

CONCURRENT AUDIT

Concurrent Audit is a systematic examination of all financial transactions at a branch on continuous basis to ensure accuracy and due compliance with the internal systems, procedures and guidelines of the bank

Reserve Bank of India and Banks have put a great responsibility on Chartered Accountants by appointing them as Concurrent Auditor of branches. Banks feel that concurrent auditors are their eyes and ears.

Concurrent audit reports are being read by following before starting assignments:

- i) Branch statutory auditors
- ii) RBI auditors
- iii) Bank Internal Auditors
- iv) Different department of banks (Like RO,ZO etc)

To carry out the concurrent audit assignment successfully, it is necessary for auditor to familiarize himself with following:

- a) Scope of Audit
- b) Existing Banking Practices and Guidelines for bank audit
- c) Execution of Audit
- d) Quality of report
- e) Timely submission of audit report

SCOPE OF AUDIT

Before acceptance of assignment of concurrent audit, it is necessary 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 like a ocean. Expectations of Banks and RBI are very high from chartered accountants. It mainly covers following:

- a) General Banking
- b) Forex
- c) Loans and advances
- d) Other areas for specialized branches handling treasury operations, merchant banking business
- e) Compliance

RBI/2015-16/133 DBS.CO.ARS.No. BC. 2/08.91.021/2015-16 July 16, 2015
Concurrent Audit System in Commercial Banks - Revision of RBI's Guidelines

RBI/2014-15/626 - DBS.CO.ARS.BC.8/08.91.001/2014-15 dated June 2, 2015
Submission of Long Form Audit Report (LFAR) by Concurrent Auditors

RBI/2015-16/186 DBS. ARS.No. BC. 5/08.91.001/2015-16 September 23, 2015
Half yearly/Quarterly Review of Accounts of Public Sector Banks

➤ GENERAL BANKING

- Cash
- Deposits
- KYC/AML
- Income Tax/Service Tax/Other Tax related issues
- Operations and housekeeping

➤ GENERAL BANKING- CASH

a) Handling of cash in the branch and cash in transit. It mainly covers

- i) Surprise physical verification of cash
- ii) Custody of cash and cash keys
- iii) Insurance
- iv) Clean Note Policy

(Rbi Cir-DBOD No Dir.BC.42/13.03.00/2001-02 dated November 7,2001)

(Rbi Cir--DCM(NPD) No. 317/09.39.00/2003-2004 dated October 11, 2003)

(RBI Cir- DCM (NPD) No. G-11 /09.39.000 /2013-14 dated August 14, 2013)

(RBI cir-DCM(Plg) No.G-17/3231/10.27.00/2013-14 dated January 23, 2014)

(RBI cir- DCM(Plg) No.G- 19/3880/10.27.00/2013-14 dated March 03, 2014)

(RBI cir- DCM(Plg) No.G-15/5486/10.27.00/2014-15 June 26, 2015)

v) Facility of exchange of mutilated/soiled notes

(Rbi Master circular-Facility for Exchange of Notes and Coins dt July 1, 2015)

vi) Use of ultra violet lamps for verification of notes.

vii) Process of detection, impounding and reporting of counterfeit notes.

viii) Re-Issues of notes in denomination of Rs. 100 and above after checking authenticity/genuineness and fitness

(Rbi Master circular-Detection and Impounding of Counterfeit Notes

dated July 1, 2015)

(RBI/2015-16/162 DCM (FNVD) No. 776 /16.01.05/2015-16 Detection of Counterfeit Notes
dated August 27, 2015)

- ix) Updating cash transactions in computer system without delay
- x) Maintenance of cash records
- xi) Reversal of entries outstanding in cash in transit account
- xii) Submission of cash related returns to head office.
- xiii) Proper accounting and reporting of inward and outward cash remittances: Movement of cash between branches and currency chests and reporting thereof. Movement of cash between branches and business houses under door step banking facility

(Master Circular – Levy of Penal Interest on delay/wrong/nor-reporting of currency chest transactions dated July 1, 2015)

- xiv) Cash retention limit
- xv) Cash receipt by use of cash collecting machines
- xvi) Adherence of other cash processes

b) ATM audit.

- i) Surprise physical verification of cash
- ii) Custody of ATM cash and keys
- iii) Insurance
- iv) Retention limit of cash in ATM
- v) Retention of ATM roles taken from ATM machines.
- vi) Verification of retained cards in machine
- vii) Verification of cash packets deposited in Machine
- viii) Audit of daily statement prepared by branch officials at the time of loading of cash
- ix) RBI license for ATM
- x) Reconciliation of ATM account in GL with physical cash.
- xi) Maintenance of ATM
- xii) Reconciliation of account of cash replenishment agency if ATM are being operated by outsource agency
- xiii) White label ATM (WLA)

(Rbi Cir DBOD.BP.BC.No.49/21.04.018/2013-14 dated September 3, 2013)

(Rbi Cir DPSS.CO.PD. No. 2298 / 02.10.002 / 2011-2012 June 20, 2012)

(Rbi Cir DPSS.CO.PD. No. 1088 / 02.10.003 / 2013-14 November 14, 2013)

(Rbi cir DPSS.CO.PD. No. 1025/02.10.003/2014-2015 December 5, 2014)

➤ **GENERAL BANKING- DEPOSITS**

- a) Check the transactions of deposits received and repaid
- b) Checking of correct value dating of deposit transactions in the computer system
- c) Checking of vouchers passed manually in respect of payment of interest on deposits and deduction of TDS thereon
- d) Checking of deduction of penalties on interest in case of premature closure of FDR
- e) Checking of conversion of term deposits, daily deposits or recurring deposits for reinvestment in term deposits
- f) Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits
- g) Interest on Saving Bank Account on Daily product basis wef April 01, 2010. Savings bank deposit interest rate have been deregulated, effective from October 25, 2011. Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts have been deregulated effective from December 16, 2011
- h) Checking of 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
 - v) Minimum tenor of deposits
 - vi) Checking of process of premature closure of accounts in case account is in E or S/ F or S/ joint accounts
 - vii) Periodicity of payment of interest on rupee saving/term deposits
 - viii) Operation in minor accounts

(Rbi Master circular on interest on deposits dated July 1, 2015)

(Rbi cir DBOD No. Leg BC 46 /09.07.005/2011-12 dated November 4, 2011)

(Rbi cir DBOD No. Leg. BC. 37 /09.07.005/2012-13 dated August 16, 2012)

(Rbi cir DBOD. No. Leg. BC. 108 /09.07.005/2013-14 dated May 6, 2014)

- i) Activation of inoperative accounts. Operation in inoperative accounts and payment of interest on unclaimed and unpaid term deposits

(RBI/2008-2009/138 DBOD.No.Leg.BC. 34/09.07.005/2008-2009 dated Aug 22, 2008)

(Rbi cir DBOD.Leg. No.BC. 55 /09.07.005 /2009-10 dated October 30, 2009)

(RBI/2013-14/580 DBOD. Dir.BC.No. 109 /13.03.00/2013-14 dated May 6, 2014)

(RBI/2014-15/200 DBOD.No. Leg. BC. 36 /09.07.005/2014-15 dated Sept 1, 2014)

- j) Check the modification of details relating to account holders in the computer system, like change of address, addition/deletion of name, change of signature, change in contact details like telephone no. etc

- k) Checking of nomination forms and updation of nominations details in computers.
(RBI cir DBOD.No. Leg.BC. 89/ 09.07.005/2011-12 dated March 26, 2012)
- l) Checking of 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
- m) Verify the deposits under lien as per Government department instructions.
- n) Checking of accounts opened for person with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
(RBI cir -DBOD. No. Leg. BC. 84 /09.07.005/2013-14 dated January 13, 2014)
- o) When deposit is made in PPF account by means of local cheque or demand draft by the subscriber, the date of realization of the amount will be the date of deposit - Clarification by RBI
(Rbi cir- DGBA.CDD. H- 7530/15.02.001/2009-10 dated March 29, 2010)

➤ **GENERAL BANKING- KYC AND AML**

Checking of guidelines for know your customer (KYC) norms/Anti Money Laundering (AML) Standards/combating of financing of terrorism (CFT)/ obligation of banks under PMLA, 2002. Illustrative items are given below:

- a) Verification of account opening forms and compliance of KYC norms.
- b) Checking of 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.
- c) Check compliance of AML guidelines in connection with foreign currency/TC/Travel card purchase and sale
- d) 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. These instructions were also extended to retail sale of gold/silver/platinum.
- e) Issue of Demand Drafts for Rs. 20,000/- and above with account payee crossing
- f) Scrutiny of high value cash operations in newly opened account
- g) Review of cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency;
- h) Review of accounts having abnormal receipts and payments and nature of transactions not commensurate with the nature of account
- i) Issuance of AML certificate

(RBI Master circular on KYC and AML dated July 1, 2015)

(RBI cir DBOD.BP.BC. No. 26 / 21.01.001/2011-12 dated August 1, 2011)

(RBI cir DBOD.BP.BC. No. 49 / 21.01.001/2011-12 dated November 4, 2011)

(RBI cir -DBR.Leg.BC.25./09.07.005/2015-16 dated July 2, 2015)

➤ **GENERAL BANKING-INCOME TAX/SERVICE TAX/OTHER TAX RELATED ISSUES**

- a) Checking of PAN/Form 60/61 required under Rule 114 B of Income Tax Act and submission of form 60/61 with Income Tax Department. Instances, where PAN/Form 60/61 to be obtained is given below :
 - i) A time deposit, exceeding fifty thousand rupees, with a banking company (Rule 114B (c) of income Tax Act)
 - ii) Opening of an account with a banking company (Rule 114B (f) of Income Tax Act)
 - iii) Deposit in cash aggregating Rs.50000/- or more during any one day. (Rule 114 B (j) of Income Tax Act)
 - iv) Accepting cash for purchase of foreign currency by customer exceeding Rs.25000/- at any one time (Rule 114 B (k) of Income Tax Act)
 - v) Making an application to bank for issue of credit card or debit card (Rule 114 B(l) of Income Tax Act)
 - vi) Payment to a dealer
 - (i) of an amount of five lakh rupees or more at any one time, or,
 - (ii) against a bill for an amount of five lakh rupees or more.
 for purchase of bullion or jewellery (Rule 114 B(r) of Income Tax Act)
- b) Checking of obtention of PAN and updation of same in computer
- c) Checking of payments of FD in cash, where outstanding balance of FD alongwith interest thereon is beyond limit of 19999 (Section 269T of income tax Act)
- d) Verification of compliance of issues relating to TDS like deduction of TDS, Issue of TDS certificate, receipt of form 15 G/15 H and filing of TDS return/ 15 G/15 H with Income tax department
(DBOD.No.Leg.BC.100 /09.07.005/2012-13 dated May 31, 2013)
- e) Compliance of Section 206AA wef 1.4.2010
- f) Verify advance payment of rent details with the lease deed or advance payment of contract payment with contracts. Whether TDS has been deducted at the time of advance payment of rent/contract payments
- g) Ensure periodical adjustment from the advance rent has been done at the time of monthly payment of rent (If adjustable in future monthly rent as per agreement)
- h) Checking of Form 15 CA and 15 CB for outward foreign remittances and submission of both the forms with IT department
- i) Compliance of Service Tax, Trade Tax, other duties and taxes

➤ **GENERAL BANKING- OPERATIONS AND HOUSEKEEPING**

- a) Auditing of day to day transactions in systematic manner and passing of vouchers, more attention to be given on following issues
 - i) Vouchers need approval of Branch Manager and Assistant Branch manager
 - ii) All expenses vouchers are approved as per DFP
 - iii) All vouchers relating to debit to income
 - iv) Rectification of entries wrongly passed.
 - v) Passing of debit entries without feeding cheque number in system
 - vi) Checking of high value transactions (Cash payments/transfers/clearing cheques) for passing, availability of vouchers and debit mandate
 - vii) Passing of payment/cheque in accounts where signature are not updated in computers
 - viii) Preparation of vouchers.
 - ix) Standardisation and Enhancement of Security Features in Cheque Forms-Prohibiting alterations / corrections on cheque

(Rbi cir- DPSS.CO.CHD.No. 1832 / 04.07.05 / 2009-10 dated Feb 22, 2010)

(Rbi cir-DPSS. CO. CHD. No. 2806 / 04.07.05 / 2009-10 dated June 22, 2010)

(RBI Cir-DPSS.CO.CHD.No./133 / 04.07.05 / 2013-14 dated July 16, 2013)

(Rbi cir- DBOD.AML BC.No.47/14.01.001/2011-12 dated November 4, 2011 on

(Payment of Cheques/Drafts/Pay Orders/Banker's Cheques)

(RBI cir- DBS.CFMC.BC.No. 006 /23.04.001/2014-15 dated November 5, 2014
on Cheque related fraud cases - preventive measures)

- b) Review of compliance of Mitra committee recommendation at branches
- c) Checking of the process of passing entries relating to RTGS, NEFT, DDs etc
- d) Custody and movement of branch keys.
- e) Fixed Assets physical verification.
- f) Safe custody of Branch Documents. Physical verification and audit of branch documents with Branch Document Register. Verify availability and quality of documents like death claim cases, Issuance of duplicate DD/PO/FDR, checking of indemnities etc

(Rbi cir DBOD.No.Leg.BC.95/09.07.005/2004-2005 dated 9.6.2005)

- g) Physical verification of Gold, checking of control over sale/transfer, safe keeping and custody of Gold
- h) Physical verification of inventory, checking of control over issue, safe keeping and custody of inventory.
- i) Physical verification of ATM cards, PINS and other deliverables items, control over issue, safe keeping and safe custody
- j) Audit of all registers maintained at branch like inward and outward registers etc
- k) Periodical balancing and reconciliation of all the GL head in computer (manually where books are maintained manually).
- l) Review all balance sheets heads and outstanding entries in accounts. Eg. Suspense, sundry, interbranch and interbank accounts. Ensure early adjustment of large value entries and follow up
- m) Checking of circular entries between various account heads of balance sheet.
- n) Reconciliation of accounts with other banks
- o) Investments kept at branch on behalf of corporate office
- p) Verification of lockers documents and locker operations.
 - i) Physical verification of locker keys
 - ii) Audit of locker documents
 - iii) Stamp duty affixed on locker documents
 - iv) Process of re-allotment of surrendered lockers
 - v) Process of surrender of lockers
 - vi) Process of break open of lockers
 - vii) Recovery of overdue locker rent
 - viii) Process of permission of locker operations
 - ix) Linking of FDR as security for locker/ wait list/ operation of locker/ due diligence/ un-operated lockers/ nomination/ other issues

(RBI/2006-2007/325 DBOD.No.leg BC.78/09.07.005/2006-2007 dated April 17, 2007)

- q) Audit of clearing account/transactions:
 - i) Obtaining balance confirmation from Bank.
 - ii) Periodical reconciliation of clearing account.
 - iii) Entries outstanding in reconciliation for reversal and follow up
 - iv) Accounting of difference in clearing account
 - v) Delay in debit to party account- Check reason for delay/Approval for TOD if required/recovery of leakage of income if any
 - vi) Verify the complete process of inward and outward clearing along with accounting of inward/outward clearing cheques bounced
 - vii) Interest/charges debited by clearing house

(Rbi cir- DPSS.CO (CHD) No. 2387 / 03.06.01 / 2009-2010 dated May 6, 2010)

(RBI Cir- DPSS.CO.CHD.No. 485 / 03.06.01 / 2010-11 dated September 1, 2010)

(RBI Cir DPSS.CO.CHD.No. 120 / 03.06.01 / 2011-12 dated July 25, 2011)

- r) Verify cheque returned/bills returned and look into reason of return of those instruments

s) Control over tax collections and remittances.

(Rbi- Master circular on tax collections dated July 1, 2015)

t) Audit of Government Business like PF/Pension etc

(Rbi Master circular on Govt Business-Payment of agency commission dated July 1, 2015)

(Rbi Master circular on pension dated July 1, 2015)

u) Review of system Audit (Computer audit) reports and checking of sharing of passwords

v) Audit of transactions relating to anywhere banking facility provided to account holder in CBS

w) Checking of Demat operations

x) Checking of credit cards operations

y) Compliance of security arrangements at branch.

z) Report on scrutiny of staff account.

aa) Rotation of seats of staff

bb) Permission from local authorities- Shop & Establishment Act. Permission for use of residential property for commercial use, RBI License and B category License

cc) Submission of returns to corporate office- weekly, fortnightly, monthly, half yearly, yearly

dd) Generation of computerized/exception reports as prescribed by bank- daily/ fortnightly/monthly

ee) Status of legal and fraud cases and their reporting to appropriate authority.

(Rbi Master circular- Fraud classification and reporting dated July 1, 2015)

(Rbi cir- DBS. CO.FrMC.BC.No.10/23.04.001/2010-11 dated May 31, 2011)

Guidelines for prevention of frauds)

ff) Customer service

(Rbi Master circular on customer service dated July 1, 2015)

gg) Record keeping and record retention policy

hh) Contingent Liabilities and present status

ii) Bills of collections- Expeditious adjustment of inward/outward bills for collection

jj) Checking of stop payment requests from customer

kk) Review of quick mortality accounts- Accounts opened and closed within a short span of time

ll) Drawing allowed against uncleared cheques- Approval taken from appropriate sanctioning authority

mm) Auditor should see that whether the transactions or decision by BM are within policy/parameters laid down by the Head office and they do not violate the instructions or policy prescriptions of the RBI and they are within delegated authority

nn) Income & Expenditure audit--Detection & prevention of revenue leakages through close examination of income and expenditure - Carry out percentage check of calculation of interest, discount, commission, brokerage, etc.

➤ **FOREX**

a) Verification of purchase and sale of FC/TC/Prepaid travel cards. Verify Foreign currency DD issued. Verify following aspects

i) AML requirement for foreign currency/TC purchase and sale

▪ Sale of foreign currency(FC/TC/PO/DD/etc) in cash by bank.

Maximum Limit upto Rs.50000 (25001 to 50000 copy of PAN/form 60 is mandatory)

All sales to one person in a month will be treated as single transaction.

Further in case of traveling, where rupee equivalent of foreign exchange drawn exceeds Rs. 50000 either for any single drawl or more than one drawl reckoned together for a single journey/visit, it should be paid by cheque or draft

▪ Purchase of foreign currency by payment in cash by bank

From Resident Individuals - Upto USD 1000/- or equivalent

From NRIs & Foreign Nationals - Upto USD 3000/- or equivalent

All purchases in a month from one person will be treated as single transaction

(RBI/2005-2006/224 A.P.(DIR Series) Circular no 18 dated December 02, 2005)

(RBI/2005-2006/428 A.P.(DIR Series) Circular no 39 dated June 26, 2006)

(RBI/2007-2008/161 A.P.(DIR Series) Circular no 14 dated October 17, 2007)

(RBI/2009-10/2 35 A.P. (DIR Series) Circular No.17 dated November 27, 2009)

ii) Maximum release of foreign currency in notes and coins

▪ Upto USD 3,000 (Upto May 3, 2010--- USD 2000) or its equivalent, to the travelers proceeding to countries other than Iraq, Libya, Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States

▪ USD 5000 or its equivalent for Iraq and Libya

▪ No limit for Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States

iii) Other issues

▪ Branch is issuing encashment certificate for purchase of FC/TC/Prepaid Travel cards

▪ Branch is issuing sale bill for FC/TC/Prepaid Travel card sold

- Other necessary documents are being obtained as prescribed by bank for purchase/sale of FC/TC/Prepaid Travel cards
- If TC is purchased by branch same has since been realised. No old TC is pending for realization
- Verify rates applied for purchase and sale of currency by bank, discount if any given is approved by appropriate authority as per bank guidelines
- Verify, whether CDF is obtained in case of currency purchased exceeding USD 5000 and in case of currency & TC put together USD 10000. Ensure endorsement has been done by branch on CDF for deposit of currency/TC

- b) Check FCNR, NRE, EEFC, NRO and other non resident accounts, whether the debits and credits are permissible as per prescribed FEMA guidelines. Some Instances for credits in NRE account are given below:
- i. Verify the credits in NRE accounts is as permissible by FEMA and proof is available with branch
 - ii. Verify credits of pay order/draft/cheques issued for encashment of foreign currency are supported by encashment certificate issued by AD category-1/AD category-II
 - iii. Checking of loan accounts against NRE FDR. Proceeds of loans should not be credited to NRE Account
 - iv. At the time of surrendering the currency/TC in NRE account it is necessary that account holder had deposited the currency/TC during his temporary visit to India and he is present in person. Further in case of TC, same are issued out side India.
 - v. Transfer of Funds from Non-Resident Ordinary (NRO) account to Non-Resident External (NRE) Account -NRI shall be eligible to transfer funds from NRO account to NRE account within the overall ceiling of USD one million per financial year subject to payment of tax, as applicable (i.e. as applicable if funds were remitted abroad).
 - vi. Verify the funds sent through RTGS/NEFT/NECS/ECS to other bank with a message for credit to NRE account. Ensure the funds have been released by bank are eligible for credit to NRE account

(Foreign Exchange Management (Deposits) Regulation 2000)

(RBI/2007-2008/343 A.P. (DIR Series) circular no 45 dated May 30, 2008)

(RBI/2008-2009/276 A.P. (DIR Series) circular no 34 dated Nov 10, 2008)

(DPSS (CO) EPPD No.327/04.03.02/2009-10 dated August 14, 2009)

(RBI/2011-12/536 A. P. (DIR Series) Circular No.117 dated May 07, 2012)

(RBI/2011-12/465 A. P. (DIR Series) Circular No.95 dated March 21, 2012)

(RBI/2013-2014/437 A.P. (DIR Series) Circular No. 87 dated January 9, 2014)

c) Operation in FCRA account.

- i. Verify the credit of any foreign contribution to the account of an association/NGO/Trust without any documentary evidence of having obtained registration/prior permission from the Central Government for the same.
- ii. Check whether operations in FCRA accounts are as permitted by Ministry of Home Affairs (MHA) and FCRA guidelines.
- iii. Permission from MHA some times can be restricted to proceeds from some specific source or permission is available for specific amount only. Ensure conditions are complied with.
- iv. Ensure in all operative accounts, original letter from MHA is available with branch. Account should be kept in total freeze till letter from MHA received
- v. Verify validity period of MHA registration certificate. It should not be expired.
- vi. Checking at MHA website <http://mha1.nic.in/fcra.htm> time to time to verify whether permission has been withdrawn.
- vii. FCRA return has been submitted as required by FCRA 2010 and FCRR 2011

(Master circular on FCRA accounts dated July 1, 2015)

(Foreign Contribution (Regulation) Act 2010)

(Foreign Contribution (Regulation) Rules, 2011)

- d) Verification of transactions and documents for imports remittances (Like Direct import, Import advance remittance, Import collection bills, Import remittances under LC, Merchant Trade transactions etc)
- e) Verification of transactions and documents for remittances other than import (Including remittance made under Liberalized Remittance Scheme)
- f) Verification of import LC opened and amendments in LC
- g) Audit of A1/A2/A3 Forms and issuance of certificate
- h) Audit of Bill of entry and issuance of certificate.
- i) Checking of CA certificate (15CA/15CB) for outward remittances
- j) Verify export transactions (including cases of write off of unrealised export bills)

(Master circular on import of goods and services dated July 1, 2015)

(Master circular on Misc remittance from India-Facilities for residents dated July 1, 2015)

(Master circular on remittance facilities to non resident Indians/PIO /foreign nationals dated July 1, 2015)

(Master circular on export of goods and services dated July 1, 2015)

(Master Circular on Non-Resident Ordinary Rupee (NRO) Account dated July 1, 2015)

(Master Circular on Acquisition and Transfer of Immovable Property in India by NRIs/ PIOs/ Foreign Nationals of Non-Indian Origin dated July 1, 2015)

- k) Filing of returns with RBI- R return , XOS return, BEF returns, Report and other returns

- l) Compliance of prescribed guidelines in respect of Foreign Investments in India
(Master Circular on Foreign Investment in India dated July 1, 2015)
- m) Compliance of prescribed guidelines in respect of ECBs and Trade Credits
(Master Circular on External Commercial Borrowings and Trade Credits dated July 1, 2015)
- n) Compliance of prescribed guidelines in respect of Direct Investment by residents in Joint Venture (JV) /wholly owned subsidiary (WOS) Abroad
(Master Circular on Direct Investment by residents in (JV) /(WOS) Abroad dated July 1, 2015)
- o) Compliance of FEMA guidelines by authorized dealer
- p) Reconciliation of NOSTRO and VOSTRO accounts
(DBOD.BP.BC.No.133/21.04.018/2008-09 May 11, 2009)
- q) Verification of FIRC issued
(DPSS (CO) EPPD No. 1309 / 04.03.01 / 2010-11 December 13, 2010)
- r) Other forex related issues

➤ **LOANS AND ADVANCES**

- a) Ensure that loans and advances have been sanctioned properly and in accordance with delegated authority.
- b) Verify the compliance of statutory and other restrictions on loans and advances prescribed by bank time to time.
- c) Ensure that securities & documents have been received as applicable to particular loans and securities have been properly charged/ registered.
- d) Ensure all terms & conditions of sanction have been complied with for fund based and non fund based facilities
- e) Ensure master data relating to Limit, rate of interest, EMI, moratorium period details have been correctly updated/modified on regular basis.
- f) Verify the valuating entries passed in advances accounts.
- g) Ensure timely receipt of Installment, interest and charges and also ensure that post disbursement supervision and follow-up is proper, such as the timely receipt of stock and book debt statements, QIS data, renewal of limits, insurance etc.
- h) Physical verification of assets kept as security against loans and verification of end use of loans as per periodicity prescribed by the bank.
- i) Verify whether there is any misutilisation of the loans and whether there are instances indicative of diversion of funds.
- j) Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
- k) Check the bank guarantees, LC issued, whether they have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed/ extended on the due dates.
- l) Check whether for LC and BG issuance/extension/modification, judicial stamp papers have been obtained as prescribed. Process for cancellation and invocation of BG and LC has been followed.
- m) Ensure proper follow-up of overdue bills of exchange purchased/discounted.
- n) Checking of Packing credit facilities- Pre-shipment and Post shipment credit
- o) Verify the compliance of prudential norms on income recognition, asset classification and provisioning pertaining to advances.
- p) Verify that instances of exceeding delegated powers have been promptly reported to controlling/Head Office by the branch and have been confirmed or ratified at the required level.
- q) Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.
- r) Verify whether monthly updation of drawing power in the computer system has been done correctly on the basis of stock statements/book debt statement/ other financial data received from the borrowers.
- s) Verify whether the submission of claims ECGC is made with in reasonable time.

t) Circulars for Loans and advances

Financial Inclusion and Development

- (i) Master Circular - Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs)
RBI/2015-16/60 FIDD.CO.GSSD.BC.No 06/ 09.09.01/2015-16 July 01, 2015
- (ii) Master Circular- Credit Facilities to Minority Communities
RBI/2015-16/64 FIDD. GSSD. BC.No.05 /09.10.01/2015 - 16 July 1, 2015
- (iii) Master Circular- Guidelines for relief measures by banks in areas affected by Natural calamities
RBI/2015-16/68 FIDD. No. FSD. BC.01 /05.10.001/2015-16 July 01, 2015
- (iv) Guidelines for relief measures by banks in areas affected by Natural calamities RBI/2015-16/156 FIDD No. FSD.BC.12/05.10.001/2015-16 August 21, 2015
- (v) Master Circular-Lead Bank Scheme
RBI/2015-16/48 FIDD.CO.LBS.BC.No. 3 /02.01.001/2015-16 July 1, 2015
- (vi) Master Circular - Lending to Micro, Small & Medium Enterprises (MSME) Sector
RBI/2015-16/74 FIDD.MSME & NFS.BC.No. 07/06.02.31/2015-16 July 1, 2015
- (vii) Master Circular-Priority Sector Lending- Targets and Classification

- RBI/2015-16/53 FIDD.CO.Plan.BC.04/04.09.01/2015-16 July 1, 2015
 (viii) Master Circular on SHG-Bank Linkage Programme.
 RBI/2015-16/29 FIDD.FID.BC.No.02/12.01.033/ 2015-16 July 01, 2015

Other Master circulars on loans and advances

- (ix) Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)
 RBI/2015 -16/36 DBR.BP.BC.No.5/21.04.172/2015-16 July 1, 2015
 (x) Master Circular on Credit Card, Debit Card and Rupee Denominated Co-branded Pre-paid Card Operations of Banks and Credit Card issuing NBFCs
 RBI/2015-16/31- DBR.No.FSD.BC.18/24.01.009/2015-16 dated July 1, 2015
 (xi) Exposure Norms
 RBI /2015-16/70- DBR.No.Dir.BC.12 /13.03.00/2015-16 dated July 1, 2015
 (xii) Master Circular - Exposure Norms for Financial Institutions
 RBI/2015-16/102 DBR.FID.FIC.No.4/01.02.00/2015-16 July 1, 2015
 (xiii) Master Circular-Guarantees and Co-acceptances
 RBI / 2015-16/76- DBR. No. Dir. BC.11 /13.03.00/2015-16 dated July 1, 2015
 (xiv) Master Circular Housing Finance
 RBI/2015-16/46- DBR.No.DIR.BC.13/08.12.001/2015-16 dated July 1, 2015
 (xv) Master circular - Interest Rates on Advances
 RBI/2015-16/37- DBR.No.Dir.BC.9/13.03.00/2015-16 dated July 1, 2015
 (xvi) Master Circular Loans and Advances – Statutory and Other Restrictions
 RBI/2015-16 /95- DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015
 (xvii) Master Circular- Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
 RBI/2015-16/101 DBR.No.BP.BC.2/21.04.048/2015-16 July 1, 2015
 (xviii) Master Circular on Wilful Defaulters
 RBI/2015-16/100 DBR.No.CID.BC.22/20.16.003/2015-16 July 1, 2015
 (xix) Master Circular -Rupee / Foreign Currency Export Credit and Customer Service To Exporters
 RBI/ /2015-16/47- DBR No.DIR.BC.14/ 04.02.002/ 2015-16 dated July 1, 2015

Other circulars on loans and advances

- (xx) Framework for Revitalising Distressed Assets in the Economy – Review of the Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)
 RBI/2015-16/182 DBR.BP.BC.No.39/21.04.132/2015-16 September 24, 2015
 (xxi) Prudential Norms on Change in Ownership of Borrowing Entities (Outside Strategic Debt Restructuring Scheme)
 RBI/2015-16/187 DBR.BP.BC.No.41/21.04.048/2015-16 September 24, 2015
 (xxii) Discount Rate for Computing Present Value of Future Cash Flows
 RBI/2015-16/111 DBR.No.BP.BC.27/21.04.048/2015-16 July 2, 2015
 (xxiii) Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Credit Card Accounts
 RBI/2015-16/126 DBR.No.BP.BC.30/21.04.048/2015-16 July 16, 2015
 (xxiv) Revised Kisan Credit Card (KCC) Scheme
 RBI/2011-12/553 RPCD.FSD.BC.No.77/05.05.09/2011-12 dated May 11, 2012,
 (xxv) Revised Kisan Credit Card (KCC) Scheme
 RBI/2012-13/162 RPCD.FSD.BC.No. 23 /05.05.09/2012-13 dated August 7, 2012
 (xxvi) Union Budget 2014-2015 Interest Subvention Scheme
 RBI/2014-15/417 FIDD.No.FSD.BC.48/05.04.02/2014-15 dated January 21, 2015
Union Budget – 2015-16 Interest Subvention Scheme
 RBI/2014-15/557 FIDD.No.FSD.BC.53/05.04.02/2014-15 dated April 16, 2015
 (xxvii) Legal Audit of title documents in respect of large value loan accounts
 DBS.FrMC.BC.No.7/23.04.001/2012-13 dated June 07, 2013
 (xxviii) End use of funds- Monitoring
 DBS.CO.PPD.BC.No. 5 /11.01.005/2010-11 dated January 14, 2011
 (xxix) Levy of foreclosure charges/pre-payment penalty on Floating Rate Term Loans
 DBOD. Dir.BC.No. 110 /13.03.00/2013-14 dated May 7, 2014

Diligence reports for banks

- (xxx) Lending under Consortium Arrangement/Multiple Banking Arrangements
 RBI/2008-2009/183 DBOD No. BP. BC.46/ 08.12.001/2008-09 September 19, 2008
 (xxxi) Lending under Consortium Arrangement/Multiple Banking Arrangements
 RBI/2008-2009/313 DBOD.No.BP.BC.94 /08.12.001/2008-09 December 08, 2008
 (xxxii) Lending under Consortium Arrangement , Multiple Banking Arrangements
 RBI/2008-2009/379 - DBOD.No. BP.BC.110/08.12.001/2008-09 dated February 10, 2009
 (xxxiii) Second Quarter Review of Monetary Policy 2012-13 – Non-Performing Assets (NPAs) and Restructuring of Advances

➤ **COMPLIANCE**

Compliance of RBI audit reports, Internal audit reports, snap audit reports and the previous month concurrent audit reports

a) Verify compliance of RBI audit report, Internal audit report and snap audit reports

Concurrent audit reports

b) Pending items of previous month should be consolidated and given at the end of subsequent month report if possible to have track on pending irregularities or as prescribed by appointment letter.

c) Do not drop the pending irregularities unless until needful has been done by the branch officials or auditor is convinced with replies of branch.

d) If possible for pending items, take commitment from the branch by which date needful will be done and report so that reports can be closed at corporate office at the earliest

➤ **EXISTING BANKING PRACTICE AND GUIDELINES FOR BANK AUDIT**

After acceptance of appointment, most important thing for Concurrent auditors is to update themselves with the existing practice and guidelines of the bank and new circulars in banking industry. Auditors can take help of following to update their knowledge and skill on day to day basis:

a) Manual on Concurrent Audit of Banks issued by ICAI

b) Guidance Note on Audit of Banks issued by ICAI

c) Concurrent audit manual provided by bank.

d) Reading of Bank Manuals and Circulars on day to day basis.

e) RBI circulars, Master circulars, FAQ placed on rbi website rbi.org.in

f) ICAI Journal and Regional councils monthly Journal

g) Mutual discussion with branch manager or staff or professionals.

h) If some issues are not clear matter can be taken up with appropriate authority of the bank for clarification.

➤ **EXECUTION OF AUDIT**

a) Staff appointed for audit, should have computer knowledge. Ask the bank management to provide on site training of computer system. One of senior member of audit team should also attend this training.

b) Go through the appointment letter and audit material provided by bank. See the % of checking is to be done as per appointment letter and ensure that same is adhered to.

c) A check-list covering audit program should be provided to audit staff along with % of checking to be done as prescribed by bank

d) Query sheet should be given to branch officials on day to day/weekly basis as prescribed.

e) Replies of the branch officials should be obtained regularly and updated in draft report.

f) Senior chartered accountant/ partner/ proprietor should visit branch periodically to discuss the query sheets with branch manager and compliance of the same.

g) Efforts should be made for spot rectification. It will help in minimizing the incidence of the serious irregularities and fraudulent manipulations.

h) Proper records of attendance of staff in the branch should be maintained as required generally by appointment letters.

i) Wherever audit has been conducted on sample basis, ensure records of sample is documented in working papers files for future reference.

➤ **QUALITY OF REPORT**

a) Observations in audit report should be specific. It should not be like "in some case" or "in few cases". All the remarks should be written with instances.

b) Ensure that in report, only those items verified during the month should be confirmed. If some areas not covered, comment should be given accordingly.

c) Wherever audit has been conducted on sample basis same should be disclosed in audit report or sample sheet attached with the audit report.

d) Report should be made in the format provided by bank if any.

➤ **TIMELY SUBMISSION OF AUDIT REPORT**

a) Report should be submitted on time.

b) A draft report can be handed over to branch manager by first week of subsequent month for his final replies so that report can be signed and submitted within the time as prescribed in the appointment letter.

NOTE- All the above mentioned scope of audit and details are just illustrative not exhaustive.

Scope for treasury operations, merchant banking business, data centers or any other specialized business should be taken care of separately according to the activities applicable to respective audit unit (same is not covered in above details)