistance.
- Whether the amount of loan sanctioned covered all necessary items of expenses and repayment schedule provides sufficient gestation period to allow the students to get employment or to be engaged in some other gainful vocation.
- Whether requisite undertaking as required under the provisions of such loan of bank has been taken by the branch.
- Verify that the borrower student does 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.
- Verify there is no adverse report about the borrower student from the college/ institution the student is studying and he is not reported to be involved in any sort of unlawful activity.
- Verify that the student borrower strives to secure a suitable employment immediately after the completion of the course.
- Verify where the student borrower has got employment and repayment period has started, regular installment of repayment is deposited in the account.



- Where there is no repayment, verify what the reasons are behind. Verify also whether the bank has taken all reasonable and appropriate steps to recover the loan including contacting the parent borrower.

xxv) Advance against vehicle

a) Direct Finance:

- Verify whether all the vehicles financed by the branch have been registered and insured in the joint names of the bank and the borrower and copies of Registration Certificate and Insurance have been kept on record.
- Verify whether payment is directly paid to the dealer and the invoice and payment receipts are held with bank in each case.
- Verify whether bank's name is exhibited on the vehicle.
- Verify whether the branch conduct inspection of the vehicle periodically and record for that is maintained in the Security Inspection Register.
- Verify where the vehicle is owner driven vehicle whether the borrower holds valid driving license.
- Verify where there is a scope of getting refinance, whether it is availed of.
- Verify whether the borrower holds a valid route permit to ply the vehicles.
- Verify whether in case of default, RTA is informed not to renew route permit without bank's consent.
- Verify whether bank's laid down guidelines have been followed meticulously.
- Verify where from retail hub the loan is sanctioned, whether the branch has forwarded and recommended all the required documents for the vehicle loan to the retail hub.
- In case of advance against second hand vehicles verify:
 - i) whether bank's guidelines have been followed.
 - ii) whether valuation report from reputed automobile engineer is obtained.
 - iii) whether comprehensive insurance policy is available.
 - iv) whether bank's charge has been registered with the Register of Companies in case of Limited Companies?
 - v) whether repayment capacity of the borrower has been suitably found out as per norms verifying the income of the borrower.



- vi) whether permission of the competent authority where required has been duly obtained.
- vii) whether undated letters from borrower, addressed to registration authority for transfer of vehicle in Bank's name are held.

b) Indirect Finance (Against Hire-Purchase Agreement)

- Verify whether the Demand Promissory Note and Hire Purchase Agreements duly endorsed in Bank's favour are held by the bank'
- Verify whether Hire Purchase Agreement as drafted and specified by the bank for such type of business are held.
- Verify whether dealer's invoice, certified copy of Registration Certificate duplicate keys of vehicles, certificate of Registration of Charge (in case of Limited Companies) are held.
- Verify whether periodical statement of hirers with amount due from them giving the amount of arrears is received on a regular basis from the finance company.
- Verify whether comprehensive insurance policies assigned in favour of the bank for such type of business are held.
- Verify whether Indemnity Policy issued by Insurance Company, where terms of sanction require so, is held.
- Verify whether drawing power is revised according to latest statement.
- Verify whether Hire Purchase Agreements where default is continuous are excluded from security.
- Verify whether a notice of Bank's interest in the vehicles is sent to the guarantors/hirers.

xxvi) Loan against bank's term deposit

- Verify the amount of the loan disbursed against the term deposit receipts does not exceed the prescribed maximum of the accrued value of the term deposits against which the loan is extended. Verify RBI directives regarding margin, rate of interest etc. are strictly followed.
- Verify whether Fixed Deposit Receipts /Recurring Deposit pass books, against which advances are extended, are kept by the branch duly discharged in favour of the bank by all the joint account holders.
- Verify whether lien against the deposit is noted in the system.
- Verify in case of loan against a term deposit in the name of a minor, whether a letter of undertaking is obtained from the guardian of the minor that the

loan amount will be utilized for minor's benefit and a prescribed indemnity bond is taken from him.

- Verify whether in case of premature encashment of deposit where loan has been granted there against, the rate of interest charged on the loan is reduced as per norms as the rate of interest on deposit for its premature closure is also reduced.
- Verify whether the loan is allowed to continue after the date of maturity by renewal of the relative deposits.

xxvii) Loan against life insurance policies

- Verify whether assignments in respect insurance policies against which loan have been sanctioned have been duly registered with the LIC and original policies with such endorsements are available with the bank.
- Verify whether the latest surrender values of the relevant policies have been obtained and loans there against have been extended keeping the prescribed margin.
- Verify whether latest premium receipts have been taken.
- Verify whether the borrower has executed mandate in favour of the bank to make payment of future premium to LIC by debiting the account of the borrower.
- Verify whether required KYC norms have been observed in respect of the borrower.
- Verify whether guidelines as enacted in the 'Manual of Documentation' regarding loan against LIC policies have been followed.
- Verify whether age of the assured in all cases been admitted and the policies are in full force and have been properly recorded in the Documents Register.
- Verify whether undated surrender letter have been held for each policy.
- Specify any irregularity that is noticed.

xxviii) Loans and advances to staff members

- Verify whether sanction from competent authority is held on record for every loan to staff member.
- Verify whether all the terms of sanction regarding rate of interest, margin, monthly installment, direct payment to dealer etc. have been complied with.
- Verify whether the end-use of the loan has been ensured and all the requisite documents/papers/viz., invoices, insurance, receipts etc. have been obtained and kept on record.



- Verify whether in case of housing loan, equitable mortgage has been properly created, loan has been disbursed in phases, post disbursement inspection is made and inspection report is kept on record and the bills and documents submitted evidencing cost incurred are kept on record.
- Verify whether the property has been properly insured as per terms of sanction.
- Verify whether installments in the loan are invariably deducted from the salary of the staff members.
- Verify whether any irregularity has been noticed .Verify whether the prescribed ratio between take home pay and deduction is maintained.
- Verify whether excess drawing is allowed in Staff Overdraft account.
- Record the total number of staff loan allowed, their names, Account number, limit, outstanding balance etc.

xxix) Revenue checking

- Verify and report any non-realization of the following revenue items. The list is merely illustrative and not exhaustive.
 - i) Locker Rent
 - ii) Penal Interest for non-submission or delayed submission of returns, financial statements as per norms of the bank.
 - iii) Folio charges
 - iv) Issue of cheque books
 - v) Penal Interest for premature withdrawal of Term Deposits.
 - vi) Penal Interest on excess over limit.
 - vii) Commitment Fees for unutilized portion of cash credit limit.
 - viii) Overdue Interest for all types of bills, loans, packing Credit for overdue period.
 - ix) Commission on letter of credit, letter of guarantee.
 - x) Charges of cheque and bill returns.
 - xi) Inspection charges, Processing Charges, Standing Instruction Charges if any.
 - xii) Safe custody charges for safe custody.

The auditor should obtain a booklet of service charges which the banks do usually have and should see whether there has been any intervening circular modifying some of the service charges. He should meticulously check all the prospective avenues of bank's revenue earnings so as to ensure that there is no leakage anywhere.



xxx) Scrutiny of daily transactions and unadjusted entries in nominal accounts

- Verify whether debit in Suspense account has been made with the permission from the competent authority.
- Scrutinize daily vouchers with more emphasis on high value transactions including high value expenses and see whether there is any irregularity.
- Verify the debits in accounts where signatures are pending for scanning.
- Auditor should mention any irregularity that he might come across while scrutinizing daily transactions mentioning the nature of irregularity, date of transaction and account number.
- Verify the unadjusted entries in the following nominal accounts and mention their outstanding balance and see whether the balances remain unadjusted for more than three months which should be mentioned individually.
 - i) Suspense Account
 - ii) Deposit Suspense Account
 - iii) Marginal Deposit
 - iv) Temporary Advance to Staff
 - v) Temporary Advance to others.

xxxii) Government transactions:

- The auditor should verify and certify that the following account heads have the NIL balance at the day end in the GBM.
 - i) CBBDT- in- transit
 - ii) DMA-in-transit
 - iii) CBEC-in-transit
 - iv) SCSS-in-transit
 - v) PPF collection account

If there is any balance remaining in the above accounts after day-end that should be reported along with the reasons thereof.
- Verify in case of Nodal Branch, provision is correctly done for turnover commission on government business.

xxxiii) Unadjusted outstanding entries over one month in adjustment account (clearing), discrepancy account (clearing), and clearing cheque returned accounts, etc.

- Verify and record in respect of the following accounts outstanding amount and number of entries which remain outstanding and unadjusted for more than 30 days as on quarter ending.



- i) Adjustment A/c Clearing
 - ii) Discrepancy A/c Clearing
 - iii) Clearing Cheque Returned A/c
 - iv) Remittance in Transit A/c
- Where outstanding amount involved is more than a particular amount say Rs. 5000- the details of the same is better to be given like date of entry, full details of transactions, branch initiative for their adjustment including number of reminders issued, contact over phone and mail, personal visit etc.
 - Regarding clearing related transactions, verify whether drawing is allowed against un-cleared instruments. If allowed, whether competent authority has permitted the same.
 - Verify whether any inward clearing cheque has been adjusted through clearing adjustment account without debiting to the accounts of customers.
 - Verify whether any inward clearing cheque which has been returned is held back without returning the same through clearing house.
 - Verify whether any inward clearing cheque (in non-clearing centre) is held up without debiting customers account.
 - Verify whether proper accounting has been done for counter returns both inward and outward. In respect of cheques returned by other banks in the counter, see whether respective customer's account has been debited.
 - Verify whether charges have been duly realized for return of clearing instruments. See also service and other charges relating to the clearing as specified in the service charge booklet of the bank are recovered.

xxxiii) Bank account position

- Verify whether the branch is maintaining bank account with RBI/SBI/Other Bank. If yes, mention the name of the bank with which this bank account is maintained.
- Verify the Reconciliation position of this bank account as on current quarter. If the bank account is not reconciled, mention the date from which it remains unreconciled and the reasons for such unreconciliation.
- Verify the unadjusted items beyond three months and record the details of the items where the amount involved is above a certain level say Rs. 5000 and above.

xxxiv) Merchant banking business

- In case of audit of controlling branch/department for merchant bank activities, verify whether all the statutory prescriptions of SEBI have been complied with

while extending all sorts of merchant bank services including acting as bankers to issue, debenture trustee, class-1 merchant banker etc.

- Verify whether required registration certificates from SEBI for specific merchant bank activity has been obtained and they are in force.
- Verify all statutory and other regulatory returns are submitted and back-up papers are properly maintained.
- Verify whether there is any Merchant Bank policy of the bank duly approved by the board. Verify also whether it is revised and renewed every year.
- Verify where the bank acts as a banker to an Issue and assigned with the issue management, it has issued necessary instructions to all the branches under its control the modus operandi of the collection under ASBA.
- Where the bank is working as debenture trustee, see whether required trust deed has been entered into within the timeframe between the company and the bank to create charge over the assets.
- Verify whether the required approval as per provisions of merchant bank policy has been taken from the appropriate authority for working as Bankers to Issue or Debenture Trustee or any other merchant bank activity for specific assignment.
- Verify that initial acceptance fees and annual fees for working as debenture trustee is collected.
- Verify where bank underwrites an issue as a part of merchant banking activities, it ensures the prudential exposure norms prescribed by RBI from time to time, as well as the statutory limits contained in Section 19(2) & (3) of the Banking Regulation Act, 1949 . Further verify whether the bank as well as their Merchant Bank subsidiaries comply the relevant SEBI guidelines while undertaking such activities.

Where the audit is related to a branch working as a collecting branch for merchant banking transactions-

- Verify where the branch acts as a collecting bank for issue business, the instructions given by the controlling branch is properly followed.
- Verify whether the daily collection position is communicated to the controlling office as per its instruction.
- Verify whether the entire funds collected are remitted to the controlling branch/ department giving complete details of break-up of aggregate amount.
- Verify that the branch does not accept applications from the customers after the stipulated closing date of issue.



- Verify the branch is correctly recovering commission and out-of-pocket expenses as agreed with the respective companies.
- Verify whether all preventive vigilance measures are duly observed.

xxxv) Credit Card/Debit Card:

a) Credit Cards:

Apart from what has been mentioned by the RBI regarding minimum audit programme relating to credit card/debit card (paragraph B 2 above), the concurrent auditor, subject to his terms of assignment should see the followings.

- Verify that the application for issue of credit card has been properly processed with due compliance of KYC procedure and verifying the worth of the applicant. Verify also record of issue of the card is maintained properly.
- Verify whether banks have assessed credit risk of issuing credit cards especially to students and others with no financial means. Also verify that add-on cards have been issued with the clear understanding that the liability would be ultimately that of principal cardholder.
- Verify as per RBI guidelines, Bank has conveyed the reasons for rejection of credit card applications.
- Verify that while issuing cards, the terms and conditions for issue and usage of a credit card has been mentioned in clear and simple language (preferably in English, Hindi and the local language) comprehensible to a card user.
- Verify that Banks upfront indicate to the credit card holder, the methodology of calculation of finance charges with illustrative examples, particularly in situations where a part of the amount outstanding is only paid by the customer
- Verify that the card issuing bank does not reveal any information relating to customers obtained at the time of opening the account or issuing the credit card to any other person or organization without obtaining their specific consent, as regards the purpose/s for which the information will be used and the organizations with whom the information will be shared.
- Verify that In the matter of recovery of dues, banks ensures that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders



- Verify that the bank has a well-documented policy and a fair practices code for credit card operations. See that policy provisions are complied while operating credit card business.
- Verify that all credit cards have been issued only against the written consent of the card holder.
- Verify that Card issuers ensure that there is no delay in dispatching bills and the customer has sufficient number of days (at least one fortnight) for making payment before the interest starts getting charged. In order to obviate frequent complaints of delayed billing, the credit card issuing bank may consider providing bills and statements of accounts online, with suitable security measures.
- Verify that the banks do not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and without getting his / her consent.
- Verify that the terms and conditions for payment of credit card dues, including the minimum payment due, have been stipulated so as to ensure that there is no negative amortization.
- Verify that no unsolicited loans or other credit facilities have been offered to the credit card customers and no such objection from the recipient of such unsolicited credit has been lodged.
- Verify that there is no pending complaint to OMBUDSMAN regarding credit card. If yes, give the details of the complaint, its present position, his observation. Also verify whether any penalty has been charged by the RBI for violation of any of the guidelines of the RBI Act or Banking Regulation Act.
- Verify that when banks outsource the various credit card operations, whether they remain careful that the appointment of such service providers does not compromise with the quality of the customer service and the banks' ability to manage credit, liquidity and operational risks. In the choice of the service provider, verify that the banks are guided by the need to ensure confidentiality of the customer's records, respect customer privacy, and adhere to fair practices in debt collection.
- Verify that the credit in respect of charge-slip is immediately given to the member establishment.
- Verify that the charge-slip is examined to ensure that it does not cover any picked-up card.
- Verify that the debits on account of use of credit cards are promptly recovered.



- Verify that undelivered credit cards are properly maintained as security items and followed-up with credit card department for further instruction.
- Verify that the competent authority has been properly informed about overdrafts for the use of credit card.

b) Debit Cards:

- See that the bank has a Board approved comprehensive debit card issuance. Verify that banks issue only on-line debit cards including co-branded debit card where there is an immediate debit to the customer's account and where straight through processing is involved.
- Verify that the instructions/ guidelines on KYC/AML/ CFT applicable to banks, issued by RBI from time to time, are adhered to in respect of all cards issued, including co-branded debit cards.
- Verify that bank ensures full security of debit cards.
- Verify that the cardholder is provided with a written record of the transaction after he has completed it, either immediately in the form of receipt or within a reasonable period of time in another form such as the customary bank statement.
- Verify that each bank provides means whereby his customers may at any time of the day or night notify the loss, theft or copying of their payment devices.
- Verify that where bank has received notification of the loss of the card, theft or copying of the card, the bank has taken all action open to it to stop any further use of the card.
- Verify that the banks undertake review of their operations/issue of debit cards on half-yearly basis. The review may include, inter-alia, card usage analysis including cards not used for long durations due to their inherent risks.
- Verify that the report on the operations of smart/debit cards issued by banks are submitted on a half yearly basis to the Department of Payment and Settlement Systems (DPSS) with a copy to the concerned Regional Office of Department of Banking Supervision in whose jurisdiction the Head Office of the bank is situated,
- In case of co-branded debit cards issued by the bank see that there is a Board approved policy of the bank
- Verify whether the Banks have carried out due diligence in respect of the non-banking entity with which they entered into tie-up for issue of



such cards to protect themselves against the reputation risk they are exposed to in such an arrangement. In case of tie up with a financial entity, verify that that entity has the approval of its regulator for entering into such arrangement.

- Verify that the role of the non-bank entity under the tie-up arrangement has been limited to marketing/ distribution of the cards or providing access to the cardholder for the goods/services that are offered.
- Verify that the card issuing bank has not revealed any information relating to customers obtained at the time of opening the account or issuing the card and the co-branding non-banking entity has not been permitted to access any details of customer's accounts that may violate bank's secrecy obligation

xxxvi) Treasury operations:

These are some illustrative checklist. However, scope of concurrent audit of a bank relating to treasury operations can be increased according to the requirement of a bank.

- Compliance with the guidelines of RBI on 'Prudential norms for classification, valuation and operation of Investment Portfolio by banks' and all other circulars issued by the RBI from time to time along with the certificate to this effect every month.
- Compliance with FEMA/SEBI guidelines and a certificate to this effect every month.
- Compliance with provisions of Investment Policy and a certificate to this effect every month.
- Confirmation and certification that Investment policy is revised every year in the light of all prevalent circulars of the RBI in respect of treasury operations.
- Verification of all transactions entered into in the Primary, Secondary and Forex market (except the Forex deals done through brokers and over telephone) in all type of instruments including Derivatives, Swaps, Futures, Options etc. with deal slips, initiating notes to the appropriate authority, brokers note and other related basic documents.
- Verifications of money market transactions in the domestic and forex market.
- Verifications of interest and dividend income. Verify all interest due on securities are timely received.
- Verifications of interest accrued but not received, dividend declared but not received and the follow-up measures the bank has undertaken for the same.



- Verify the receipt of overdue interest.
- Verification of the vouching system. See they have correctly prepared as per accounting system in force, executed, entered and signed by the appropriate authority.
- Verification of all records and registers for their correctness, see they are properly maintained.
- If the treasury is computerized, and run by a package provided by a vendor, concurrent auditor should have a proper training and idea about the system and the system should have an audit trail for conducting the required checking and verification by the auditor.
- Verification and correctness of all statutory and regulatory returns.
- Verification of CRR and SLR calculation, submission of FORM-A provisional and final timely and regularly along with other regulatory statements.
- Verification of CRR and SLR maintenance and see there is no default. If there is default verify the penal actions taken by RBI for that and compliance on behalf of bank.
- Reconciliation of securities held whether in SGL, BR or Physical form, along with the certificate to this effect every month.
- Where the deals are undertaken through broker, see the brokers are duly empanelled and the brokerage paid is as per norms approved by the bank and also scrutinize the business done through brokers.
- Verify that the limit of 5% of total transactions through brokers (both purchase and sales) entered into by a bank during a year should be treated as the aggregate upper contract limit for each of the approved brokers and the limit is not breached. If for any reason, the limit is breached, see that specific reasons for the same have been recorded by the appropriate authority.
- Verification of redemption of all the securities on the redemption date. If redemption is not met, mention the same with the reasons for non-redemption and follow-up action taken by the bank for the same.
- See that the Board Note regarding 'Half yearly Review of Investment Portfolio' has been placed to the Board timely and duly approved and a copy of the same has been duly sent to the RBI within the regulatory time and a copy of the receipt of the same by the RBI is duly preserved.
- Confirmation that investment decisions/transactions have been carried out within delegated powers.
- Certificate that random checking of the Deal slips with the voice recordings has been undertaken at least once in a week to verify that all deals which are

- struck off-line are negotiated only through telephones linked to the Treasury Voice Recorder and not through mobiles/other instruments.
- Calculation / compilation and maintenance of data for total investment made in equity shares in a year (both in primary and secondary market). Verify the maximum limit in investment in equity shares and the type of shares to be purchased as mentioned in the Investment Policy of the Bank is maintained.
 - Verify that the securities sent for transferring/splitting/conversion are being received back on time.
 - Checking of the following with respect of securities: -
 - (a) Correctness of interest accrued every month;
 - (b) Checking of Suspense/Sundry entries and follow up system for adjustment of old entries;
 - (c) Updating and balancing of Investment ledgers (For Face Value, Book value, Interest Accrued) for central loans, state loans and all India Bodies is done every month and for other securities every quarter. All changes in balance of different securities during the month are accounted for;
 - (d) Balancing of books and their checking with the weekly statement of affairs generated from the computer system, on monthly basis;
 - (e) NPI-their monthly position, fresh generation, reduction, compromise if any, follow-up actions taken.
 - (f) Rotation of duties of members of staff as per bank's guidelines be ensured.
 - (g) Ensure that Dealers have availed leave as per RBI guidelines.
 - (h) Dak Receipt/disposal – Proper systems and procedures.
 - (i) Verification of correctness of TDS (deducted at source) and issue of Income Tax Deduction Certificates and its timely deposit
 - Adherence to RBI guidelines relating to derivatives & hedge effectiveness.
 - Check adherence to the guidelines issued by RBI/Ho about dealing room operations
 - Verification of the valuation of different types of securities as per RBI guidelines and making marked to market by providing depreciation if any in AFS and HFT category at prescribed interval.
 - Verification of NPI in details. follow-up actions taken by the branch/department and mention the outstanding amount of NPI at the end of the previous month/quarter, New generation of NPI during the month/quarter, Realisation/Recovery of NPI during the month/quarter, Outstanding balance of NPI at the end of the quarter/month.



xxxvii) Forex Operations:

An illustrative area of checking and the checklists is given below. The scope of concurrent audit relating to forex operations may be extended as per need of individual bank.

A) Report on FCNR/NRE/NRO/RFC/EEFC ACCOUNTS

- Give details of newly opened accounts during the month/quarter as regards FCNR deposits, NRE deposits, NRO Accounts, RFC accounts and give a certificate regarding verification of all these accounts that they have been opened in line with RBI guidelines and stipulated norms, that all 'know your customer' norms have been complied with and they are in order except for the observations mentioned in the report.
- Verify that these accounts are balanced with prescribed periodicity and tallies with those of respective account heads in General Ledger.
- Auditor should give his observations on each of the following aspects:
 - a) Whether the branch has entered into the system the full details of depositors such as address, passport no., address, Nationality etc.
 - b) Whether the branch is noting Visa particulars to know the current status of the depositor.
 - c) Whether the branch is obtaining Passport or such other valid documents.
 - d) Whether the branch is entering full details of the transaction in the computer system.
 - e) Whether the rate of interest offered is as per RBI/H.O. guidelines. Is there any deviation? Mention it.
 - f) Whether operations allowed in NRE accounts is as per H.O. guidelines issued from time to time.
 - g) Whether any irregularities observed in the operations of these accounts.
 - h) Whether the branch is holding any foreign currency note and if so whether they have been properly accounted for.
 - i) Whether any inflow of funds like funds that are received through Western Union Money Transfer which are not eligible to be credited to NRE accounts is allowed to be credited.
 - j) Whether IBS returns are promptly submitted to the controlling office/H.O.
 - k) Whether the Branch is following the extant FEMA guidelines.



B) Inward Remittance including Remittance received in advance

- i) Whether before paying the instruments verification is done through SWIFT MESSAGE etc.
- ii) Whether payment has been made as per instruction of the remitter or the remitting bank and where the purpose of remittance is not mentioned in the payment order, bank has ascertained the purpose of remittance from the beneficiary and whether Nostro account has been verified to see that cover funds has been credited therein.
- iii) Verify in case of inward payment to charitable trust/NGO, whether Foreign Contribution Registration Certificate Registration No. issued by Ministry of Home Affairs is incorporated in the transaction and whether a copy of the same has been obtained by the bank.
- iv) Verify whether 'Inward Payment Register' is maintained incorporating therein details of all payments including date of payment, reference no., name and address of the remitter, amount in foreign currency, rupee equivalent with conversion rate, mode of payment etc.
- v) Verify whether in case of issuance of 'Foreign Inward Remittance Certificate' required charges as per rules have been realized and a separate register for that purpose is maintained.
- vi) Verify whether service charges as well as service taxes have been realized as per prevalent guidelines.
- vii) Verify whether KYC and Anti Money Laundering rules are observed.

C) Outward Remittances:

- i) Verify whether the purposes and the amount of issuance of D.D/M.Ts are permitted/authorized in the exchange control provisions/ RBI circulars.
- ii) Verify where proposed remittance is not within the authority delegated by the RBI – whether prior approval of the RBI has been obtained before making such kind of remittance.
- iii) Verify whether all Exchange control formalities have been observed before making such remittances and Exchange Control Forms like A-1, A-2 etc. have been obtained.
- iv) Whether unused D.Ds and other security papers have been safely maintained.
- v) Whether 'Outward Remittance Register' is maintained and details of remittance including customers' names, purpose of remittance, amount.



- RBI permits no. or its circular permitting such remittances etc. are recorded in the Register.
- vi) Verify in case of Foreign Currency Travellers Cheques whether ultimate remittance of value to the T.C issuing bank is effected through M.T/ Swift.
 - vii) Verify whether received travellers cheques are kept under double lock and dual control.
 - viii) Verify whether trust receipts are issued and a copy of the same is duly preserved.
 - ix) Verify whether proper record has been maintained in the Travellers Cheque Register regarding all Travellers' cheques received in a systematic way- issuing bank-wise/ currency wise/ denomination wise, specifying distinctive serial nos., amount in foreign currency and local currency with notional rate of conversion, balance in foreign and local currency etc.
 - x) Verify whether payment has been made under Liberalized Remittance Scheme? If so, verify whether necessary application is obtained and proper purpose code is entered into CBS.
 - xi) Verify whether the customers' accounts have been debited for realization of rupee equivalent/charges.
 - xii) Verify whether periodical confirmation of stock of T/Cs and confirmation of destruction of T/Cs, if any, are obtained from the T/C issuing bank and whether such records are preserved.
 - xiii) Verify whether in case of sale of foreign currency note-
 - a) they are preserved under dual lock and dual control.
 - b) records are kept regarding receipt of all foreign currency notes and their disposal in double column ledger showing amount in foreign currency and local currency with conversion rate (both buying and selling as per applicability) and the balance both in foreign currency and local currency.
 - c) all exchange control formalities are complied regarding (a) obtention of application in appropriate form. (b) permit / approval of RBI where there is no specific authority.
 - d) all charges are realized.
 - e) Verify where foreign currency notes are to be issued as per FEMA provision, whether necessary restriction is observed on the quantum of it.



- f) Verify whether declaration u/s 10(5) of FEMA, 1999, with FEDAI prescribed Form 1 & 2 has been taken.

D) Overdue foreign bills negotiated/purchased/discounted

- Prepare a statement of all overdue foreign bills negotiated/purchased/discounted
- Wherein individual details of each such bills is to be mentioned. The statement should contain the name of the parties, limit, bill no. and date, amount in foreign currency and their equivalent, due date, whether monthly premium under WTPSG policy is regularly paid and last premium payment date, date of crystallization etc.
- Verify the steps taken by the branches in regard to this- whether letters have been issued to the exporters, whether letters have been issued to the bank where the documents were sent.
- Verify whether the branch is submitting Export Bill written-off statement including NIL statement to RBI. Auditor should make a sample check of 'write-off' outstanding export bills.

E) Details of Letter of Credit devolved but not adjusted up to the end of the quarter

- Prepare a statement specifying details of individual letter of credit devolved but not adjusted upto the end of the quarter that should include individual name of the parties, limit. L.C. no. and date. Amount, Margin held, Date of receipt of the bill, Due date of payment, Reasons for devolvement, Steps taken for realization, Date of Adjustment (if adjusted subsequently).
- Verify in case of Revolving L.C whether reinstatement advice has been sent before actual realization of the bill amount.
- Verify whether the amount was debited to the borrower's CC or OD a/c causing them to be overdrawn or has been debited to Import Loan account.

F) Details of Import bills against LCs not yet paid by the branch

- Prepare a statement specifying details of Import bills against LCs not yet paid by the branch that should contain Name of the parties, L.C No. and date, Amount in foreign currency and its rupee equivalent, Date of receipt of the bill, margin held, Date of arrival of goods, Reason for non-payment, Steps taken by Branch, Due date for payment etc.
- Auditor should give his observations regarding the non-payment of the bills.



G) Overdue Packing Credit

- Prepare a statement of overdue Packing Credit containing details of the names of the borrowers, limit sanctioned (Total and P.C limit), whether disbursed under L.C. or confirmed order, Date of expiry of L.C. or confirmed order, Amount disbursed, Due date of shipment, Whether notified to ECGC. Last premium paid to ECGC. etc.
- Verify that all packing credits disbursed are backed by L.C. or confirmed order.
- Verify whether all the export credits both Pre-shipment and Post-Shipment are covered under Whole Turn Over Policy for Export Credit Insurance and operational guidelines of the bank are followed by branches.
- Verify where buyer wise policy is taken by the exporter, whether premium is paid by the exporter regularly, whether the policy is in order, whether Shipment statement is sent to ECGC regularly.

H) Forward Contracts

- Verify whether branch obtains customer's application supported by sale/purchase contract containing all necessary details/particulars of irrevocable letter of credit/firm order or on the basis of declaration of the customer as per RBI guidelines while booking forward contracts.
- Verify the genuineness of trade transaction relating to which the forward booking is applied through the scrutiny of application/sale contract/purchase contract/ L.C. etc. Verify also to see that the final payment will be completed within 180/360 days from the shipment date.
- Verify the details of the contract under contracted exposure or probable exposure on the basis of past performance. Verify also the limit sanctioned in case of contracts booked under probable exposure basis.
- Verify whether the type of contract(purchase or sale),delivery period, usance of the bill of exchange to be drawn, amount etc regarding the forward contract has been communicated to the appropriate department in H.O. in order to obtain exchange rate.
- Verify whether a Forward Contract Register is maintained and details of the contract booked, cancellation if any, balance etc. are recorded therein.
- Verify whether confirmation slips are issued in duplicate incorporating therein the details of the contract like contract ref. no., date of contract,



amount involved, type of the contract (purchase or sale), usance period of the bill to be drawn, delivery period etc.

- Whether in the duplicate confirmation slip, customer confirmation is obtained through signature and the required stamp.
- In case of cancellation of the contract, verify whether the required charges have been realized as per guidelines of the bank.
- Prepare a statement specifying details of the contracts that remain outstanding despite their expiry.
- Prepare a statement for forward contracts under contracted exposure showing contracts outstanding at the beginning of the quarter, contracts booked during the quarter, contracts utilized during the month, contracts outstanding at the end of the quarter and give your observations/comments on it.
- Prepare a statement for forward contracts under probable exposure (under past performance basis) specifying Name of the customer, Limit sanctioned, Outstanding forward contracts at the beginning of the month, Amount of forward contracts booked in the current month, Amount utilized (by delivery of the document) in the current month, Amount of the forward contracts cancelled during the current month, Forward contracts outstanding at the end of the current month and give your observations/comments.

I) Letter of Comfort

- Verify whether Letter of Comfort has been issued after having due approval from the Sanctioning Authority.
- Verify that the Letter of Comfort has been issued within the sanctioned limit.
- Verify where Letter of Comfort is issued within the overall limit of Letter of Credit, whether Letter of Credit Limit has been pegged against issued Letter of Comforts. If not, whether separate limit has been sanctioned for Letter of Comforts.
- Verify whether necessary charges and commission for issuance of Letter of Comfort has been realized.
- Verify whether total period of payment has exceeded the time limit as specified in bank's guidelines/lending policy.
- Prepare a statement of letter of comfort specifying details of issue of letter of comforts issued during the year. The statement may include



the names of the borrowers, Line of Business, Names of the Lenders, Name of the country, Currency, Amount, Equivalent USD, LOC validity period, Date of Approval etc. and also give auditor's comments/ observations.

J) Miscellaneous

- Auditor should give detailed information about importers who have defaulted in submission of documentary evidence of Import serially in a statement and give his observations.
- Auditor should give detailed information about advance remittance for exporters where exports have not been resulted.
- The auditor should certify that A1 and A2 forms wherever applicable have been obtained from customers and they have been physically examined hundred percent.
- He should verify that outstanding export bills have been written off as per RBI guidelines.
- For duplicate GR forms he should certify that a random check has been conducted and non-realisation or short-realisation, if any, is within the delegated power of the Authority or has been approved by RBI.
- Auditor should certify that he has verified all documents evidencing import such as Exchange control copies of bill of Entry, Customs Assessment Certificates etc. and also checked details of forward contracts booked.
- Verify that that the overbought/oversold position maintained in different currencies is reasonable taking into account the foreign exchange operations.
- Verify that balances in Nostro accounts in different foreign currencies are within the limits as prescribed by Head office
- Check verification/reconciliation of Nostro and Vostro account transactions/balances.
- Verify in case of advance remittance against export, whether required follow-up for submission of export documents have been made.



xxxviii) Jilani Committee Recommendations

The auditor should state whether the following recommendations of Jilani Committee are applicable for the branch. If they are applicable, auditor should state whether they are implemented or not implemented.

Recommendation No.	Recommendations	Implemented/not implemented/ Not applicable
39	Follow up on major/serious irregularities detected during Concurrent Audit immediately taken up with the HO. A time bound action programme for rectification to be drawn upto and closely monitored. Fraudulent transactions to be reported to Vigilance / Chief of Inspection / Audit etc.	
44	Auditors to get majority of irregularities rectified during their stay at the branches concerned and guide them as well	
45	Immediate action to be taken to plug gaps in serious irregularities / revenue leakage's which have surfaced due to loopholes in existing procedures, abnormal deviations from laid down procedures/norms in consultation with the departments concerned by issue of fresh guidelines	
53	Appropriate control measures should be devised and documented to prevent the computer system from attacks of unscrupulous elements	
74	Auditor to regularly check to verify correctness of information compiled / furnished by the branches regarding income recognition, asset classification, provisioning and NPA quantification in conformity with prescribed norms. Discrepancy to be immediately brought to the notice of branch Manager for rectification on the spot.	



xxxix) GHOSH COMMITTEE RECOMMENDATIONS (Regarding Frauds and Malpractices in Branch)

Sl. No.	Recommendations	Implementation Status at Branch (Yes/No/NA)
	Group A Part-I	
1	Joint custody and dual responsibility of cash and other valuables	
2	Transactions in the currency chest to be reported to RBI on the same day	
3	Adhering to the prescribed norms and safeguards issued by RBI on issue and payment of high value drafts, depositing large amounts in new accounts without verifying antecedents, opening of benami accounts, etc. to prevent misuse of banking channel.	
4	<p>a) System of exclusive scrutiny of credit portfolio with focus on large advances and group exposures.</p> <p>b) Special scrutiny of high value accounts shifted to the bank along with executives and account transferred from other branches along with officials. The observations of RBI Inspections should be promptly and effectively followed up by banks</p>	
5	Monthly certificate on inspection of associated units and on stocks pledge / hypothecated to bank	
6	Adoption of preventive measures of vigilance in letter and spirit as enumerated	
7	Rotation of staff / duties and transfer covering all categories of staff including dealing room / securities department staff etc	
8	Financial and administrative powers of officials should be laid down	
9	Desk cards for staff to be prepared, banks to designate one of the senior officers as a Compliance Officer	



Sl. No.	Recommendations	Implementation Status at Branch (Yes/No/NA)
	Group A, Part-II	
10	Precautions in handling cash and valuables – restriction of entry to cash cabin, dual custody of cash / valuables, surprise verification at regular intervals etc	
11	Precautions against shortage in cash reported by Cashier. Introduction of surprise checking at frequent intervals	
12	Precautions against theft of cash – staff should not indulge in conversations / answering queries, but direct such persons to Enquiry counter only	
13	Precautions against mis-appropriation of cash by member of staff in the guise of customer service. Only authorized personnel should accept cash / issue counterfoils in cash departments. Cashier should not be allowed to make entries in Pass book	
14	Proper systems should be evolved in respect of cash balances, insurance and prompt reporting of inter-branch and interbank remittances of cash	
15	Bank should evolve proper systems of adequate security and custody of cash in dacoit / terrorist attract-prone areas	
16	Precaution against misusing banking channels for tax evasion, POs/DDs in excess of Rs.50,000/- should be by way of debit to constituents account and not by cash. Doubtful cases should be reported to higher authorities.	
17	Periodical reporting of deposits / withdrawals from currency chest to issue Department of RBI	
18	Exercise of caution at the time of opening of new deposit accounts of all types	
19	Customers to be educated about implications of introducing an account without knowing the party	



Sl. No.	Recommendations	Implementation Status at Branch (Yes/No/NA)
20	Issue of fresh cheque book should be only against requisition slip from previous cheque books and other precautions to be taken in respect of cheque books	
21	Close watch on the operations in the new accounts should be kept	
22	Precautions in payment of cheques – verification of signature, custody of specimen signatures, custody and control of blank cheque books	
23	In Operative accounts, specimen signature to be in custody of Manager and other precautions	
24	Safe custody of / access to vouchers through written orders of Managers. Records are to be maintained of those who have accessed such records.	
25	Safe custody of specimen signature cards and verification of instructions in respect of operations of the account	
26	Blank draft forms to be treated as security items and usual precautions should be taken in respect of their issue and safe custody.	
27	Precautions against frauds perpetrated by employee – effective supervision, timely receipt of control returns and scrutiny thereof, rotation /transfer of staff etc. Strict watch on clearing operations, housekeeping, reconciliation of interbank / branch accounts	
28	Precaution against frauds perpetrated by staff in clearing- checking of Branch Clearing General A/c., dispatch of statement, verification of instruments with relative schedules etc	
29	Precautions to be taken to prevent fraud through entries in suspense account – periodical balancing and checking, signing of debit voucher by Manager / Officer authorized by him, sending periodical statement specifying reasons for non adjustment of large and long outstanding entries etc.	



Sl. No.	Recommendations	Implementation Status at Branch (Yes/No/NA)
30	Mechanization of operations relating to inter branch reconciliation. All branches to clear outstanding entries above Rs. 2 lacs and not allow them to remain outstanding entries etc	
31	Post-disbursement safeguards to be followed – critical assessment of all advances periodically, review of sticky advances and look into staff side of case when there is shift in health code status of account	
32	Observance of laid down rules / guidelines / safeguards by bank officials credit appraisal, pre sanction visit to borrowers premises / godown, proper monitoring of end use of funds by allowing payment to parties connected with borrowers’ line of business and not allowing transfer of large amount to sister concerns etc.	
33	Check list of guidelines to avoid misuse of hypothecation / pledge facilities – verification of borrower’s title to goods pledged, safety of godowns, obtention of stock statement etc	
34	Safeguards against frauds through Kite Flying operations in cheques – limits against clearing cheques only for prime customers, limited drawings, spare use of discretionary powers etc	
35	Precaution against frauds in bill portfolios – to ensure bills represent genuine trade transactions, insistence on submission of all related documents, ascertaining credit worthiness of borrowers and drawees, lorry receipts of approved transporters etc.	
36	Precautions for averting frauds in the areas of letter of credit, issue of guarantees and co-acceptance facilities	
37	Bank Guarantees / L/Cs to be issued in security forms serially numbered under two signatures above certain cut off point in triplicate, binding on beneficiary to seek conformation of Controlling Office (incorporation of suitable condition in the document) etc.	



Sl. No.	Recommendations	Implementation Status at Branch (Yes/No/NA)
38	Bill discounting facility under L/Cs, co-acceptance should be extended only to customers having regular sanctioned limits	
39	Precaution relating to deals in item's like furniture and fixtures, stationary – proper system of receiving quotations, delegation of authority, proper inventory management and periodical checking etc	
40	Devising standards for suitable internal control in computerized environment	
41	Micro Filming of record, vouchers, books	
42	Evolving standards for fully computerized branches	
43	Screening / selection of employee in EDP cells, Computer Areas	
44	Replacement of unwilling workers in computer area	
	GROUP-B, PART-II	
45	Paper used for cheques / drafts should be such that any use of chemicals for making material alteration in the instrument should be visible to the naked eye	
	GROUP-C, PART-I	
46	<ul style="list-style-type: none"> Fraud cases upto Rs.25,000/- having involvement of an insider should not be reported to Police when recovery is not doubtful 	
47	<ul style="list-style-type: none"> Banks should introduce a return for staff members to ensure strict submission of the information of assets and liabilities and proper scrutiny thereof 	
	GROUP-D, PART-I	
48	Obtaining photographs of depositors at the time of opening accounts	



xxxx) Report on Customers Service

- The auditor should give an account of the customers' complaints. He should specify the number of complaints pending for disposal at the beginning of the quarter, number of complaints received during the quarter, number of complaints disposed of during the quarter, number of complaints remaining pending at the end of the quarter.
- He should give his observations/comments on the redressal of the complaints and overall customer service of the branch.
- He may give his observations/comments/opinion against 24 core recommendations of GOIPORIA committee on customer service.

Sl. No.	Different Areas of Branch Working	Comments/observation/Opinion
1	Commencement of employees working hours 15 minutes before commencement of business hours.	
2	All the customers who enter the banking Hall before the close of business hours should be attended to.	
3	Extension of business hours until an hour before the closing of working hours for non-cash transactions	
4	To ensure that no Counter remains unattended during the business hours and un-interrupted service is rendered to the Customer.	
5	All branches should have 'ENQUIRY' or 'MAY I HELP YOU/' Counter, either exclusively or combined with other duties, located near the entry point of the Banking Hall	
6	Acceptance of small denomination notes from Customers as well as from non-customers for issuance of draft	
7	Exchange of mutilated and soiled notes may be made. Compliance to Clean Note Policy	
8	In addition to obtaining nomination form, banks may provide for mentioning name and address of the nominee in the account opening form	
9	Nomination should be a rule to cover all other existing and new accounts. Wide publicity regarding availability of nomination facility not only for deposit	



Sl. No.	Different Areas of Branch Working	Comments/ observation/ Opinion
	accounts but also for safe custody articles and safe deposit lockers	
10	Issuance of statements of accounts and updating Passbooks with correct and legible particulars should attract bank's constant attention. Need to educate the customers to submit the passbooks regularly for updating	
11	Stationery with pre-demarcated folds / flaps may be used for statements of accounts to obviate the need for envelopes	
12	Guidance to customers – brochures / pamphlet giving details of various schemes and terms & conditions thereof	
13	Single window concept may be introduced for issuance of Drafts/ Pay Orders	
14	Facility of instant credit of outstation cheques may be raised to Rs.15,000/- (A separate type of Pay-in-slip) may be evolved for availing of this facility	
15	<p>Interest for delayed collection shall be paid at the following rates:</p> <ul style="list-style-type: none"> a) Savings Bank rate for the period of delay beyond 7/10/14 days as the case may be in collection of outstation cheques b) Where the delay is beyond 14 days interest will be paid at the rate applicable to for term deposit for the respective period c) In case of extraordinary delay, i.e. delays exceeding 90 days interest will be paid at the rate of 2% above the corresponding term Deposit rate d) In the event the proceeds of cheque under collection were to be credited to an overdraft/ loan account of the customer, interest will be paid at the rate of 2% above the rate applicable to the loan accounts. 	

Sl. No.	Different Areas of Branch Working	Comments/ observation/ Opinion
16	It may be noted that interest payment as given above would be applicable only for instruments sent for collection within India where delay in crediting OCC Proceeds can be attributed to the bank, it should pay penal interest to the customer for the delayed period @ 2% above Savings Bank rate	
17	Dishonored instruments may be returned/ dispatched to the customer within 24 hours	
18	Introduction of a Complaint Book	
19	Branch level customer service committees should be rejuvenated	
20	Periodical meetings should be held with customers and their representative bodies	
21	Infrastructure facilities at Branches should be upgraded by bestowing particular attention to provide adequate space, proper furniture, drinking water facilities etc.	
22	Time norms for specialized business transactions should be displayed prominently in the Banking Hall	

xxxxi) Computer/Information Technology and System Adherence by the Branch:

In so far as audit of information technology system in the Branch, the Concurrent Auditor will play complementary role to the information system auditor, if any. The checklist given hereunder is of general nature to be used by the Concurrent Auditor.

A. User Maintenance:

- i) Verify whether user ID Register is properly maintained and updated.
- ii) Verify whether active user ID of the employees who have been retired, suspended, dismissed are not in existence.
- iii) Verify whether free user tenor has been allotted as per laid down policy of the Bank.

B. Operations:

- i) Verify the master data creation in the system and ensure that they are in accordance with the information filled in account opening form and as per procedures and guidelines of the bank. Whenever the



- modification is effected to the master data, ensure that appropriate records are maintained at the branch to conform such changes.
- ii) Verify and ensure that all transactions are allotted transaction numbers generated by the system and the same are recorded on the vouchers and duly initiated by the branch.
 - iii) Verify that system generated Transfer journal Report is checked with manually maintained Transfer Journals everyday
 - iv) All rates of interest on Deposits/Advances including preferential interest rate and all types of charges/commissions etc recorded in the system are correct and periodically checked to ensure their correctness to avoid over payment of Interest or under realization of interest/charges
 - v) Verify that transaction which is of exceptional type like allowing temporary overdrawn, closure of accounts and operation in an inoperative account etc. has taken place with proper authorization. Ensure that reports are taken and perused by the concerned officials with authentication.
 - vi) Verify that segregation of duties is properly practiced at the branch, i.e., each transaction involves minimum two persons.
 - vii) Verify that interest runs are run only during prescribed periodic intervals or at the time of closure of accounts.
 - viii) Whenever accounts have ZERO balance verify the reasons for the same and report to the branch for taking appropriate actions.
 - ix) Verify Modification in Credit arrangement like change in limits, Interest Rates, Securities etc. is properly & regularly updated.
 - x) Verify that whenever transactions are delayed the same is done with separate rectification entry.
 - xi) Verify that at the end of the day all transactions are entered in the system and the control total of each department is tallied with trial balance figures. Verify that record in this regard is properly maintained.
 - xii) Verify that exceptional transaction reports are generated and verified regularly.
 - xiii) Whenever signatures are scanned and scanned images are used for verification of the signatures of the customers for putting through the transaction, verify that proper procedures are in existence to see the correctness of the signatures. Wherever accounts are closed verify the same are logically closed and the Branch has taken steps so that they cannot be made operative.

- xiv) Verify that all existing specimen signatures are scanned & viewed through system.
- xv) Verify that signature scanning is done on a day to day basis.
- xvi) Verify that sample checking of realization of different charges are carried out periodically and inaccuracies, if there be any are rectified.
- xvii) Verify that all security inventories like Cheques, Drafts, etc. are entered in the system immediately after being received from external agency. Verify also that proper procedures are followed to regularly tally the physical stock with the balance in the system.
- xviii) Verify whether ATM cards and pin mailers are maintained in a secured manner and are delivered to customer as per laid down procedure.
- xix) Verify that BR of SB/CA/CC/OD are generated & saved in a PC on a daily basis.
- xx) Verify the accounts in the areas of closure of deposits before maturity, extension of deposits, and closure of the accounts to ensure that appropriate guidelines prevalent are complied with and controls built in to the computer system and controls built to the computer system are active.
- xxi) Verify that balance confirmation is obtained for the customers on a random basis. Verify the correctness of the same.
- xxii) Verify that periodical balances of the account are taken and the total balances of the same are tallied with the trial balance figures.

C. House Keeping

- i) Verify whether online voucher through OVCS (Online Voucher Checking System) is done on daily basis.
- ii) Verify proper care is taken by the Branch to safeguard the computer equipments e.g. handling of machines, fire protection measure, maintenance of Hardware, Software, UPS etc., Insurance of assets etc.)
- iii) Verify whether the following necessary Control Registers are properly maintained.
 - User Identification Register
 - Hardware and Software maintenance log book,
 - Key movement Register
 - Master File Modification Register
 - Daily Back-up Register
 - Back-up movement Register



- Floppies Tape Stock Register
 - Computer Stationery Stock/ Consumption Register
 - Check that entry and exit of persons to Server Room is monitored and restricted.
 - Verify whether logical security is monitored (e.g., password secrecy, different levels of access rights, change of password at certain intervals, deactivation of user in case of staff on leave/ transfer etc.)
 - Verify whether system administrator's password is kept in sealed cover under the custody of Branch Head for using the same in any emergent situation.
 - Whether the backup media is also kept offsite with responsible officers.
- iv) Verify whether Checking of physical vouchers with different statements / online voucher checking (OVCS) as detailed below on a daily basis:
- CA/SB/CC/OD/Loan day-book
 - Term Deposit Supplementary
 - List of DD issued/cancelled
 - List of Pay Order issued/paid
 - List of DD paid
 - Supplementary Miscellaneous Day-Book
 - Supplementary p/L Day Book
 - Supplementary p/L Day Book
 - Transfer Report
 - Outward/Inward Clearing Report
 - Report on RTGS/NEFT Transactions
 - GL A/cs. Operated
 - GL Tally Report
 - GLB
 - Errors detected are being recorded in Error & Omission Register
- v) Verify whether adverse comments made by the Information System Auditor in the last Information System Audit in regard to Account Management, Password Management, User-Profile Management, Anti Virus Management, Disaster Recovery Management, Problem Management, Transaction Processing Management have been rectified by the Branch/Controlling Office wherever applicable.

xxxxii) Verification of Compliance Level Of BCSBI Codes

- Verify whether the branch when demanded will be in a position to give copy of the following codes to the customer-
 - i) Code of Bank's commitment to customers
 - ii) Code of Bank's commitment to Micro & Small enterprises
- Verify whether Comprehensive Notice Board as per RBI guidelines is displayed at the Branch(Para 8.3 of the Master Circular on Customer Service, (July 2010.) in Bi-lingual for Bihar, Haryana, Madhya Pradesh, Himachal Pradesh, Uttar Pradesh, Rajasthan, Uttaranchal, Jharkhand, Chhattisgarh and Delhi and in Tri-lingual for other states and union territories.
- Verify whether the Booklet/Folder as envisaged in the Comprehensive Notice Board is available at the branch for customers' perusal?
- Verify whether the Booklet/Folder contains information on the following aspects.
 - i) Availability of nomination facility in respect of deposit accounts, safe deposit vaults and safe custody of articles.
 - ii) Facility of exchange of soiled and mutilated notes
 - iii) Facility of deposit/exchange of coins of all denominations
 - iv) Procedures of dealing with counterfeit notes.
 - v) Availability of facilities for immediate credit of outstation cheques
 - vi) Effective date of Bank's BPLR (Bank's Prime Lending Rate)
 - vii) Effective date of Bank's Base Rate
 - viii) Grievance Redressal Procedure
 - ix) Citizen's Charter for Currency Exchange Facility
 - x) Time norms for common transactions
 - xi) Design and Security features of Bank's Currency Notes.
 - xii) Cheque collection policy
 - xiii) Grievance Redressal Policy
 - xiv) Compensation Policy
 - xv) Code of Bank's commitment to customers
 - xvi) Code of Bank's commitment to Micro and Small Industries
 - xvi) Banking Ombudsman Scheme,2006
- Verify whether following information is displayed separately
 - i) Key Interest Rates on Deposits
 - ii) Rates at a glance at RBI format



- Verify in case of Deposit account whether accountholders are informed three months ahead of their accounts become classified as dormant/inoperative.
- Verify whether passbook/statement of account provided to the customers contain the following information-
 - i) Full Address of the Branch
 - ii) Full Telephone No. of the Branch
 - iii) Customer care Telephone number
 - iv) Details of credit entries with instrument number and name of the drawee bank
 - v) Details of debit entries with instrument number and name of the payee.
 - vi) Details of ECS/NEFT/RTGS transactions with the name of the remitter in case of credit entry and name of the payee in case of debit entry.
- Does the bank acknowledge receipt of nomination.
- Does the bank by stamping a legend 'Nomination Registered' in i) Pass Book ii) FDR iii) Statement of Account accepts the fact of registration of nomination.
- Does the bank at the request of the accountholder record the name of the nominee in the i) Pass Book ii) Statement of Account iii) FDR
- Verify the mode of issuance of TDS certificate by the branch to the customers- i) by dispatching to their addresses ii) by hand collection from the branch
- Verify whether the branch pays compensation to the customer for delay in collection of the instrument over the prescribed period without waiting for the demand from the customer.
- Verify whether the complaint book with perforated copies in each set is available with the branch.
- Verify whether the branch maintains a complaint register to record all complaints received from the customers directly through letters, phone, mail or through R.O/Z.O/H.O.
- Verify whether complaints received are disposed of within the prescribed period of 30 days.
- Verify whether failed ATM transactions are recorded in the Complaint Register.
- Verify whether the branch has constituted branch level customer service committee.
- Verify whether a senior citizen is a member of the customer service committee.
- Verify whether minutes of the customer service committee meeting is maintained and a copy of the same is sent to the controlling office.

- Verify the number of such meetings held during the quarter under review.
- Verify whether the branch acknowledges receipt of loan application.
- Verify whether the bank provides a checklist of documents to be submitted along with the loan application.
- Verify whether the branch informs the customer most important terms and conditions of the loan.
- Verify whether the sanction letter of the loan issued to the customers invariably mentions the rate of interest to be charged would be either fixed or floating.
- Verify whether the branch issues written receipt for i) all documents taken as securities/collateral ii) for dated/undated cheques taken from the customers/ borrowers as collateral.
- Verify whether the branch provides the borrowers with all authenticated copies of documents executed along with enclosures.
- Verify whether the branch returns all securities/documents to the borrower/ guarantor within 15 days of repayment of loan as contracted.
- Verify whether the branch pays compensation for delay beyond 15 days.
- Verify whether the branch returns all blank cheques/post dated cheques/ undated cheques taken against loan to the borrower on repayment of the loan.
- Verify in case of MSE loan whether the branch uses simplified loan application form with checklist as circulated by IBA.
- Verify whether the branch acknowledges receipt of MSE loan application.
- Verify whether MSE loan application is disposed of within the prescribed time frame.
- Verify whether the branch extends loan to MSE borrowers' upto 10 lacs rupees without collateral securities.
- Verify whether the branch shares rating parameters with the MSE borrowers.
- Verify whether the branch informs MSE borrowers about the details of the Recovery Agents while forwarding default cases to such agents.
- Verify whether the branch communicates time, venue and date for auction to the MSE borrower/guarantor.



Chapter III: Some Do's and Don'ts of Concurrent Auditor

Do's

- Before starting of concurrent audit, the auditor should study the branch/department collecting all relevant information and off site surveillance reports of the auditee as per terms of the engagement letter.
- Proper Audit Plan on the basis of study as mentioned above is to be prepared that should cover all the areas of scope keeping in view the timelines.
- Arrange to have a structured introductory meeting with the auditee and all the information that he finds essential for conduct of audit should be sought with proper time schedule. Audit team should be introduced with the auditee officials.
- Arrange to have an introductory training on computer system with the auditee, if possible. This should be attended by all the members of the proposed audit team. Seniors should also attend as per their convenience.
- Audit team should be accompanied by senior and experienced members as required.
- Auditors should avoid misunderstandings/altercation/argument in presence of the auditees and should display team spirit and professional attitude.
- Auditor should discuss his findings with the branch officials on a daily basis and should try for spot rectification of the defects, if possible.
- He should not act in an authoritarian manner and should not be judgmental in his attitude. He should allow the auditees to express their opinion while discussing any issue. His endeavor should be to draw proper explanation in a co-operative atmosphere which will save precious time.
- If some difference of opinion on some issues arises with the auditee, the auditor should first discuss them with his team leader. Further discussion on a higher level may be made, if required.
- In the course of his audit, if the auditor happens to see something which makes him suspicious about existence of any fraud, gross negligence, gross incompetence or similar unfavorable actions, he should immediately report the matter to his team leader.
- Auditor should keep his audit information/observations/issues involving auditee in secret.

Don'ts

- Auditor should have to be careful to see that there is no professional or commercial relationship either direct or indirect with borrowers/beneficiaries of the branch/department which they are auditing and should be careful not to allow this relationship to build up in future as far as possible for a minimum period of time, say three years.
- Auditor should be careful not to exploit in any manner, whatsoever, his relationship/association

as concurrent auditor/department of the bank for furtherance of any personal interest in any form including canvassing for any client/business with the bank either directly or indirectly.

- Auditor should be careful not to represent on behalf of any client/customer of the bank for a minimum period say for three years after the completion of term of the audit.
- Auditor should be careful not to divulge/discuss/share any audit related issues/observations with anyone other than concerned in the bank.
- Auditor should not be unnecessarily overly reserved or unfriendly for the purpose maintaining his impartiality/independence as an auditing officer. A closed-door, forbidding attitude on his part may distract others from him and build up the similar attitude towards him. This is not at all congenial for his work rather may adversely affect the work assigned to him.
- Auditor should be careful not to embroil himself unnecessary with the heated arguments/altercation with the auditee in any manner, whatsoever, and should maintain his calm, gaiety and professional ethics.
- Auditor should be careful not to give order to auditee. He may communicate his requirements to the officer assigned to assist him on a particular job. If the concerned officer accepts his suggestions and convinced of his requirements, he would issue the necessary order to his subordinates.



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

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