



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)



Seminar on
BANK BRANCH
AUDIT

Day & Date: Wednesday 16th March, 2022

Venue: Shilpakala Vedika, Hi Tech City, Main Road, Madhapur, Hyderabad

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The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

Seminar on **Bank Branch Audit**

Organised by: **Hyderabad Branch of SIRC of ICAI**

Date: **16th March, 2022**, Venue: **Shilpakala Vedika, Hi Tech City**

Main Road, Madhapur, Hyderabad.

Delegate Fee: **Members Rs 1125/- INCL GST**

For Non Member Rs 1500/-Plus GST

CPE Credit : **06**
Hours

Timings	Session/Topics	Resource Person
9.00 – 9.30 AM	Networking	
9.30 - 11.00 AM	Inauguration, Lighting of the Lamp,	Chief Guest : CA. (Dr.) Mitra Debashis , President, ICAI Guest of Honour : CA. Talati Aniket Sunil , Vice President, ICAI CA. China Masthan Talakayala , Chairman, SIRC of ICAI
11.00 – 11.15 AM	Tea Break	

Technical Session-I

11.15 - 01.15 PM	Bank Audit in Techno Environment	CA. Kuntal P Shah , Ahmedabad
1.15 - 2.00 PM	Lunch Break	

Technical Session-II

2.00 – 4.00 PM	Long Form Audit Report (LFAR)	CA. Abhay Chajjed , Central Council Members, ICAI Bhopal
4.00 – 4.15 PM	Tea Break	

Technical Session-III

4.15 - 6.15 PM	Overview of Income Recognition & Asset Classification – IRAC Norms	CA. Dhananjay Gokhale , Mumbai
6.15 – 6.30 PM	Valedictory	





CA. Kuntal P Shah

Profile

- **CA. Kuntal Shah** is a Bachelor of Commerce from Gujarat University and fellow member of the Institute of Chartered Accountants of India
- He has secured A+ grade in Diploma in Computer Programming of CDAC (Centre for Development of Advance Computing) the R&D organization of Ministry of Electronics and Information Technology (MeitY).
- He is a practicing chartered accountant since 2007
- He is currently practicing in the fields of Audit, Income Tax, GST, FEMA and Company law.
- He has been a regular speaker in various training programs, certificate courses and seminars organized by ICAI across India.
- He has contributed through writing for various publications published by Regional Councils of ICAI, AASB, IASB and CIT of ICAI Delhi.
- He has dealt with subjects related with Bank Statutory and Concurrent Audits, Company Law, Income Tax, Use of MS Excel for Auditors, Tax & Regulatory nuances of Cryptocurrencies etc.



Technical Session-I

Bank Audit in Techno Environment

Speaker: **CA. Kuntal P Shah**, Ahmedabad

Background Material

Audit of Bank Branches under Techno Environment


Sections:

- 1) Handout of Presentation delivered
- 2) Audit in CBS Environment – Detailed discussion of each aspects of CBS
- 3) E Book Published by SIRC of ICAI on Audit under CBS Environment
- 4) A brief note on “Exploring basics of Microsoft Excel for Bank Branch Audit”

Authored & Presented by **CA. Kuntal P. Shah**, Ahmedabad


Section – 1

Handout of Presentation delivered



Bank Audit in Techno Environment


Hosted by **Hyderabad Branch of SIRC of ICAI**
March 16, 2022
Presented by CA. Kuntal P. Shah, Ahmedabad



Disclaimers

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Flow of Presentation

- * Part – 1 : Use of CBS for Bank Branch Audit
- * Part – 2 : Use of Excel in Bank Branch Audit
- * Part – 3 : Use of CAAT Tools


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Part - 1

Use of CBS for Bank Branch Audit


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Few CBS used in India and world over

Package	Provider
Finacle	Infosys
FLEXCUBE	Oracle Financial Services Software, (By iflex)
TCS BaNCS	Tata Consultancy Services (TCS)
Alnova Financial Solutions	Accenture / Alnova
SAP Banking Services	SAP AG

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Important Update

- * Master Circular on IRAC Dt. 01.10.2021
- * Clarification Dt. 12.11.2021
- * Further Clarification Dt. 15.02.2022

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Important Update

* Identification of NPA Account (Non payment of Interest)

■ Para 2.1.3 (IRAC Dt. 01.10.2021)

- In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

■ Para D.8 (Clarification Dt. 12.11.2021)

- In case of interest payments in respect of term loans, an account will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days.

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Important Update

* Definition of "Out of Order"

■ Para 2.2 (IRAC Dt. 01.10.2021) [Relevant Text]

- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or

■ Para C.6 (Clarification Dt. 12.11.2021)

- the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period. [i.e. Rolling Day basis]

■ Para 2 (i) (Clarification Dt. 15.02.2022)

- Applicable to all loan products being offered as an overdraft facility
- The 'previous 90 days period' for determination of 'out of order' status of a CC/OD account shall be inclusive of the day for which the day-end process is being run.

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Important Update

* Appropriate internal systems for proper and timely identification of NPAs

■ Para 4.2.2 (IRAC Dt. 01.10.2021) [Relevant Text]

- Banks should establish appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs, including putting in the necessary infrastructure to comply with the requirements of the circular DoS.CO.PPG/SEC.03/11.01.005/2020-21 dated September 14, 2020 on Automation of Income Recognition, Asset Classification and Provisioning processes in banks (as updated).
 - Asset classification to be included in Day End Process
 - Rule based classification
 - Computation of Provision also based on System Based Rules
 - Recognition / De-recognition of Income to be System Driven
 - Upgrade and Downgrade to be handled by the System through STP
 - Manual Intervention only in exceptional cases after following due process.

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Important Update

* Upgradation of loan accounts classified as NPAs

■ Para 4.2.5 (IRAC Dt. 01.10.2021) [Relevant Text]

- If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as nonperforming and may be classified as 'standard' accounts. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of DCCO, etc., the instructions as specified for such cases shall be applicable.

■ Para E.10 (Clarification Dt. 12.11.2021) [Relevant Text]

- it is clarified that loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. With regard to upgradation of accounts classified as NPA due to restructuring, non-achievement of date of commencement of commercial operations (DCCO), etc., the instructions as specified for such cases shall continue to be applicable.

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Table of Contents

* Parameters affecting NPA identification

- * Practical aspects for conducting bank branch audit & Case Studies
- * Identification of Revenue Leakage
- * Foreign Exchange Transactions
- * Office Accounts
- * Audit activity through CBS – LFAR & Tax Audit Requirements
- * Audit Requirements in terms of revised LFAR

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Parameters affecting NPA identification

- * In terms of directives issued by Ministry of Finance and Reserve Bank of India, it is mandatory for banks to identify the bad loans through CBS / Systems instead of conventional methods.
- * CBS like other software work on GIGO principle.
- * Master Data play an important role in correct identification of Bad Loans.

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Parameters affecting NPA identification

- * 1. Discrepancies in setting up the EMI / Installments:
 - ▢ Auditors' primary checks:
 - Whether EMI / installment is correctly setup.
 - Whether EMI / installment amount is matching with the Sanctioned Terms.
 - Whether periodicity of Installment is correctly classified as per Sanctioned Terms?
 - ▢ System support:
 - **Finacle:**
 - ACI -> Option "E" Repayment details [Fin.10.x- HACM]
 - **BaNCS:**
 - DL/TL Accounts & Services → Enquiries → Account
(Short & Long Inquiry options are available under the menu.)

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Parameters affecting NPA identification

- * 2. Multiple sets of EMI / Installments:
 - ▢ Auditors' primary checks:
 - For case of Multiple sets of EMI e.g. For 1-5 years EMI of Rs. 7,000 and after 5 years Rs. 7,500
 - Whether sets of EMI are properly entered?
 - Is there any substantial difference between 1st set of EMI and 2nd or other sets (e.g. 1st set Rs. 5,000 and 2nd Rs. 1,00,000) which cast doubt on debt serviceability?
 - ▢ System support:
 - **Finacle:**
 - ACI -> Option "E" Repayment details [Fin.10.x- HACM]
 - **BaNCS:**
 - DL/TL Accounts & Services → Enquiries → Account
(Short & Long Inquiry options are available under the menu.)

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Parameters affecting NPA identification

- * 3. Manipulation in SL / DP:
 - ▢ Auditors' primary checks:
 - Changes in SL / DP should be cross checked with Sanctioned Letter.
 - Whether any change in Limit is supported by necessary documentation?
 - ▢ System support:
 - **Finacle:**
 - ACLHM – Account Limit History Maintenance
[Fin.10.x- HACLMH]
 - **BaNCS:**
 - Deposit / CC / OD Accounts & Services → Interest Rate History
 - Report on Changes in Account Limits

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Parameters affecting NPA identification

- * 4. Incorrect moratorium period:
 - ▢ Auditors' primary checks:
 - Based on moratorium period CBS will identify the Loan Installment and will track repayment.
 - In case the moratorium period / installment start date is erroneously updated system will not show correct result.
 - ▢ System support:
 - **Finacle:**
 - ACI – Option "E" – Repayment Details [Fin.10.x- HACM]
 - **BaNCS:**
 - Account Master details (Long Inquiry)

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Parameters affecting NPA identification

- * 5. Repayment without reporting it as reschedule:
 - ▢ Auditors' primary checks:
 - At times it is observed that the Loan Account Installments are rephased / recalibrated without reporting the same as Re-Schedule.
 - Verify whether any change in Repayment instruction is made through System. Compare the said accounts with list of Restructured Accounts.
 - ▢ System support:
 - **Finacle:**
 - ACI – Option "E" – Repayment Details [Fin.10.x- HACM]
 - **BaNCS:**
 - Account Master details (Long Inquiry)
 - Report containing details of all the cases wherein EMI / Installment is changed should be sought

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Parameters affecting NPA identification

- * 6. Installment Start Date is Future Date:
 - ▢ Auditors' primary checks:
 - Check whether Installment Start Date entered as per sanctioned term.
 - In case of future date system will not identify installment and any repayment received will be shown as "Overflow".
 - ▢ System support:
 - **Finacle:**
 - ACI – Option "E" – Repayment Details [Fin.10.x- HACM]
 - **BaNCS:**
 - Account Master details (Long Inquiry)

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Parameters affecting NPA identification

* 7. Interest Demand date (Future Date):

▣ Auditors' primary checks:

- Check whether Interest Start Date entered is as per Sanctioned Term.
- In case of future date as Interest Demand Date system will not accrue interest and any repayment received will be shown as "Overflow".

▣ System support:

- **Finacle:**
 - ACLI – Option "E" – Repayment Details [Fin.10.x– HACM]
- **BaNCS:**
 - Account Master details (Long Inquiry)

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Parameters affecting NPA identification

* 8. Fictitious credit through Office Account / Inter-branch Account:

▣ Auditors' primary checks:

- Are there any quarter / year end credits cited in the account?
- Check the source of Credit Entries.
- Review transactions in Office Accounts / Inter Branch Accounts.

▣ System support:

- **Finacle:**
 - ACLI – (Use CTRL + E to Explore the Tran) [Fin.10.x– HACLI & HACLINQ]
 - Review of Office Account Ledgers
- **BaNCS:**
 - Deposit / CC / OD Accounts & Services → Enquiries → Transaction
 - DL/TL Accounts & Services → Enquiries → Transaction

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Parameters affecting NPA identification

* 9. Round tripping from internal accounts:

▣ Auditors' primary checks:

- Close scrutiny of transaction and review of chain / series of transaction for accounts with deficiency is required.
- It is used to generate / misguide the system on Credit Turnover aspect.

▣ System support:

- **Finacle:**
 - ACLI – (Use CTRL + E to Explore the Tran) [Fin.10.x– HACLI & HACLINQ]
 - Do not rely wholly on "ATOR" / "CUTI" / "ACTI" results
- **BaNCS:**
 - Deposit / CC / OD Accounts & Services → Enquiries → Transaction
 - DL/TL Accounts & Services → Enquiries → Transaction

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Parameters affecting NPA identification

* 10. Temporary Overdrafts:

▣ Auditors' primary checks:

- At times it is observed that in order to bring the overdrawn limit to base level additional facility through TOD is sanctioned.
- It is not permitted as per IRAC guidelines.

▣ System support:

- **Finacle:**
 - ACLI – Option "O" [Fin.10.x– HACLI & HACLINQ]
 - ACTODM – TOD Maintenance [Fin. 10.x – HACTODM]
 - TODRP – TOD Register Printing

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Parameters affecting NPA identification

* 11. Devolved bills parked in Office Accounts and not in limit account:

▣ Auditors' primary checks:

- Devolved Bills under LCs are required to be debited to the Limit Accounts only. Assessment of Asset Classification will be based on composite overdrawn portion Limit + LC Devolved amount (if any on devolvement)
- At times it is observed that the amount of devolvement of LC backed bills are parked in Office Accounts to suppress total exposure on borrower.

▣ System support:

- **Finacle:**
 - BI & FBI – With Bill Status as "K" using Status Date Filter
 - [Fin.10.x – IBL]

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Parameters affecting NPA identification

* 12. Multiple CUST ID to save the other account from becoming NPA:

▣ Auditors' primary checks:

- Commonly it is observed that before marking of Account as NPA other accounts of the same borrower is transferred to new CUST ID. It will prevent marking of the said accounts as NPA in terms of guidelines of Asset Classification to be Borrowerwise and not Accountwise.
- Take NPA Report and search all the case by few characters of Name.

▣ System support:

- **Finacle:**
 - ACS – Account Selection (Search based on Name)
 - LAGI – Loan Account General Inquiry (Inquiry based on other parameters)
- **BaNCS:**
 - Customer Management → Enquiries → Search by Name

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Parameters affecting NPA identification

- * 13. Project Loans – Updation / Recording of DCCO Dates:
 - ▣ Capturing of Projected DCCO, Actual DCCO, Extended DCCO Dates in System
 - ▣ Classification of Advance under Infra / Non Infra Loans.
 - ▣ Moreover, Classification of account as NPA and correctness of Date of NPA in case of failed restructuring.

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Practical aspects for conducting Bank Audit

Practical aspects for conducting bank branch audit

- * Genuineness of Credits
 - ▣ Review of Book Debt Statement and other lenders (if any and if disclosure is available in Financial Statement)
 - ▣ Whether the credits in the operative account originates from the debtors or through other related entities. In case of credits through related entities additional audit processes should be carried out to ascertain credits originating against sales turnover.
- * Diversion of Funds (Account Debit)
 - ▣ Review of List of Creditors
 - ▣ Whether the payments are made to creditors or to the related entities?
 - ▣ Ascertain Related Parties for the borrower.

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Practical aspects for conducting bank branch audit

- * Related Party Transactions
 - ▣ Financial Statement – MGT 9, AOC-1, AOC-2, Shareholders (disclosure in Balance Sheet), Related Party Transactions as per AS-18, Form 3CD (Payment to related parties)
 - ▣ Use of third party portals viz. tofler.in, zubacorp etc. for graphical and structured report on potentially related enterprises (identifiers – Directors in multiple companies, companies at same address)
- * Review of Account Statements
 - ▣ In-depth review in case of accounts with low turnover, few credits / debits, Accounts showing some stress.

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Practical aspects for conducting bank branch audit

- * Frequent TODs
 - ▣ Assessment of Fund requirement - Is there any issue in assessing working capital?
 - ▣ If so, whether the borrower is having sufficient resources for increased limit?
 - ▣ If no, chances of borrower under stress.
- * Import & Export Data Processing and Monitoring System (IDMPS) and (EDMPS): Online Import and Export document systems connected with Ports, Banks and RBI – Access restricted to limited users

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- **ICEGATE Portal** – Open access of Bill of Entry and Shipping Bills
- **VAHAN System** – Frauds in vehicle loans are on rise. Use <http://vahan.nic.in> to search type of vehicle and compare the same with vehicle financed. SMS Based service - Type VAHAN <Registration No.> and send to 77382 99899.
- **FCRA Online Services**
- **MCA, GST, Income Tax**

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- **Willful Defaulters & Suit Filed cases** - <https://suit.cibil.com/> also refer the bank's website
- **CRILC (Central Repository of Information on Large Credits) Data** – Details of Borrower having consortium limits / multiple banking in excess of Rs. 5 Cr.
- Credit Rating Reports
- CIBIL and other reports
- GST Data (Peridot Mobile App by Iris GST in partnership with FICCI)

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Before Disbursal Balance as on 31.12.20XX	Disbursal of New Loan	Interest Charged as on 31.12.20XX	Balance as on 01.01.20XX
A	B	C	D = A – B + C
2,00,00,000	10,00,000	2,50,000	1,92,50,000
11,00,00,000	1,00,00,000	13,00,000	10,13,00,000
9,00,00,000	32,00,000	10,50,000	8,78,50,000
70,00,000	2,50,000	10,000	67,60,000
22,70,00,000	1,44,50,000	26,10,000	21,51,60,000

Net Increase in exposure	1,44,50,000
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Balance before Interest application as on 31.12.20XX (A-B) 21,25,50,000

Difference in Exposure before and after disbursal of new TL	1,44,50,000
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There was no recovery in the account and the funds of the new Term Loan were used for payment of overdues in existing loan accounts

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- * M Pvt. Ltd. – Current Account
- * Closing Balance as on 31.03.20XX Rs. 9,98,754 (Dr.)
- * Background of the case: Running TOD of Rs. 10 Lacs was granted for period March 16, 20XX till March 22, 20XX not regularized till date.



1. Borrower Account received credit / recovery entry
2. Borrower's Related Party Account was not classified as NPA since the same was shown as recovered through the credit entry.

The account was in debit Balance on account of non recovery of Running TOD expired Jan. 03, 20XX. Through this proceed the TOD in this Account was paid off.

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[illegible]

At the last record

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Case Study - 4 Recovery through Cash Deposit originated from TOD

Month	Interest Amount	Recovery	Date	Mode
Feb-XX	1,25,000	45,000	22-Apr-XX	Cash
Mar-XX	1,50,000	1,00,000	29-Apr-XX	Cash
Apr-XX	1,55,000	90	30-Jun-XX	Charges Reversal
May-XX	1,60,000	6,00,000	30-Jun-XX	Cash
Jun-XX	1,55,000			
Total	7,45,000	7,45,090		

Current Account
30.06.20XX - TOD 6 Lacs

Cash Pmt.

Deposit of Cash in
CC Account

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Case Study - 5 Recovery through Cash Deposit

Tran Date	Particulars	Debit	Credit	Balance	Event	Transaction details	Post Time	Customerwise Total	Linked event
30-03-20XX	CASH RECEIPT	5,000		25,84,273					
30-03-20XX	COH		25,84,273	-		Cash Counter closed & Amount Trf. To Main Cash A/c	17:01		
30-03-20XX	CASH RECEIPT	6,50,000		6,50,000	Deposited by	CC A/c - 1	17:14	13,50,000	
30-03-20XX	CASH RECEIPT	7,00,000		13,50,000	Deposited by	CC A/c - 1	17:15		
30-03-20XX	CASH RECEIPT	3,50,000		17,00,000	Deposited by	CC A/c - 2	17:16		
30-03-20XX	CASH RECEIPT	8,00,000		25,00,000	Deposited by	CC A/c - 2	17:17	16,50,000	
30-03-20XX	CASH RECEIPT	5,00,000		30,00,000	Deposited by	CC A/c - 2	17:17		
30-03-20XX	CASH RECEIPT	5,00,000		35,00,000	Deposited by	CC A/c - 3	17:18		
30-03-20XX	CASH RECEIPT	7,00,000		42,00,000	Deposited by	CC A/c - 3	17:18	18,00,000	
30-03-20XX	CASH RECEIPT	6,00,000		48,00,000	Deposited by	CC A/c - 3	17:18		
30-03-20XX	CASH PAYMENT	(10,00,000)		38,00,000	Withdrawn by	CA A/c - 1	17:27	48,00,000	
30-03-20XX	CASH PAYMENT	(15,00,000)		24,00,000	Withdrawn by	CA A/c - 1	17:27	(24,00,000)	TOD Granted 24 Lacs of 30.03.
30-03-20XX	CASH PAYMENT	(7,00,000)		17,00,000	Withdrawn by	CA A/c - 2	17:27		
30-03-20XX	CASH PAYMENT	(6,00,000)		9,00,000	Withdrawn by	CA A/c - 2	17:28	(24,00,000)	TOD 25 Lacs of 30.03.
30-03-20XX	CASH PAYMENT	(9,00,000)		-	Withdrawn by	CA A/c - 2	17:28		
								(48,00,000)	

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Case Study - 6

- * Sanction of loan under Agriculture Loan and utilization of funds for Immovable Property Business and purchase of High End cars.

☐ Lower Interest Rate

☐ Longer time period for NPA identification

☐ Benefit of Political scheme - ?? Loan waivers ??

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Case Study - 7

- * Updation of Total Security value for loan under consortium instead of security attributable to share of member bank.

☐ Facility will be considered as Fully secured. Since, limit will be based on Total Security.

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Identification of Revenue Leakage

- * Primary revenue for Banks is Interest on Loans and Advances.
- * Charging of Interest is completely automated. However, the processing is based on certain important parameters.
- * System parameters / fields which affect the Interest Computation should be thoroughly verified.
- * Let us discuss few event / scenario wherein there is possibility of non application / incorrect application of Interest.

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Identification of Revenue Leakage

* Various Interest Parameters

☐ Interest Table

➤ Debit Interest Rate & Credit Interest Rate

- Interest Version
- Currency
- Limit Level Interest

➤ Penal Interest

☐ Interest Rate (Static & Based on Ref. Rate)

☐ Customer Preferential (Dr. Interest) [(+)ve / (-) ve rate]

☐ Customer Preferential (Cr. Interest) [(+)ve / (-) ve rate]

☐ Important Commands –

➤ Finacle: INTCL, AINTRPT, INTPRF, INTTM

➤ TCS Bances: i) OD/CC Accounts -> Interest Rate History

ii) DL / TL -> Interest Rate History

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Identification of Revenue Leakage

* Few reasons for Non Application / wrong application of Interest by CBS:

- ☐ Interest pegging in Advance Accounts set as "Y". (If "Y" is selected, system will charge interest at the rate prevailing at the time of Account Opening. For the cases of Fixed Rate Loans Pegging Flag will be "Y")

- ☐ Future Date is updated in Interest Demand Date

- ☐ Interest on Principal / Payment of Interest Flag is set as "N"

- ☐ Effective Rate of Interest is updated as "0"

- ☐ Account Open and Installment Start Dates, Interest Demand Dates are identical.

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Identification of Revenue Leakage

[Cont ...]

- ☐ Interest Table Code "Zero" is selected

- ☐ Interest Demand Frequency is Blank.

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Audit of Foreign Exchange Transactions

- * Liberalization – Opening of New areas for Inbound and Outbound Investment
- * Ease of Doing Business – Relaxation in certain Forex Transaction procedure / mode of compliance
- * Enhanced vigilance required for
 - ☐ Money Laundering in garb of genuine Foreign Exchange Transaction
 - ☐ Misuse of Advances secured against Export Bills
 - ☐ Genuineness of Export Documents
 - ☐ PNB – Fraud due to non integration of SWIFT System

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Audit of Foreign Exchange Transactions

LFAR: Liabilities -> Deposits

- * Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.
- * **Audit Process:**
 - ☐ Review GL for FCNR (B) Deposits
 - ☐ List of FCNR (B) Deposits Accounts from Detailed GL
 - ☐ Review the date of Deposit and Date of Maturity.
 - ☐ In case of high volume of FCNR Deposits, a specific report should be requested containing outstanding FCNR Deposits as on 01.04.2021, 31.03.2022 and transactions during FY 21-22

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Audit of Foreign Exchange Transactions

LFAR: For Branches dealing in Foreign Exchange Transactions

- ☐ Material adverse points pointed out in the Audit Reports which continue to persist in relation to NRE/ NRO/ NRNR/ FCNR-B/ EEFC/ RFC ?
- ☐ Whether the Branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to the following in relation to the foreign exchange. If not, state the irregularities: Deposits, Advances, Export Bills, Bills for collection, Dealing Room operations, Any other area
- ☐ Nostro Account Management

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Audit of Foreign Exchange Transactions

* Bills / Cheques on Collection - Balancing and reconciliation with GL Balance (Contingent Liab.)

- ☐ Bill Balancing Report (Finacle: BR, BRCR, FBBR)
- ☐ GL Balance - Respective Cont. Liab. Account
- ☐ LFAR Reporting: Liab.3

* Bills / Cheques purchased / Discounted – Balancing and reconciliation with GL

- ☐ Bill Balancing Report (Finacle: BRBPR, FBBR)
- ☐ Aggregation of accounts under BD / BP Scheme Codes

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Audit of Foreign Exchange Transactions

* Packing Credit (Pre & Post Shipment – In INR or FCY)

- ☐ Adjustment through Export Bills / EEFC Balance
- ☐ Review of Transactions for adjustment of balance through other than above mode
- ☐ Max Tenor (Pre Shipment): 360 Days
- ☐ Max Tenor (Post Shipment): 365 from Shipment Date
- ☐ Rate of Interest if not adjusted within 360 days – Clean OD Rate with Penal Interest from ab initio
- ☐ Monitoring of End use of Fund
- ☐ Running Account Facility and Monitoring of adjustment within 360 Days

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Audit of Foreign Exchange Transactions

* Devolvement of Import Bills under LC

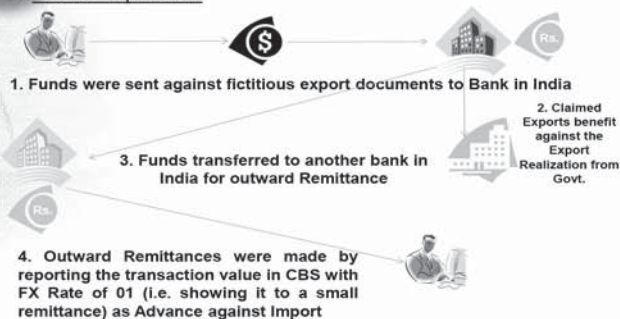
- ☐ Check the Reg. Type and Sub Type of Import Bills under LC
- ☐ Use Menu Option FBI (in Finacle) to search Bills under Import LC Delinked (Status Code "K" with Status Date Filter)
- ☐ Separate Account opened (if any) for Devolved Bills
- ☐ Bill devolved but not crystallized in CBS
- ☐ Crystallization of Devolved Bill through Office Account.

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Money Laundering in garb of Remittance as advance against Import – Case Study

* Modus Operandi



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Office Accounts

* Type of Office Accounts

▣ Functionality

- Pointing Type / Self Reconciling Accounts
- Non Pointing Type Accounts

▣ Entry

- Sundry Accounts, Suspense Accounts
- EOD/BOD Check Accounts
- Inter branch Account
- Mirror Accounts
- Pool Accounts

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Important Points in Office Accounts Review

- * Cash Payment from Office Accounts
- * TOD through Office Accounts
- * Parking of Cash Difference in Office Accounts
- * Clearing / Remittance differences through Office Accounts
- * Rotation of entries in Office Accounts

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Important Points in Office Accounts Review

- * Correctness in mapping of reversal transaction to originating transaction
- * Value Dated Transactions
- * Round Tripping
- * Advance paid for Fixed Assets not capitalized
- * Income realized not credited to Revenue Account
- * LFAR: Point No. Assets.6.b., Liab.2.a.

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Audit Activity through CBS

* Cash

▣ What to verify?

- Cash Balance as on 31st March
- Cash Balance as on the date of verification
- Cash Balances reported in Friday Statement

▣ Source from where to verify?

➤ In Finacle:

- “ACLI” - Account Ledger Inquiry (Vault A/c and Teller Accounts) [Fin. 10.x – HACLI, HACLINQ]

➤ In Bancs:

- → Reports → Cash Related → View Cash Summary (Click on Fetch)
- → Branch Reports → Cash Officer's Jotting Book Report
- → Reports → Printing Reports → Cashier / Teller Cash Report

➤ In Flexcube:

- GLM02 - Chart of Accounts
- GLM04 - GL Transactions and Movement Inquiry

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Audit Activity through CBS

* Balances with RBI / SBI / Other Banks

▣ What to verify?

- Balance as on Date
- Transactions in Mirror Accounts
- Reconciliation Statement (Generally outside of CBS)

▣ Source from where to verify?

➤ In Finacle:

- “ACLI” - Account Ledger Inquiry [Fin. 10.x – HACLI, HACLINQ]

➤ In Bancs:

- → Branch Accounting (BGL) → Enquire → Transaction

➤ Flexcube:

- GLM02 - Chart of Accounts
- GLM04 - GL Transactions and Movement Inquiry

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Audit Activity through CBS

* Advances - 1

- ▣ What to verify?
 - Sanction Limit / Drawing Power setup
- ▣ Source from where to verify?
 - In Finacle:
 - "ACLHM" - Account Limit History Maintenance (Fin.10.x - HACLHM)
 - "ACM / ACI" - Account Master (Go to Limit details)
 - "LTL" - Limit Tree Lookup (Tree view of all Limits) (Fin. 10.x - HLT, HLMTREEI)
 - In Bancs:
 - DL/TL Accounts & Services → Enquiries → Account
 - Deposit / CC / OD Accounts & Services → Enquiries → Deposit / CC / OD Account
 - In Flexcube:
 - CHM07 (OD Limit Master Maintenance)
 - CH409 (OD Limit History Report)

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Audit Activity through CBS

* Advances - 2

- ▣ What to verify?
 - Account & Customer Master parameters setup viz.
 - Interest Parameters (Regular & Penal Interest)
 - Repayment Instructions
 - Standing Instructions (SI) Parameters
- ▣ Source from where to verify?
 - In Finacle:
 - "ACLHM" - Account Limit History Maintenance for DP & SL - Account Specific (Fin.10.x - HACLHM)
 - "ACM / ACI" - Account Master
 - "CUMM / CUMI" - Customer Master (Fin.10.x - Separate Module for Customer Master)
 - In Bancs:
 - DL/TL Accounts & Services → Enquiries → Account
 - Deposit / CC / OD Accounts & Services → Enquiries → Deposit / CC / OD Account

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(Cont..)

Audit Activity through CBS

* Advances - 2 (Cont...)

- ▣ What to verify?
 - Account & Customer Master parameters setup viz.
 - Interest Parameters (Regular & Penal Interest)
 - Repayment Instructions
 - Standing Instructions (SI) Parameters
- ▣ Source from where to verify?
 - In Flexcube:
 - BAM12 (Interest Index Maint.)
 - BAM13 (Interest Index Rates)
 - LN060 (Loan Product Rates Plan)
 - LNM41 (Interest Rules)
 - LNM42 (Product Interest Attributes Maintenance)
 - LNM81 (Rate Change)

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Audit Activity through CBS

* Advances - 3

- ▣ What to verify?
 - Transactions in Borrower's Account
- ▣ Source from where to verify?
 - In Finacle:
 - "ACLI" - Account Ledger Inquiry (Fin.10.x - HACLI, HACLINQ)
 - In Bancs:
 - Deposit / CC / OD Accounts & Services → Enquiries → Transaction
 - DL/TL Accounts & Services → Enquiries → Transaction
 - In Flexcube:
 - CH031 (Statement Inquiry)

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Audit Activity through CBS

* Advances - 4

- ▣ What to verify?
 - Interest Rate History
- ▣ Source from where to verify?
 - In Finacle:
 - "INTTM" - Interest Table Master Maintenance (Under Inquire Mode - Account Specific) (Fin.10.x - HINTTM / HINTTI)
 - In Bancs:
 - Deposit / CC / OD Accounts & Services → Interest Rate History
 - DL/TL Accounts & Services → Interest Rate History
 - In Flexcube:
 - LN022 (Interest Calculation Inquiry)
 - LN608 (Interest Charges Report)
 - LN801 (Loan Interest Report)

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Audit Activity through CBS

* Advances - 5

- ▣ What to verify?
 - Conduct of Account and Credit Turnover
 - Turnover of CC Account based on Borrower's Business profile
 - In case of Loan accounts **ACTUAL** recovery of Installments and Interest
- ▣ Source from where to verify?
 - In Finacle:
 - "ATOR" - Account Turnover Report
 - "ACTI" - Account Turnover Inquiry
 - "CUTI" - Customer Level Turnover Inquiry
 - In Bancs:
 - DL / TL Accounts & Services → Enquiries → Long
 - Deposit/CC/OD Accounts & Services → Enquiries → Long

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Audit Activity through CBS

* Advances - 6

- ▣ What to verify?
 - Temporary Overdrafts
 - Multiple requests of TOD
 - Non realization of TOD
- ▣ Source from where to verify?
 - In Finacle:
 - ACTODM / ACTODI - Account TOD Maintenance (*Finacle 10x - HACTODI*)
 - ACLHM - Account Limit History Maintenance
 - TODRP - TOD Register Printing (*Finacle 10x - HACTODRP*)
 - In Bancs:
 - DL / TL Accounts & Services → Enquiries → Long
 - Deposit/CC/OD Accounts & Services → Enquiries → Long
 - In Flexcube:
 - CHM07 (OD Limit Master Maintenance)
 - CH226 (Adhoc List of Overdue CASA Accounts)

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Audit Activity through CBS

* Advances - 7

- ▣ What to verify?
 - Non Performing Asset
 - Search an Account based on Criteria
- ▣ Source from where to verify?
 - In Finacle:
 - "ACS" - Account Selection (2nd Screen - IRAC Code
 - Main Asset Classification)
 - LAOPI - Loan Overdue Position Inquiry (*Finacle 10X - HLAOPI*)
 - In Bancs:
 - DL / TL Accounts & Services → Enquiries → Short → Select Option "1" - TL / DL [*Long Inquiry for NPA Date*]
 - Deposit/CC/OD Accounts & Services → Enquiries → Short → Select Option "2" - CC / OD [*Long Inquiry for NPA Date*]
 - Common Processing → Overdue / NPA → NPA Enquiry (Risk Grade Inquiry / NPA Status Inquiry)

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(Cont.)
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Audit Activity through CBS

* Advances - 7 (Cont...)

- ▣ What to verify?
 - Non Performing Asset
 - Search an Account based on Criteria
- ▣ Source from where to verify?
 - In Flexcube:
 - AC02 - CRR (Credit Risk Rating) Inquiry
 - LN156 - Non Performing Loan Details Report
 - LN191 - Accounts in NPA Status

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Audit Activity through CBS

* Advances - 8

- ▣ What to verify?
 - Interest Report
- ▣ Source from where to verify?
 - In Finacle:
 - "AINTRPT" - Interest Report for Account (*Finacle 10x - HAINTRPT, HINTPRF*)
 - In Bancs:
 - Product Sheets - To be requested from Data Center (if not available through user login)
 - In Flexcube:
 - LN022 - Interest Calculation Inquiry
 - LN608 - Interest Charges Report
 - LN801 - Loan Interest Report

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Audit Activity through CBS

* Advances - 9

- ▣ What to verify?
 - Primary & Collateral Security Maintenance
- ▣ Source from where to verify?
 - In Finacle:
 - "SRM" - Security Register Maintenance [*Fin.10x - HCLM, HSCLM*]
 - In Bancs:
 - DL / TL Accounts & Services → Security (Primary/ Collateral) → Customer → Amend / Enquiry → Amend / Enquire Security
 - In Flexcube:
 - CH066 Limit Collateral Inquiry
 - CHM06 OD Collateral Maintenance

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Audit Activity through CBS

* Advances - 10

- ▣ What to verify?
 - Lien Marking
- ▣ Source from where to verify?
 - In Finacle:
 - "ALM" - Account Lien Maintenance
 - In Bancs:
 - DL / TL Accounts & Services → Security (Primary/ Collateral) → Customer → Amend / Enquiry → Amend / Enquire Security
 - (*Under Bancs - Collateral ID is required to be created before setting up limits*)
 - In Flexcube:
 - TDM24 Lien Master

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Audit Activity through CBS

* Advances - 11

- ④ What to verify?
 - Account Ledger Printing
- ④ Source from where to verify?
 - In Finacle:
 - "PSP" – Pass Sheet Print [Fin.10.x – HPSP]
 - "ACLPCL" – Customer Ledger Account Print
 - In Bancs:
 - **Print Menu** available under DL / TL Accounts & Services and Deposit / CC / OD Accounts & Services
 - In Flexcube:
 - CH031 Statement Inquiry
 - 7010 Passbook update
 - LNM10 Account Transactions Inquiry
 - LN421 Statement of Account NPA

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Audit Activity through CBS

* Advances - 12

- ④ What to verify?
 - Non Fund based Facility (LC, BG)
- ④ Source from where to verify?
 - In Finacle:
 - "GI" – Guarantee Inquiry [Fin.10x – HGI]
 - "DCQRY" – Documentary Credit Query
 - In Bancs:
 - Through Exim Software / Offline Report (if generated by banks)

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Audit Activity through CBS

* Advances - 13

- ④ What to verify?
 - Devolved Bills under LC & Devolved Export Discounted / Purchased Bills
- ④ Source from where to verify?
 - In Finacle:
 - "BI" – Bill Inquiry and "FBI" – Foreign Bill Inquiry (with Bill Status Code as "K" with Status Date filter) [Fin.10.x – MEOB, MIIB, IBL]
 - In Bancs:
 - Through Exim Software / Offline Report (if generated by banks)

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Audit Activity through CBS

* Stationery

- ④ What to verify?
 - Physical Verification of Stationery and confirmation of Balance as per CBS
- ④ Source from where to verify?
 - In Finacle:
 - "ISRA" – Inventory Status Report (Locationwise viz., Dual Lock, Individual, Cancelled etc.) [Fin.10.x HISRA]
 - In Bancs:
 - Through Valuable Paper Inventory System [VPIS] module
 - In Flexcube:
 - IV011 – Stock Inquiries
 - IV001 – Stock Transactions
 - IV002 – Stock Adjustment

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Audit Activity through CBS

* Suspense / Sundry Assets Accounts, Bills payable, Sundry Deposits etc. - 1

- ④ What to verify?
 - Outstanding entries for reporting
 - Entries outstanding – Whether any provisioning is required?
- ④ Source from where to verify?
 - In Finacle:
 - "IOT" – Inquire on Transaction (As on date Inquiry)
 - "MSGOIRP" – Outstanding Items Report
 - In Bancs:
 - Through offline reports viz. "Audit BGL accounts age wise break up" and "GL-Outstanding-Accnts" report.
 - In Flexcube:
 - GLM02 - Chart of Accounts
 - GLM04 - GL Transactions and Movement Inquiry

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Audit Activity through CBS

* Suspense / Sundry Assets Accounts, Bills payable, Sundry Deposits etc. - 2

- ④ What to verify?
 - Printing of Office Accounts
- ④ Source from where to verify?
 - In Finacle:
 - "ACLPCL" – Account Ledger printing Office Account
 - In Bancs:
 - Facility of printing of BGL (Branch General Ledgers) is not available under user login. It needs to be requested from Data Center.

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Audit Activity through CBS

* Inter Branch Accounts

- ▣ What to verify?
 - Un-reconciled transactions
- ▣ Source from where to verify?
 - In Finacle:
 - Through Outstanding IBR Report.
 - In Bance:
 - Through offline "Outstanding IBR Report"/ "IBR Summary report"

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Audit Activity through CBS

* TDS Related

- ▣ What to verify?
 - TDS Information and Reports
- ▣ Source from where to verify?
 - In Finacle:
 - "TDSIP" – TDS Inquiry & Reports [Fin.10x HTDSIP]
 - Month-end report on accountwise / transactionwise Tax deduction.
 - Bank specific customized Menu / report
 - In Bance:
 - Through offline monthly report on accountwise / transactionwise Tax deduction.
 - In Flexcube:
 - TDS11 TDS Inquiry
 - TDS15 Inquiry on Projected Tax

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Audit Activity through CBS

* Few Important Reports

▣ Exception Report:

- Reports for the month end and two days prior and after month end should be verified.
- Exceptions of following natures should be closely verified.
 - Balance exceeded Account Limit
 - Manual debits to Income Account
 - Value Dated Transactions
 - Manual entry for SI Failure cases
 - Instrument passed against Clearing

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Audit Activity through CBS

▣ Irregularity Report:

- Reports for the month end and two days prior and after month end should be verified.
- Report contains details of Accounts where Balance in Accounts are greater than the Limits Sanctioned. Check whether the same is due to,
 - Application of Interest
 - Granting of Intra Day TOD
 - Passing of Instruments against Clearing Effects

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Audit Activity through CBS

▣ Accounts where Interest Code is '0':

- Interest will not be charged from Accounts where Interest Code is selected as '0'. Hence, a detailed checking is required. Possible reasons can be,
 - Whether NPA Account
 - Accounts with Moratorium?

▣ Interest Collection Flag as "No":

- If Interest Collection Flag is selected as "No", Software will not consider the account for calculation and entry for Debit Interest.

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Audit Activity through CBS

▣ Report containing all Advance Accounts with Limits:

- Generally, CBS Software generate a Report wherein details of all Advance Accounts are listed.
- Excel can be used to verify cases of DP > SL, Margin Requirement etc.

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Audit Activity through CBS

▣ Report on Probable NPA / Health Code Accounts / Special Mention Accounts:

- Obtain reports containing list of Accounts with various deficiencies.
- System identifies such accounts and a report on Probable NPA Account. Banks classify the accounts as Health Code Type 1, Health Code Type 2, SMA – 1, SMA - 2 etc.

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Audit Activity through CBS

▣ Report on NPA Accounts:

- Report will contain list of all NPA Accounts.
- Such accounts should be closely monitored.
- Verify whether account is correctly classified as per IRAC Norms?

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Audit Requirements in terms of revised LFAR

- * LFAR Amended on September 05, 2020
- * Applicability from FY 2020-21 onwards
- * Guiding Principles
 - ▣ Transaction testing
 - ▣ Providing input to SCA on
 - Adequacy of Implementation of various policy and regulatory requirements
 - Efficacy of the system and
 - Assurance functions (risk management, compliance and internal audit)

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Audit Requirements in terms of revised LFAR

- ▣ Review of transactions
 - beyond threshold limit
 - Transaction Detailing
 - Below threshold limit
 - System and Processes to be checked and commented upon
- ▣ Verification of Data Integrity and data related control systems with special thrust on data input used in MIS at Corporate Level.

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Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	For this purpose, large advances are those in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs. 10 crores, whichever is less.	<ul style="list-style-type: none"> • Report on all advances (including NFB Limits) – If not readily available, seek the report wherein NFB limits are also included. • Ascertain the total advances (FB + NFB) as per GL / Balance Sheet as on Balance Sheet Date • Select the Customers qualifying for the limit of 10% / 10 Cr. Based on the above report / computation
	Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon.	

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Audit Requirements in terms of revised LFAR

5. Advances		Requirements & Audit Process		
Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.		<ul style="list-style-type: none"> In LFAR it is prescribed that Account No. is to be mentioned. However, alongwith Account No., Auditor should also mention CUST ID. 		
Account No. / CUST ID	Account Name	Balance at the end – Funded	Balance at the end – Non Funded	Total
Total		A	B	C = A + B
Total Outstanding of the branch		X	Y	Z = X + Y
Percentage examined		A as % of X	B as % of Y	C as % of Z

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Audit Requirements in terms of revised LFAR

5. Advances		Requirements & Audit Process	
Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner:-		<ul style="list-style-type: none"> Obtain List of NPA Accounts. Obtain report containing List of all Advances Accounts with Date of Sanction and Disbursement. Review Accounts identified as NPA in year under review. Use CBS functionality of Account Master verification for Sanction and Disbursement Date Alternatively, Account Statement for transactions can also be reviewed. 	
<ul style="list-style-type: none"> Account No. Account Name Balance as at year end 			

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Audit Requirements in terms of revised LFAR

5. Advances		Requirements & Audit Process	
Whether in borrowal accounts the applicable interest rate is correctly fed into the system?		<ul style="list-style-type: none"> Auditor should seek report containing Interest Rate Parameters information for each Advance Account. In case of unavailability of the said report auditor can carry out following alternative process. Obtain Report containing all Advances Accounts as on 31.03.XX Use Interest Parameters and Interest change history information related menu codes in CBS. Review the same with Sanction Letter (including amendments if any) 	

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Audit Requirements in terms of revised LFAR

5. Advances		Requirements & Audit Process	
Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR (External Benchmark Lending Rate)?		<ul style="list-style-type: none"> In continuation of previous slide, auditor should review following additional reports / information. Changes in MCLR / EBLR during the year. Datewise change (upward / downward) is required to be compiled in Spreadsheet. Review Interest Master details from CBS Review Interest Rate Change History through CBS Alternatively, the auditor can also generate Interest Report for entire period and can review the different rate of Interest applied in Account. 	

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Audit Requirements in terms of revised LFAR

5. Advances		Requirements & Audit Process	
Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.		<ul style="list-style-type: none"> Each bank has different set of processes to review / renew loans and updation thereof in CBS. Understand the process followed in CBS by Bank. Obtain reports of Review / Renewals during the year. Alternatively the report of all advances at the beginning of year and end of year will also be useful in identifying changes in Limit Expiry. In case of operative accounts, the renewal would also have entry in Drawing Power Limits under DP History. 	

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Audit Requirements in terms of revised LFAR

5. Advances		Requirements & Audit Process	
Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?		<ul style="list-style-type: none"> Understand the process of updation of credit rating information in CBS. At times it has been observed that the same has been updated directly in external system Correctness of Credit Rating should be ensured as per latest Credit Rating Report. Obtain list of Accounts wherein External Credit Rating is mandatory. Check whether cases wherein Credit Score is poor have been marked as Unrated? If there is any manual intervention (i.e. updation of credit rating directly in Cap. Adequacy computation software) report the appropriate observation under MIS / System related issues. 	

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
Did the bank provide loans to companies for buy-back of shares/securities?	<ul style="list-style-type: none"> Carve out the Corporate Borrowers out of total advances report. Review Financial Statements of the Corporate Borrowers. Review the Search Report obtained from CS. Review Company Master data from MCA Website for any change post to Fin. Statement on record. Review communication file with Bank seeking permission for change in capital structure. In case of buyback transaction, review account statement for utilization of CC / OD Limit, Term Loan proceeds for the same.

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
Is the DP properly computed?	<ul style="list-style-type: none"> Review the details of stock statements, book debts statements, creditors information and other financial information provided by borrower. Review the policy of bank to compute DP w.r.t. How the paid stock is arrived at. Whether Creditors amount is reduced from Stock or reduced only to the extent of value in excess of creditors ascertained at the time of Credit assessment It is advisable for auditor to prepare a template in spreadsheet and compute the amount. In CBS the DP is computed / updated in multiple ways. In certain cases, the CBS derives the DP using Margin % and Value of Security updated. In such case review the information from the Security related menu codes from CBS.

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.	<ul style="list-style-type: none"> Report containing details of All Advances Accounts should be obtained. Apply Filter for Standard Accounts. Apply Top 5 Filter on Standard Accounts for review.

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, <u>without manual intervention</u> ?	<ul style="list-style-type: none"> The most challenging part in the process of audit is to ascertain the classification and marking of NPA Accounts in CBS. Each bank has different set of processes followed for identifying and marking of NPA. Whether any feature of manual intervention is available at branch end or at HO Level (directly in backend database) should be ascertained. MR Letter can also be obtained on the same. From Branch level (Front End) the manual intervention may not be available. However, as discussed earlier in the Presentation certain events may hamper the Asset Classification.

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
<p>Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA-1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.</p> <p>SMA-0 - Principal or interest payment overdue between 1-30 days</p> <p>SMA-1 - Principal or interest payment overdue between 31-60 days</p> <p>SMA-2 - Principal or interest payment overdue between 61-90 days</p>	<ul style="list-style-type: none"> Obtain list of all Advance Accounts as at the end of the year and refer the overdue amount. Review from NPA related menu codes in CBS for classification of account correctly as per IRAC guidelines. Some signs of stress <ul style="list-style-type: none"> Delay in submission of Stock Statements / other stipulated returns / financial statements / non renewal of limits based on Audited Fin. Statements (Within + out of CBS) Falling short of projections (Out of CBS) Return of 3 or more cheques on ground of Non availability of Funds / Limits (CBS)

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
<p>(Cont...)</p> <p>Revolving Credit Facility (O/s BIs, > Lower of SL/DP)</p> <p>SMA-1 - overdue between 31-60 days</p> <p>SMA-2 - overdue between 61-90 days</p>	<ul style="list-style-type: none"> Devolvement of LC / Invocation of BG and non payment within 30 days (CBS) Third request for extension of time for creation of security (Out of CBS) Increased frequency of overdrafts in Current Accounts (CBS) Borrower reporting stress in the business and financials (Out of CBS) Promoters pledging shares in the borrower company due to financial stress. (Out of CBS)

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India	<ul style="list-style-type: none"> Obtain list of NPA Accounts upgraded during the year. Report as at the end of Previous Year and as at the end of Current Year to be compared Quarterly reporting on NPA should also be reviewed. Whether at the time of upgradation entire overdue (across all facilities) have been recovered Information can be accessed through Menu codes in CBS for Account Ledger Inquiry, Outstanding EMI etc.

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?	<ul style="list-style-type: none"> Review the valuation date from NPA report as at the end of each financial year. Review the physical valuation report for correctness of information updated in CBS.

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Audit Requirements in terms of revised LFAR

5. Advances	Requirements & Audit Process
Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?	<ul style="list-style-type: none"> Obtain Accounting Policy followed by bank for appropriation of recovery in NPA Accounts. Review in CBS through EMI Recovery menu options and reversal of Memorandum Interest Transactions from Account Statement menu option for recovery sequence followed.

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Audit Requirements in terms of revised LFAR

II. LIABILITIES - Deposits	Requirements & Audit Process
Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.	<ul style="list-style-type: none"> Review GL for FCNR (B) Deposits List of FCNR (B) Deposits Accounts from Detailed GL Review the date of Deposit and Date of Maturity. In case of high volume of FCNR Deposits, a specific report should be requested containing outstanding FCNR Deposits as on 01.04.2021, 31.03.20XX and transactions during FY

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Audit Requirements in terms of revised LFAR

II. LIABILITIES - Deposits	Requirements & Audit Process
Is the branch complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts?	<ul style="list-style-type: none"> Obtain Minimum Balance requirement in different types of savings accounts prescribed by the bank. Select sample from different types of Savings Accounts. Extract Account Statement for the year and ascertain average monthly balance. (If the charges are prescribed on Average Monthly Balance). Review the transactions from Account Statement for Charges levied.

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Part - 2

Use of MS Excel for Bank Branch Audit

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Use of MS Excel for Bank Branch Audit

- * MS Excel is commonly used Spreadsheet software
- * Effective tool for audit of small dataset.
- * The User Interface and wide spread use makes it a first choice amongst the spreadsheet users.
- * Refer a detailed note circulated as Background Material on Basics of MS Excel for use in Bank Branch Audit.

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Part - 3

Use of CAAT Tools for Bank Branch Audit

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Preference of CAAT Tools over Spreadsheet Programs

- * **Limitations of Spreadsheet Programs**
 - ▣ Data Limitation (Maximum Rows & Column)
 - ▣ Increased processors requirement for computation & re-computation
 - ▣ Re-work on case scenario each time. Storing and using template difficult.
 - ▣ Data generation logic – Manually to be recorded (For future reference)

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Functionalities in CAAT Tools

- * Various functionalities are available in CAAT Tools. Following are few of the functionalities available in one of the prominent software i.e. CaseWare IDEA.
- * **Data Import**
 - ▣ Any type of files can be imported viz.
 - TXT
 - XLS
 - MDB
 - XML
 - PDF
 - ODBC
 - SAP etc.

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Functionality of CAAT Tools

- * **Categorization**
 - ▣ Summation
 - ▣ Stratification
 - ▣ Charting
 - ▣ Aging
 - ▣ Pivot
- * **Data Relations**
 - ▣ Joining (Including Visual Joining)
 - ▣ Append
 - ▣ Comparison

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Functionality of CAAT Tools

- * **Data Extraction**
 - ▣ Direct Extraction
 - ▣ Top Records extraction
 - ▣ Indexed Extraction
 - ▣ Key Value Extraction
- * **Data Fields**
 - ▣ Append
 - ▣ Modification
 - ▣ Deletion
 - ▣ Find

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Functionality of CAAT Tools

* Exploring Data

- ▣ Gap Detection
- ▣ Duplicate Key
- ▣ Statistics

* These are some of the functionalities discussed here.

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Use of functions of CAAT Tools in Bank Audit

- * **Append** functionality can be used to join multiple reports generated on different timescale or differentiated on other fields. (For instance monthly Interest payment and Tax Deduction Report)
- * **Aging** functionality is useful to identify the customers who have not submitted Stock Statements, Book Debt statements with delay in number of days.

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Use of functions of CAAT Tools in Bank Audit

- * **Stratification** functionality can be used to stratify and bucket various types of accounts from complete Loan/Advance Report.
- * **Join** functionality works similar to Vlookup facility available in MS Excel
- * **Compare** functionality is very useful in Quarter on Quarter comparison of NPA Position on different scales.

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Use of functions of CAAT Tools in Bank Audit

- * **Extraction** functionality can be used to extract different sets of data.
 - ▣ For instance, based on constitution of borrower, details can be extracted from entire Customer Master Data.
 - ▣ Same functionality can be used on transaction reports as well.
 - ▣ Moreover, **Extract** functionality can be used with **Top Cases** functionality on Advance Report For instance, *Top 10 accounts out of Newly Sanctioned cases.*

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Use of functions of CAAT Tools in Bank Audit

- * **Append** functionality can be used to review multiple set of data side by side or compared with expected value based on the formula.
 - ▣ For instance, the same can be used to project expected turnover of customer based on the Limit sanctioned.
 - ▣ If the Bank has a monitoring system, data of turnover can be compared with the same and exceptional cases can be extracted therefrom.

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Use of functions of CAAT Tools in Bank Audit

- * **Gap Detection** functionality can be used when review of Account Statement of Customer is carried out.
 - ▣ For instance, to know the utilization and activity of borrower through the transactions in accounts, this functionality can be used to check for how many days the customer has carried out transactions through the account.
 - ▣ If the customer is transacting on rare occasion in CC / OD Account – the same can be further looked into how the customer is managing banking transactions or health of the borrower.

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Use of functions of CAAT Tools in Bank Audit

- * **Duplicate Key** functionality can be used to identify possible related parties / accounts of customers. It only gives an indication which can further be explored
 - ▣ For instance, a Duplicate Key functionality applied on Customer Master Dataset with fields i) Duplicate Last Name + ii) Mobile Number + iii) Email Address + iv) Mother's Maiden Name + v) Pin Code likewise.

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Conclusion

- * CAAT Software does not have any magic wand, that simply by having all the issues will be solved.
- * CAAT Softwares are like smart phones. It depends on how user uses it, to extract best out of it.
- * If such tools are utilized with Structured Audit Plan, it gives excellent results in less amount of time.

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Questions ???



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Thank You

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Section-2

Audit in CBS Environment – Detailed discussion of each aspects of CBS

Audit in CBS Environment

Certificate Course on Concurrent Audit of
Banks organized by Internal Audit
Standards Board, ICAI

Session By: CA. Kuntal Shah,
Ahmedabad

Disclaimers

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Session Details

• Part – 1

- ✦ Software Usage in Banks – Prev. PPT

✦ Audit in CBS Environment

• Part – 2

- ✦ Case Studies on data extraction from FINACLE
- ✦ Reports available in BaNCS
- ✦ Reports available in FlexCube

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3

Overview

• General Concepts of CBS

- Overview of various CBS
- Detailed discussion on various Menu Codes under Finacle, BaNCS & FlexCube
- Upgrades / Changes in Finacle 10.X

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General Concepts

• SOL ID and Set ID

- ✦ **SOL**: Service OutLet ID i.e. Branch, Back Office etc.
- ✦ **SET ID**: Branch / Back Office who initiated the transaction

• Tran ID & Date

- ✦ A unique No. generated after completion of Transaction through TM Module. The said number alongwith Date can track a particular transaction from Database.

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General Concepts

• Transaction Type & Subtype

- ✦ **Tran Type**: E.g. Cash: "C", Transfer: "T"
- ✦ **Sub Tran Type**: E.g. CR – Cash Receipt, CP: Cash Payment

• Account No. Formation

- ✦ Separate series of Account Nos. for different Types of Accounts
 - **E.g.** An Account No. 0099 05 014678 – is made up of Branch Code i.e. "0099", Account Type – "05" say Current Account and Account No. – "014678"

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General Concepts

- **Master Level Configurations** (CUST ID, CIF, UCIC)
- **Account Level Configurations**
- **Pointing Type Accounts / Self Reconciling Accounts**
- **Interest Table Master Maintenance**
- **Interest Flags (Payment and Collection)**
- **Register Type & Subtype (Trade Transactions)**

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General Concepts

- **Withholding Tax Flags (TDS)**
 - † TDS Customer Type
 - † Exemption Benefit and Limits
- **Freeze Flags (Debit, Credit and Total)**
- **General Ledger Concepts**
 - † GL → GL Subhead → Scheme → Account
- **Functions available at Entry / Modification Stage**
 - † A = Add, I = Inquire, M = Modify, D = Delete, V=Verify, X = Cancel

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General Concepts

- **Transactions Events by user Category**
 - † Entered by
 - † Posted by
 - † Verified by
 - † Deleted by
 - † Modified by
- **Exception Types**
 - † Warning – Warns user for possible errors based on prefixed criteria
 - † Exception – Allows user to override. However, the transaction will be recorded in Exception Report for the day
 - † Error – Does not allow user to proceed further, unless the correct values are filled in.

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General Concepts

- **Maker & Checker Matrix for Valid Transaction**
 - † There has to be two persons for valid transaction processing. Also known as Maker and Checker.

Maker can	Checker Can
Enter	Post
Enter & Post *	Verify

* Posting activity depends upon Rights assigned to each user ID

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General Concepts

- **Inventory Locations** [Location / Sub Location]
 - † Joint Custody
 - † Employee Custody
 - † External Location
 - † Cancelled / Misprinted Inventory Location

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General Concepts

- **Limit and Limit Node Concept**
 - † Credit Limits can be set at Account Level as well as at Node Level for deriving the Drawing Power for a customer. In case the limits are set at Node Level then the following are the advantages:
 - Managing two or more accounts with drawing power deriving from the same security.
 - Interchangeability of limits among different accounts.
 - Monitoring the overall exposure to a single client / group of clients.
 - Exposure to a select commodity / security. *Limit Node Maintenance* help to build these requirements in the limit management

Cont ...

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General Concepts

• Limit Node Concept:

✦ Limit nodes are used to group accounts under one node to enable easy monitoring and organization. A limit node can be linked to a security for deriving drawing power. Distribution of overall group (group may be a group of clients or a group of accounts) limits to individual members (members may be accounts or clients) is possible through creation of Parent Node and Child Nodes. It would be interesting to note that limits of every child node can further be distributed to group of accounts or clients. This is diagrammatically explained below.

Cont ...

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General Concepts

• The table represents the limits sanctioned to a client with the following conditions

Facility Type	Particulars	Limit (Rs.Lakhs)	Remarks
Funded	Term Loan	225	Funded Limit Cap is 500 Lakhs Upper Limits fixed in each type of Facility
	WCDL	75	
	CC	200	
	BP / FBP / BD	50	
Total Funded Facilities		500	
Non-Funded	LC	300	Non Funded capping is at Rs. 500 Lakhs
	BG	300	
Total Non-Funded Facilities		500	
Total Company Exposure		1000	Total Exposure to Company should not exceed 1,000 Lakhs

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Overview

• General Concepts of CBS

• Overview of various CBS

- Detailed discussion on various Menu Codes under Finacle, BaNCS & FlexCube
- Upgrades / Changes in Finacle 10.X

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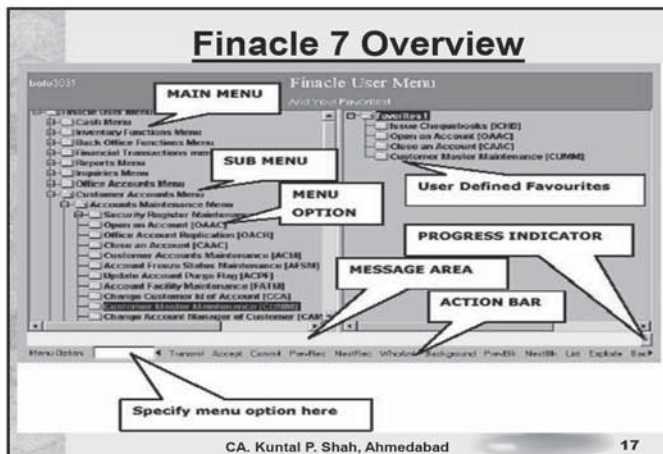
Finacle 10 Overview



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Finacle 7 Overview



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Finacle Overview

- **Menu Block:** The block houses all the menu and sub-menu options available in Finacle.
- **Menu Option Block:** Menu Code to be entered to gain access to the respective menu.
- **Action Bar:** User can execute the process of Finacle Operations by clicking on various options on this bar. The Hot-Keys are also assigned for all options, which appear on the bar.
- **Message Bar:** The message Bar displays warnings, exceptions, errors or Lists under a specific field code.
- **Favorites:** Menu items which are required and used on Regular basis can be put in favorites by copying from Menu Block. As a one time process Specific Menu Item which is required to be copied to Favorites should be located in Menu Block and with the use of Drag and Drop the function can be stored under Favorites menu.
- **Progress Indicator:** It shows the progress of the action initiated through the use of Colours (i.e. Green indicates that the System is "Ready" for processing and Red indicates that the "System is busy in Processing Activity).

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Finacle General Key Map

Physical Key	What does it do?
F1	Field level help. Like in several word processors and spreadsheet packages, F1 displays context sensitive help messages and field level help messages.
F2	List. This key lists the codes that may be used in a particular field.
F3 / Esc	Quit/ Back. Quits and takes the user back to where he started when in action. It can be used when the input is incorrect and the user wants to abandon what he has been doing. It can also be used to go back to the previous menu.
F4	Accept. After the user has completed the input, this key can be used to accept the data.
F5	Background Menu
F6	Next Block
F8	Copy Record
F9	Display Signature

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Finacle General Key Map

Physical Key	What does it do?
F10	Commit/ Save. This is very important key and this concludes the transactions. This is the commit and transactions get into the General Ledger (database) when this key is used.
F11	Next field
F12	Previous Block
TAB	Go to next valid field
ENTER	Go to the next field
CTRL+F1	Help maintenance
CTRL+F3	Show key map
CTRL+F4	Display error
CTRL+F8	Terminal lock
CTRL+F9	Memo pad look up
CTRL+F11	Context level help

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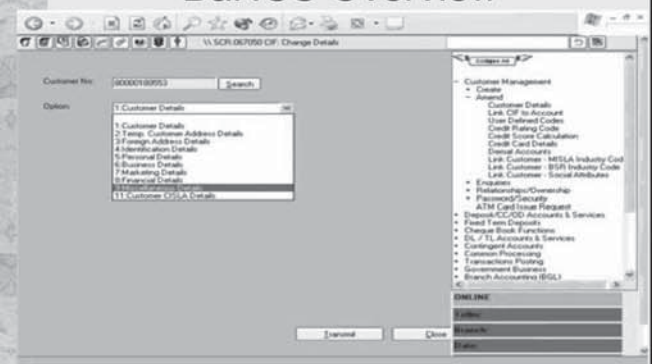
Finacle General Key Map

Physical Key	What does it do?
CTRL+D	Page down on a list
CTRL+E	Explode. This key is particularly useful for the further inquiry .
CTRL+F	Clear field. This key combination can be used when the user wants to clear the field.
CTRL+T	Display LGI. The user ID, Terminal ID, SOL, BOD Date and language details are displayed.
CTRL+U	Page up on a list
CTRL+X	Put BOD date. This key combination populates the default BOD date in the field.
SHIFT+F4	Select the current item from the list. This key combination can be used to select a value from the list of valid values listed for a particular field.
SHIFT+F11	Transmit
SHIFT+TAB	Go to the previous field

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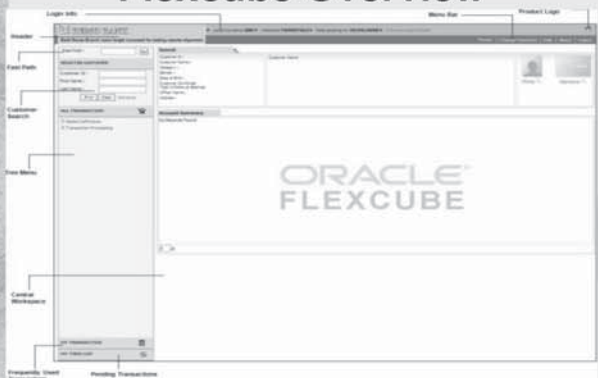
BaNCS Overview



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Flexcube Overview



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Flexcube Hot Keys

Hot Key	Description
Alt + B	Balance Inquiry
Alt + C	Customer Name and Address Inquiry
Alt + A	Account Details
Alt + S	Amount based Account Image Display
Alt + P	Printing
F8	Return to the same screen
F1	Help

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Overview

- General Concepts of CBS
- Overview of various CBS
- **Detailed discussion on various Menu Codes under Finacle, BaNCS & FlexCube**
- Upgrades / Changes in Finacle 10.X

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Various Menu Commands

- Command List Categories
 - ✦ Accounts and Customer Master
 - ✦ Transactions
 - ✦ Clearing Transactions
 - ✦ Office Account Maintenance
 - ✦ Advances
 - ✦ DD / PO Inquiry
 - ✦ Security Stationery Movement and Maintenance
 - ✦ Cheque Book Issuance & Stop Payment Instructions
 - ✦ Compliances
 - ✦ Trade Finance
 - ✦ Audit

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Customer Master Maintenance

- Basic details about customer viz. Name, Address, DOB / DOI, TDS Category etc.
- Concept
 - ✦ CUST ID / CIF / Cust IC / UCIC
- Use
 - ✦ To verify the Master details updated for the customer. Few Parameters have direct impact on Accounts opened under CUST ID.
- Issues
 - ✦ Issues if multiple CUST IDs have been opened for Customer.

CBS	Menu Code
Finacle 7	CUMM
Finacle 10	CRM Module
BaNCS	Customer Management Menu
Flexcube	CIM09 (Cust. Master Maint.), 7004 (Name & Add. Inquiry)

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Account Master Maintenance

- Use
 - ✦ It is used to verify the Account Level configurations and details.
 - ✦ It provides basic details like Cust ID, GL Subhead Code, Account Type, Interest Rate etc.

CBS	Menu Code
Finacle 7	ACM / ACI
Finacle 10	HACM / HACI, HACMTD (For TD)
BaNCS	Deposit / CC / OD Accounts & Services DL/TL Account and Services Menu (Enquiry)
Flexcube	BA095 (Account level attributes Inquiry)

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Account Ledger Inquiry

ACLI (Only Inquiry Option) [Fin.10.x- HACLI & HACLINQ]

- Use
 - ✦ It is used to verify the list of Transactions (both Credit and Debit) for a Account for the given period.
 - ✦ Under Finacle it also provides linkage to detailed transaction inquiry. Data can further be explored and drives through the Transaction Origination Point.

CBS	Menu Code
Finacle 7	ACLI
Finacle 10	HACLI, HACLINQ
BaNCS	Deposit / CC / OD Accounts & Services DL/TL Account and Services
Flexcube	CH031 (Statement Inquiry)

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Account Ledger Inquiry

ACLI

- Tip for Finacle-7:
 - ✦ To go to Account Master Level configuration page mention account no. After opening ACLI Menu. Press "Explode" Key to directly go into ACM. In Finacle-7 menus are inter-linked at various places. Due to which it gives flexibility of tracing the details / verification of complete Audit Trail

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Interest Table Master

- Use**
 - It is used to modify / verify interest Rate for Deposits and Advances Account

CBS	Menu Code
Finacle 7	INTTM / INTTI
Finacle 10	HINTTM / HINTTI
BaNCs	Deposit / CC / OD Accounts & Services DL/TL Account and Services (Interest Rate History)
Flexcube	BAM12 (Interest Index Maint.) BAM13 (Interest Index Rates) LN060 (Loan Product Rates Plan) LNM41 (Interest Rules) LNM42 (Product Interest Attributes Maintenance) LNM81 (Rate Change)

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Customer & Account Search

- Use:**
 - It is used to find Customer and Account based on Criteria. Viz. Name, Number etc.

CBS	Menu Code
Finacle 7	CUS (Customer Search) ACS (Account Search)
Finacle 10	CRM Module HACSP
BaNCs	Cust. Mgmt. → Enquiries → Search by ID Number Cust. Mgmt. → Enquiries → Search by CIF Number Cust. Mgmt. → Enquiries → Search by Name
Flexcube	7004 – Customer Name and Address Inquiry 2000 – CTI Customer Search

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Transactions

- Use:**
 - To view detailed information about transaction

CBS	Menu Code
Finacle 7	TI / TM
Finacle 10	HTI / HTM
BaNCs	Deposit / CC / OD Accounts & Services → Enquiries → Transaction [Addl. Options on Tran. Type available for selection] Branch Accounting (BGL) → Enquire → Transaction
Flexcube	LNM10 (Account Transactions Inquiry) GLM04 (GL Transactions and Movement Inquiry)

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Transactions Query / Search

FTI [Fin.10.x– HFTI, HFTR (Report)]

- Acronym for:** Financial Transaction Inquiry

- Use:**
 - It is used to find a Transaction based on various search criteria.
 - The Menu option houses various search parameters based on which the transaction can be located.
 - The menu option is having exceptional capacity to locate any transaction from entire database. It only requires user to put certain criteria.
- Tip:**
 - It is important for the Auditors to know each Search parameters and its mapping at the time of Transaction Processing. Without the knowledge of parameters used in Transaction processing, FTI will be a toothless weapon.
 - The option should be used sensibly (i.e. with as much parameters as possible) since, it affects the retrieval speed and also increases pressure on Central Database.

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Clearing Transactions

- Opening & Maintenance of Zone / Batch, Processing of Inward and Outward Clearing Instruments**

CBS	Menu Code
Finacle 7	ICTM (Inward Clearing Transactions Maintenance) OCTM (Outward Clearing Transactions Maintenance) MCLZOH (Maintain Clearing Zone)
Finacle 10	HICTM (Inward Clearing Transactions Maintenance) HOCTM (Outward Clearing Transactions Maintenance) HMCLZOH (Maintain Clearing Zone)
BaNCs	Collection and Cheque Purchase → Enquiries → Enquiries
Flexcube	ST023 (Outward Clearing) ST033 (Inward Clearing) BA990 (Clearing Inquiry)

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Office Accounts Maintenance

ACLPOA [Fin.10.x– HACLPOA]

- Acronym for:** Account Ledger Print Office Account

- Use:**
 - It is useful in Printing Account Ledger for an office Account.
 - Printing of all the accounts other than office account is done through PSP / ACLPCA Mode.

CBS	Menu Code
BaNCs	Branch General Ledger (BGL)

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Office Accounts Maintenance

IOT [Fin.10.x- HIOT]

- Acronym for: Inquire on Transactions
- Concepts:
 - † Pointing Type, Reversal Type, Reversal Method
- Use:
 - † It is used to inquire on Office Account Transactions viz. Suspense / Office Accounts
 - † As discussed during Concepts stage the office Accounts are opened with Pointing Type Account capability, wherein each originating transaction is required to be settled by corresponding Reversal Transaction.
 - † The Menu option is used to track and search transactions based on its status (i.e. Reversed, Part Reversed, Not Reversed etc.)
- Issues:
 - † Reversal Discipline, Fraught with Fraud Risk, Reversal issues

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Office Accounts Maintenance

CBS	Menu Code
Finacle 7	IOT (Inquire on Transactions) MSGOIRP (Outstanding Items Report) MSOIRP (Minor Subsidiaries Outstanding Items Report)
Finacle 10	HIOT (Inquire on Transactions)
BaNCS	Branch Accounting (BGL) → Enquire → Transaction
FlexCube	GLM02 - Chart of Accounts GLM04 - GL Transactions and Movement Inquiry

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Advances - Security

Security / Collateral Maintenance

- Concepts:
 - † For Setting up of Drawing Power in any Account wherein Facility is sanctioned based on Security, this menu option is used.
 - † The Concept of Maintenance of Security Register is not new. In earlier times the same use to take place in Physical Register. However, updation of manual register takes lot of time and energy. Moreover, it does not give Real Time updation about Security, Insurance Coverage, Margin Requirements, Nature of Security, Last Valuation Date, Default in submission of Debtors and Stock Statement, Penal Interest for Default in submission of Statements etc.

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Advances - Security

SRM (in Finacle)

- Use:
 - † SRM is used for maintenance of security and drawing power allocation in respect of all advance accounts where drawing power is derived from securities.
 - † The option, if used diligently and correctly, gives excellent result when compared to manual register.
- Issues:
 - † It is generally observed that the Bank Officials do not update stock / debtors statement receipt details in SRM
 - † Moreover, Insurance dates are also not filled in / updated properly.
 - † Date of Valuation of Assets under Hypothecation is not filled up. On account of the same, when Account becomes NPA old papers are required to be searched through. Moreover, if the details are not filled in it can not be tracked what is the Age of Security Valuation.

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Advances - Security

CBS	Menu Code
Finacle 7	SRM (Security Register Maintenance) CLL (Collateral Maintenance) HCLM (Collateral Maintenance)
Finacle 10	HSCLM (Collateral Maintenance)
BaNCS	DL/TL Accounts & Services → Security (Primary / Collateral) → Customer → Enquiry → Enquire Security Summary
Flexcube	CH066 (Limit Collateral Inquiry) CHM06 (OD Collateral Maintenance)

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Advances – Lien Maintenance

- Use:
 - † It is used to mark / lift Lien from Account. If the lien is marked on the Account system does not permit user to carry out transactions which are not consistent with lien particulars.
- † Lien is marked on Fixed Deposits wherein a credit facility is sanctioned against the same. If the lien is marked the system will prevent withdrawal of deposit.
- † For carrying out of Transaction in such account, Lien is required to be lifted in order to process the Transaction.

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Advances – Lien Maintenance

CBS	Menu Code
Finacle 7	ALM (Account Lien Maintenance)
Finacle 10	HALM (Account Lien Maintenance)
BaNCs	DL/TL Accounts & Services → Security (Primary / Collateral) → Customer → Enquiry → Enquire Security Summary
Flexcube	TDM24 (Lien Master)

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Advances – Temporary Overdraft

ACTODM [Fin.10.x- HACTODM]

- Acronym for: Account TOD Maintenance

• Use:

- ✦ The option is used to allow overdraft then the prescribed limit. It is a Credit Decision taken by the official / authorizer. On setting up of TOD the system allows user to process the transaction beyond the regular limit setup at Account Level.
- ✦ TOD can be System Generated or can be User Generated. The only difference between the two is System at the time of processing any transaction at the backend viz. Interest Application finds the limit insufficient for debit grants TOD to process the transaction. Whereas, User Generated TOD is allowed manually by user as per available Credit Powers for case to case basis.
- ✦ TOD can be of Single Type, Running Type or of Ad-hoc Type. Single Type TOD is applicable for Specific Purpose / Transactions and used only once. Running Type and Ad-hoc Type TODs allow client to operate within the prescribed limit for the defined period.

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Advances – Temporary Overdraft

CBS	Menu Code
Finacle 7	ACTODM / ACTODI (Account TOD Maintenance) ACLHM (Account Limit History Maintenance) TODRP (TOD Register Printing)
Finacle 10	HACTODI (Account TOD Inquiry) HTODRP (TOD Register Printing)
BaNCs	Deposit / CC / OD Accounts & Services → Enquiries → Interest Rate History → Select 'Limit history' from drop down menu
Flexcube	CHM07 (OD Limit Master Maintenance) CH226 (Adhoc List of Overdue CASA Accounts)

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Advances – Account Ledger Printing

• Use:

- ✦ It is used to print Ledger Account / Account Statement / Passbook for Client.

CBS	Menu Code
Finacle 7	PSP (Pass Sheet Print) ACLPCA (Customer Ledger Account Print)
Finacle 10	HPSP (Pass Sheet Print)
BaNCs	DL / TL Accounts & Services - Print Option Deposit / CC / OD Accounts & Services - Print Option
Flexcube	CH031 (Statement Inquiry) 7010 (Passbook update) LNM10 (Account Transactions Inquiry) LN421 (Statement of Account NPA)

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Advances – Loan General Inquiry

• Use:

- ✦ It is used to inquire Loan Account details. Query Command

CBS	Menu Code
Finacle 7	LAGI (Loan Account General Inquiry)
Finacle 10	HLAGI (Loan Account General Inquiry)

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Advances – Loan Overdue Inquiry

• Use:

- ✦ It is used to inquire Overdue / Overflow position for a Loan.

- ✦ Principal as well as Interest Overdue position can be verified for a given account

CBS	Menu Code
Finacle 7	LAOPI (Loan Overdue Position Inquiry)
Finacle 10	HALOPI (Loan Overdue Position Inquiry)

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Advances – Limit Setup & Maintenance

• Use:

- † It is used to monitor clients' limit utilization and available limit for further credit facility.
- † The system is configured in such a way that credit facilities are not extended if the Limits have not been or are insufficient.

CBS	Menu Code
Finacle 7	LTL (Limit Tree Lookup) LNDI (Limit Node Inquiry)
Finacle 10	HLMTREEI (Customer Limit Tree Details)
BaNCs	Customer Management → Customer Limit
Flexcube	BAM73 (Bank Customer Limit Maintenance) LMS01 (Limit Inquiry) LRM01 (Credit Concentration and Exposure Limit Maint.)

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Advances – Limit History

• Use:

- † It is used to verify history of Drawing Power and Sanctioned limit for an account.
- † It gives periodwise details for DP and SL.

CBS	Menu Code
Finacle 7	ACLHM (Account Limit History Maintenance)
Finacle 10	HACLHM (Account Limit History Maintenance)
BaNCs	Deposit / CC / OD Accounts & Services → Enquiries → Interest Rate History → Select 'Limit history' from drop down menu
Flexcube	CHM07 (OD Limit Master Maintenance) CH409 (OD Limit History Report)

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Advances – Interest Computation

• Use:

- † It is used to generate report on details for Interest for an account.

CBS	Menu Code
Finacle 7	AINTRPT (Interest Report for Accounts)
Finacle 10	HAINTRPT (Interest Report for Accounts) HINTPRF (Interest Proof Report)
BaNCs	Deposit / CC / OD Accounts & Services → Enquiries → Interest Rate History Interest Product Sheet
Flexcube	LN022 (Interest Calculation Inquiry) LN608 (Interest Charges Report) LN801 (Loan Interest Report)

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Advances – NPA Parameters

• Use

- † Inquiry on NPA Status and other related aspects

CBS	Menu Code
Finacle 7	ACI – Option Y (Asset Classification Inquiry)
Finacle 10	HACM
BaNCs	• DL / TL Account & Services – Short Enquiry (NPA Status) and Long Enquiry (NPA Date) • CC / OD Accounts & Services - Short Enquiry (NPA Status and Date) • NPA Enquiry Menu (Risk Grade Inquiry and NPA Status Inquiry) System Setup is with Risk Grades and Arrear Conditions.
Flexcube	AC02 (CRR (Credit Risk Rating) Inquiry) LN156 (Non Performing Loan Details Report) LN191 (Accounts in NPA Status)

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DD / PO Inquiry

DDSM [Fin.10.x– HDDSM]

- Acronym for: DD Status Maintenance

• Use:

- † It is used to verify the Status of DD / PO Issued.

DDIP [Fin.10.x– HDDIP]

- Acronym for: Inquiry on Specific DD Paid

• Use:

- † It is used to verify the Payment Status of specific DD / PO Issued.
- † It should be checked for the cases where requests for reissue of DD / PO are received due to Lost of Original DD / PO.

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Remittances (DD / PO Inquiry)

• Use

- † To verify details viz. Issuance, Payment status of Remittance Instruments.

CBS	Menu Code
Finacle 7	DDSM (DD Status Maintenance) DDIP (Inquiry on Specific DD Paid)
Finacle 10	HDDI (Specific DD Issued Inquiry) HDDIP (Specific DD Paid Inquiry)
BaNCs	Inland Rupee Remittances → Enquiries → Other Remittances
Flexcube	8310 (DD Liquidation Inquiry) 8314 (BC Status Inquiry) 8315 (DD Status Inquiry)

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Security Stationery Movement and Maintenance

- Use:**
 - ✦ The report gives details of Security Stationery available under each location.
 - ✦ The Security Stationery physically available with all the bank employees should be verified based on this report.
 - ✦ Security stationery viz. Demand Draft, Non personalized cheque books, Fixed Deposit Receipts are recorded in system.

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Security Stationery Movement and Maintenance

CBS	Menu Code
Finacle 7	ISRA (Inventory Status Report) IMI (Inventory Movement Inquiry)
Finacle 10	HISRA (Inventory Status Report) HIIA (Inventory Inquiry All)
BaNCS	Valuable Paper Inventory System (VPIS)
Flexcube	IV011 – Stock Inquiries IV001 – Stock Transactions IV002 – Stock Adjustment

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Cheque Book Issuance, Status & Stop Payment Instructions

- Use:**
 - ✦ **Cheque Books:** The assignment of cheque number to account is for Security Reasons. It prevents debit for cheques other than those issued to client.
 - ✦ **Stop Payment:** Hotlisting of Cheque to prevent passing.

CBS	Menu Code
Finacle 7	ICHB (Issue Cheque Books) CHBM (Cheque Book Status Maintenance) SPP (Stop Payment) SPRG (Stop Payment Register Printing)
Finacle 10	HICHB (Issue Cheque Books) HSPP (Stop Payment) HSPRG (Stop Payment Register Printing)

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Cheque Book Issuance, Status & Stop Payment Instructions

CBS	Menu Code
BaNCS	Valuable Paper Inventory System [VPIS] → Enquiry of VPIS → General Enquiry
Flexcube	CHM43 (Cheque Book Issue Upload) CH078 (Cheque Status Maintenance) CHM37 (Cheque Book Issue Maintenance) CHM35 (Stop Cheque Instructions)

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Compliances - TDS

- Use:**
 - ✦ The menu option is used to verify and inquire TDS details.

CBS	Menu Code
Finacle 7	TDSIP (TDS Inquiry / Print)
Finacle 10	HTDSIP (TDS Inquiry / Print)
BaNCS	Tax Deduction at Source (TDS) Menu
Flexcube	TDS11 (TDS Inquiry) TDS15 (Inquiry on Projected Tax)

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Compliances – Freeze / Stop Marking

- Use:**
 - ✦ It is used to mark / lift Freeze at Account Level. Freeze / Stop marking can be for any reasons viz. on receipt of Tax Recovery Notice, on receipt of Notices as per various statutes to suspend the operation.
 - ✦ Freeze / Stop can be of Debit, Credit or Total.
 - ✦ The system does not permit any transactions based on the Freeze / Stop Code. To carry out the Transaction Freeze / Stop Code is required to be lifted.

CBS	Menu Code
Finacle 7	AFSM (Account Freeze Status Maintenance)
Finacle 10	HAFSM (Account Freeze Maintenance)
BaNCS	Deposit/CC/OD Accounts & Services → Stops / Holds (Lien) / Messages → Set Stop On Account

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Trade Finance

i) Bills Related

a. **INBOEM** (Finacle 7) [Fin.10.x- HINBOEM]
It is used to verify the Bill of Entry received details updated. Details of BOEs are updated against Import Bill Ref. Nos.

b. **BM & BI** (Finacle 7) [Fin.10.x- For Import & Inward Bill - "MIIB" and For Export & Outward Bill "MEOB"]

- Acronym for: Bills Maintenance and Bill Inquiry (Inland)
- Use:
 - + The menu is used for maintenance of Inland Bills and Cheques purchased or sent for collection.
 - + The menu option is also used to mark realization / delinking against the said bills.
 - + BI Option is used for Inquiry mode only. BM Option can also be used with "I" mode to verify the details in Inquire Mode.

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Trade Finance

c. FBM (Finacle 7)

+ Acronym for: Foreign Bill Maintenance

+ Use:

- The menu is used for maintenance of Foreign Bills (Import and Exports), Foreign Currency Cheques, Travellers Cheques, Outward and Inward Remittances etc.
- The menu option is also used to mark realization / delinking against the said bills.

CBS	Menu Code
Flexcube	BIM04 (Bill Parameters Maintenance) BIM05 (Bills Processing Maintenance) BI001 (Bills Data Entry)

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Trade Finance

d. FBI [Fin.10.x – IBL]

+ Acronym for: Foreign Bill Inquiry

+ Use:

- Same as FTI Option, FBI menu provides user to locate a transaction or series of Transactions based on various criteria.
- The transactions are recorded as per Register Type. Hence, knowledge and information for each register type is must for using this option.

+ Tip:

- To know the register types and its description press "F2 or List Command" at "Reg. Type" field in FBI. The action will display all register type. Notings for the screen details can be made for future reference.

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Trade Finance

e. FBP [Fin.10.x – IBL]

+ Acronym for: Foreign Bill Inquiry Printing

+ Use:

- The option is used for printing of results derived from FBI Option.
- The option will take user to FBI Option only. However, if this option is used the user will have option to take print of the records searched.
- Printing will be for each event for each transaction (e.g. Lodgment {L}, Realization {R}, Part Realization {P}, Closure {Z}, Delinking {K} etc.)

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Trade Finance

e. BRBPR [Fin.10.x – HBRBPR]

+ Acronym for: Balancing Report for Bills Purchased (Inland)

+ Use:

- The report is generated to verify the Status of Bills Purchased.
- Long pending / overdue bills can be verified from the said report.

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Trade Finance

e. BRCCR [Fin.10.x – HBRCCR]

+ Acronym for: Balancing Report for Bills on Collection (Inland)

+ Use:

- The report is generated to verify the Status of Bills on Collection.
- Long pending / overdue bills can be verified from the said report.

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Trade Finance

e. FBRR [Fin.10.x – HFBBR]

- + Acronym for: Balancing Report for Foreign Bills
- + Use:
 - The report is generated to verify the Status of Foreign Import and Export Bills.
 - Long pending / overdue bills can be verified from the said report.

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Trade Finance

ii) Letter of Credits

a. DCQRY

- + Acronym for: Documentary Credit Query
- + Use:
 - The menu is used to verify the documentary credit details and list as per parameters.

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Trade Finance

iii) Bank Guarantees

• GI [Fin.10.x – HGI]

- + (Driven by Register Types - List of Register Type for Each category should be obtained from branch)
- + (For both Inland & Foreign - Financial, Performance, Bid Bond, Deferred Payment, Advance Payment)
- Acronym for: Guarantee Inquiry
- Use:
 - + The menu is used to verify the Guarantee Issuance details and list as per parameters.

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Trade Finance

iv) Remittances

• IRM [Fin.10.x – HIRM]

- + Acronym for: Inward Remittance Maintenance
- Use:
 - + The menu is used to verify details of Inward Remittance Transaction
- **ORM [Fin.10.x – HORM]**
 - + Acronym for: Outward Remittance Maintenance
 - Use:
 - + The menu is used to verify details of Outward Remittance Transaction

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Audit

AFI [Fin.10.x – HAFI]

- Acronym for: Audit File Inquiry
- Use:
 - + The menu contains Audit Trail of Non Financial Transactions like change in Account Master, Change in Account Status (e.g. Dormant to Active) etc.

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Overview

- General Concepts of CBS
- Overview of various CBS
- Detailed discussion on various Menu Codes under Finacle, BaNCS & FlexCube
- **Upgrades / Changes in Finacle 10.X**

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Upgrades / Changes in Finacle 10.X

- Entire new module “CRM” in place of CUMM command
- CRM Module contains
 - ✦ General Details,
 - ✦ Demographic,
 - General
 - Caste | Nationality | Marital Status | Mailing Preference | Tax Exemption Form Ref. | Tax Exemption Start and End date | TRC Validity
 - Qualification
 - Employment
 - Income & Exp. Details

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Upgrades / Changes in Finacle 10.X

- ✦ Psychographic info.
 - Profile
 - General details
 - Segmentation
 - Preferential Discount
 - Relationship Details
 - Introducer | Guarantor | Reference | Ben. Owner
 - Asset
 - Assets purchased with Finance details
 - Credit Bureau Preferences
 - External Rating details
- ✦ Trade Finance
- ✦ BASEL Profiling

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Upgrades / Changes in Finacle 10.X

- Trade Finance and Forex Menu
 - ✦ Single Reg. Type code instead of two codes
 - ✦ Flag in Inward Remittance module for Advance against Exports cases
- New UI (User Interface)
- Changed Menu Codes
- Account Setup (Different for Operative Account and Term Deposits)

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Upgrades / Changes in Finacle 10.X

- Signature verification system separated from Main Application. New module “SVS”. Though linking is available besides account no. for seamless movement.
- Apart from enhancements and above points there are various Navigational Changes and Process Changes in Finacle 10X.

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Session Details

- **Part – 1**
 - ✦ Software Usage in Banks
 - ✦ Audit in CBS Environment
- **Part – 2**
 - ✦ Case Studies on data extraction from FINACLE
 - ✦ Reports available in BaNCS
 - ✦ Reports available in FlexCube

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Part – 2

Data Extraction Techniques in FINACLE

Data Extraction Techniques in FINACLE

- **Through PR (Print Report) Menu / Print Queue in Background Menu**
 - ✦ Print to Printer | On Screen | Export to File
 - **Common Process**
 - For Printing / Export / On Screen view from Report Menu, the user need to press "Transmit" key after generation of Search Parameters / Execution of Report.
 - On pressing "Transmit" Key the system will ask for Printing Configuration viz. Background Printing or Foreground Printing. In "Printing Required" field "N" should be updated.
 - The action will generate report in Background Menu or can be accessed through PR Menu.
 - From PR Menu the report can be printed / exported / viewed.
 - Generally, Read Only Login in FINACLE do not allow user to generate / print any report. For the said purpose execution of such option should be carried out by the person having sufficient work class (Authorisation)

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Data Extraction Techniques in FINACLE

- **Through TextDump Option in Finacle**
 - ✦ "TextDump" button is available in Action Bar. The user can use this option at the time when the On Screen Criterion Based Report is populated.
 - ✦ The system will extract the text and will provide in a Dialogue Box.
 - ✦ However, there is a limitation in using this option. Finacle will provide all the information in Single Column and hence, the information received in dialogue box need to be formatted manually in Excel.

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Case Study - 1 on Few Report Menus of Finacle

- **FTI (Financial Transaction Inquiry) / FTR (Financial Transaction Report):**
 - ✦ To verify any transaction based on various parameters FTI Menu is used.
 - **Case Study:**
 - Credits to NRE Accounts in a period
 - Credits to FCRA Accounts in a period
 - Cash Deposit above Rs. 50,000 to verify compliance with Income Tax Guidelines on PAN
 - Cash Transactions above Rs. 10 Lacs to verify compliance with AML Guidelines
 - Debits to ESCROW Accounts to verify compliance with ESCROW Agreement
 - Purchase of Gold through Cash Deposit
 - Value Dated Transactions verification
 - Transactions in Dormant & Inactive Accounts

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Case Study - 1 on Few Report Menus of Finacle

Financial Transactions Inquiry			
Selection Criteria			
Set ID		Tran. ID	
A/c. SOL ID		Tran. Type	
Today's Tran. only		Tran. Sub Type	
A/c. ID		Part Tran. Type	
CCY		Only Value Dated	
Instr. ID		Reference No.	
Instr. Type		GL SbHead Code	
Tran. Amt Low		Addnl Crit Ind	
Tran. Amt High		Inter SOL Tran. only	
Start Date		Tran. Status	
End Date		Show Cash Part Tran.	
Report Code		Show Trading PTran.	
Entered User ID		A/c. Status	
Posted User ID		A/c. Label	
Delivery Channel		Past Due?	
Reversal Tran. Flg.			
FOR FASTER RESULTS ENTER ACCOUNT NUMBER, START DATE AND END DATE			

Case Study - 1 on Few Report Menus of Finacle

- **FTI (Financial Transaction Inquiry) / FTR (Financial Transaction Report):**
 - ✦ **Important Fields / Parameters Information**
 - **Set ID** – SOL ID of Branch who has initiated the Transaction
 - **A/c SOL ID** – SOL ID of Branch where Account is Opened
 - **Today's Tran Only:** By default it is selected as "Y". If the details are populated for past period the field should be kept blank.
 - **Tran Amt Low:** For Amount based search, lower limit should be mentioned in this field.
 - **Tran Amt High:** For Amount based search, Higher limit should be mentioned in this field.

Cont ...

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Case Study - 1 on Few Report Menus of Finacle

- **FTI (Financial Transaction Inquiry) / FTR (Financial Transaction Report):**
 - ✦ **Important Fields / Parameters Information (Cont..)**
 - **Start Date & End Date:** For Period Search enter the dates in these fields.
 - **Tran Type** – As discussed in Concept Stage
 - **Tran Sub Type** – As discussed in Concept Stage
 - **Part Tran Type** – Debit or Credit?
 - **Only Value Dated** – To be mentioned as "Y" if only value dated transactions to be searched.
 - **GL Subhead Code** – If search is to be carried out through particular GL Subhead, code should be mentioned in this field.
 - **Acct Status** – If the search is to be carried out for the accounts based on Account Status (Viz. A for Active, D for Dormant and I for Inactive Accounts)

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Case Study - 1 on Few Report Menus of Finacle

- FTI (Financial Transaction Inquiry) / FTR (Financial Transaction Report):
 - ✦ If the output generated through FTI is required in Printed Form / Exported as File, Menu Command FTR should be used.
- ✦ FTR Command will provide the same parameters as that of FTI. Once all the parameters are filled in and transactions have been populated, "Transmit" Key should be pressed.
- ✦ Follow the Common Process described earlier.

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Case Study - 2 on Few Report Menus of Finacle

- FBI, FBP, BI, BP (Trade Finance Menu)
 - ✦ To verify any Trade Finance related transaction based on various parameters BI, BP (For Inland) and FBI, FBP (Foreign) commands are used.
 - Case Study:
 - Import & Export Bills (Under LC, Collection, Advance Import, Direct Import, Export Bill Negotiated / Purchased / Discounted / Under LC / Advance against Exports) lodged or Accepted or Realised during the period. Same way for Inland Bills
 - Inward Remittance and Outward Remittance Transactions (Foreign Currency / TC / Purchased / Sold, I/w & O/w Remittance through DD / TT, Travel Card Sold / Refund of Excess Funds etc.)
 - Generation of Information of Bills realised during the period to verify Form A2

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Case Study - 2 on Few Report Menus of Finacle

Bills Inquiry			
Cust Oper A/c		INR	DC Ref No
BP A/c		INR	Lodger Ref
Reg Type			Mass ID
Reg Sub Type			Dwse Cent
Bill Date	From	To	Inw/outw?
Status Dt	From	To	Bill Status
Due Date	From	To	Ver Stat
Lodge Dt	From	To	Func Code
Bill ID	From	To	LiabExist
Bill Amt	From	To	Purchase?
Customer ID			Summary?
Lodge/Coll Br			Bill Cnt?
Bill Grp Code			Accepted?
Drawee			TBR
LC/DPS/Co-Acpt			Closed?
Bank/Branch			Deleted?
Lodge Date	Reg Type	Cust A/c	Drawee

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Case Study - 2 on Few Report Menus of Finacle

- FBI, FBP, BI, BP (Trade Finance Menu)
 - ✦ Important Fields / Parameters Information
 - Reg. Type: Type of Transaction as discussed in Concept Stage
 - Reg. Sub Type: Sub type of Transaction as discussed in Concept Stage
 - Lodgment Date: If Query is based on Lodgment Date, Dates should be filled in here.
 - Status Date: If Query is based on Date when the Status of bill was changed, dates should be filled in here. Status of Bill means G=Lodgment, R=Realised, A=Accepted, K=De-linked, P=Part Realised etc. This parameter should be used with Bill Status Parameter. Report will be generated for one parameter at a time.
 - Due Date: If Query is based on Date when the bill is due, dates should be filled in here. To verify overdue bills this search parameter should be used.
 - Closed and Deleted Flag: If Closed bills are also required the field should be blank or "Y". Same way if Deleted Transactions are also required the field should be blank or "Y".

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Case Study - 3 on Few Report Menus of Finacle

- GI (Guarantee Inquiry)
 - ✦ To verify Details of Guarantees issued GI Command should be used.
 - ✦ Guarantee Registers and Type of Guarantee – As discussed at Concept Stage alongwith Register Type and Sub-Type concept
 - ✦ Date of Issuance Filter, Date of Expiry are various filters available.
- ✦ Related Menu Options
 - GILR – Guarantee Issued cum Liability Report
 - GPI – Guarantee Parameters Inquiry

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Case Study - 4 on Few Report Menus of Finacle

- DCQRY (Documentary Credit Query)
 - ✦ To verify Details of Letter of Credits issued DCQRY Command should be used.
 - ✦ DC Reg. Type (e.g. Inland / Foreign) and LC Type (e.g. Inward / Outward) are important fields for generation of report.
 - ✦ Date of Issuance Filter, Date of Expiry are various filters available.
- ✦ Related Menu Options
 - DCREG – Documentary Credits Register Printing
 - DCRPTS – DC Reports and Advises
 - DCSTMT – Statement of Documentary Credits

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List of Important Report Menu Commands in FINACLE

- **ACSP** – Account Selection & Print
- **AINTRPT** – Interest Report for Accounts
- **BR** – Bill Balancing Report
- **BRCR** – Bills on Collection Balancing Report (Inland)
- **BRBPR** – Bills Purchased Balancing Report (Inland)
- **FBBR** – Foreign Bills Balancing Report
- **FTR** – Financial Transaction Inquiry and Report
- **PSP** – Pass-Sheet Print
- **SIRP** – Standing Instructions Register Printing
- **SPRG** – Stop Payment Register
- **LLIR** – Limit Liability Inquiry / Report
- **TODRP** – TOD Register Printing

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List of Important Report Menu Commands in FINACLE

- **ISRA** – Inventory Status Report
- **TDSREP** – Cust-wise TDS Report
- **FBIR** – Import Register Report
- **ACLPOA** – Office Account Ledgers Print
- **MSOIRP** – Minor Subs outstanding Items Report
- Report Menu (Adhoc Report) designed and configured for each Bank houses hundreds of reports. Auditor need to inquire with Bank Official for Menu code.

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Part – 2

List of Important Report Menu Commands in BaNCS

List of Important Report Menu Commands in BaNCS

- Reports under BaNCS system are generated on daily basis and are stored on a pre-designated location on Intranet.
- The type of reports generated include
 - ✦ Exception Report
 - ✦ Transaction Report
 - ✦ Letter / Reminders
 - ✦ MIS Reports
 - ✦ Other Reports
 - ✦ Concurrent Auditor Reports
 - ✦ Ad-hoc Audit Reports
 - ✦ Reports on Request

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List of Important Report Menu Commands in BaNCS

- Adhoc Reports through System
 - ✦ For Adhoc Report generated specific menu is available under BaNCS system
- ✦ Menu Option is "Reports"
 - Printing Balance Reports
 - Audit Adhoc Reports

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Part – 2

List of Important Report Menu Commands in Flexcube



List of Important Report Menu Commands in FlexCube

- To request a report use Fast Code 7775
- Select the report to be generated
 - ✦ Broad Types:
 - Agri
 - Branch Reports
 - Customer Information
 - General Ledger
 - Loans
 - NEFT
 - Others
 - Savings
 - Security Management
 - Settlement
 - Term Deposit
- To view the report use Fast Code 7778

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List of Important Report Menu Commands in FlexCube

- LN904 - Loan Restructure Reschedule – Adhoc
- LN608 - Interest Charges Report
- LN156 - Non Performing Loans Details Report
- CH225 - Expired Overdraft Report
- There are various adhoc reports which can be generated through system. In addition to the same there are various reports generated and provided to branches / auditors on monthly basis which can also be used.

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Questions?



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Thank You

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Section - 3

E Book Published by SIRC of ICAI on Audit under CBS Environment

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)
Southern India Regional Council



FOREWORD

Over the years, the banking operations have been automated to a large extent and wide range of banking software's have been developed for accounting of transactions and core banking operations.

Bank software is becoming more sophisticated all the time. As new accounting methods develop and more people bank online, private banking software is being developed to streamline the processes.

I am feeling elated to share my happiness amongst the members in bringing out an informative e-book on **Audit in CBS Environment**.

This e-book provides a detailed knowledge base for professionals who would like to understand how Audit in Core Banking Software/Solution (CBS) has evolved over the years. It also covers the basic concepts of Core Banking Software/Solution for better understanding of the environment and an overview of the various Core Banking Software/Solution available in the market.

This e-book includes detailed write ups on the important menu commands of Core Banking Software/Solution, Illustrative checklists on different audit activities through Core Banking Software/Solution and Illustrative list of Special purpose/Exception Reports for better understanding of Core Banking Software/Solution and to let our professionals take advantage of the same by using it effectively.

This e-book, one in a series of member centric publications planned by SIRC, aims to serve as a Handbook and Guide for the professionals who intend to understand the basics of Core Banking Software/Solution and how to perform an audit effectively within the Core Banking Software/Solution environment.

On behalf of SIRC, I wish to place our sincere gratitude and appreciation to CA. Kuntal P Shah, for sharing his rich experience and expertise on the Audit in CBS Environment amongst our members through this e-book. I also take the privilege of thanking CA. Gangesh K Shrinivas for reviewing the basic draft of e-book and adding value to the substance of the e-book.

Comments and suggestions on the e-book are welcome at sirc@icai.in



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2	Audit of Banks & Banking Software's
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5	Overview of Various CBS and Basic Concepts
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7	Illustrative Checklist on Audit activity through CBS
8	Illustrative list of Special purpose / Exception Reports

Banking Industry & Banking Software:

Current Scenario

The face of Banking Industry is changing continuously. What Banking is today is quite different from what it was in the years gone by. Some of the present trends in banking industry include

- Focus on Customer Relationship (Service Oriented Architecture[SOA])
- Introduction of Value Added Services
- Connectivity of branches
- Multiplicity of Delivery Channels (ATM, Cash Deposit Machines, Cheque Deposit Machine, Point of Sale Units, Credit Card, Mobile Banking, Internet Banking)
- Focus on MIS & Risk Management
- Focus on Reduction of Transaction Cost

Future Scenario

One can visualize future scenario in the industry on current trends. Going by the current happenings one can expect the future of Banking Industry.

- Increase in the expectations of Customers
- Increase in Healthy Competition due to issue of New Banking Licenses
- A greater variety of Products and Delivery Channels in the market
- Centralised Customer Management (Service Centric Approach)
- Information Technology to act as an integrator and enabler between demands on the industry and services rendered

Challenges

The biggest challenge before the Banking Industry today is posed by its customers' expectations. The customer today is more informed and aware than before. Customers demand more and more services and delivery channels.

Customers' Expectations

- Anywhere, Anytime banking
- Diverse products and facilities

There are challenges posed by Market Forces due to stiff competition wherein the differentiator or selection of bank by the customers is based on quality of Services. However, the Service up-gradation comes with a cost for the Bank. Hence, a Tradeoff between cost of Transaction and Quality Service to Customer is the key. Moreover, due to diversified products and services, upto date information for Customer and Banker is very important.



On the other front the Regulatory requirements are rapidly increasing. Apart from handling Transactions, Customer and competition it is very important to pay equal attention to adherence to regulatory guidelines.

A composite system / software which handles Transactions, Customer Relations, Regulatory compliances, MIS / Reports request is the need of an Hour. Core Banking Systems provide the solution for the same. There are various Core Banking Softwares available in the market. More prominent and used in India are,

Software Package	Provider
Finacle	Infosys
FLEXCUBE	Oracle Financial Services Software, (By iflex)
TCS BaNCS	Tata Consultancy Services (TCS)

Audit of Banks & Banking Softwares

Ever since the human being started documenting transactions, audit methodology and techniques have evolved over the period of time keeping pace with the style of business. With the growth in business volume and technological advances there has been paradigm shift in various aspects of business. Conducting audit of financial transactions can not be an exception to the same. Traditional audit techniques and methodology were outcome of the volume and complexities of the business of its time. A classic example of the same is audit techniques applied for conducting audit of a bank operating under Core Banking System (CBS).

As we have witnessed, during the last decade there has been large scale growth in banking services, covering more and more geographical area and large number of population. This has necessitated applying modern technology, particularly in the field of data capturing, recording and processing. CBS is outcome of the same.

For obvious reasons audit methodology can not remain static, it has also to change. Therefore, with the spread of CBS in large number of cases, changing audit methodology also became inevitable. If the auditee's dependence on technology hinges heavily, there is no reason why auditor should not apply the same technology.

Core Banking Solution (CBS)

What is CBS?

The core banking system is the set of basic software components that manage the services provided by a bank to its customers through its branches (branch network). The bank's customers can make their transactions from any branch, ATM, Service Outlets, Internet, Phone at their disposal.

The CBS is based on Service Oriented Architecture (SOA). It helps banks to reduce risk that can result from manual data entry and out-of date information. It also helps banks to improve Service Delivery quality and time to its customer.

The software is accessed from different branches of bank via communication lines like telephones, satellite, internet etc.

Core Banking System [CBS] works on a concept of Centralized Database and Processing. Transactions take place at various geographical locations which get recorded and processed at a Centralized Server. Updation of Database is on Real Time Basis. Due to the Centralization of

Transaction Processing, issue of Out of Date Information is eliminated. All the users connected to CBS will be able to get upto date information. CBS also enhances quality of Reporting and strengthens Access Control.

Centralized Banking Solution / Core Banking Solution

Under CBS data is stored in centralized servers at Data Centre. This effectively means that all operations at the connected branches, back offices are carried out through servers at Data Centre including transactions through other delivery channels like ATMs, Internet Banking, Phone Banking.

Under CBS, the branches, back offices are defined as SOL (i.e. Service Outlets) where each SOL functions as a service window. The CBS is capable of processing any transaction from any branch location connected to CBS. It can be equated with single window operations at airline counters or railway reservation counters wherein all the services can be obtained at one place. Hence, under CBS customer is now a customer of the bank and not merely a customer of a branch of the Bank. This has facilitated Any-where, Anytime Banking convenience for the customer.

From Bank's perspective, control over the application and processes has been entrusted at Data Center Level. In addition to it CBS also makes available effective MIS on real-time basis. It enables generation of all periodical returns centrally.

As mentioned above there are various CBS developed by various software companies are available in the market however, out of the all, highly acclaimed and widely used Core Banking Softwares are a) FINACLE by Infosys, b) BaNCS by TCS and c) FlexCube by Oracle

This writeup is segregated into following parts.

1. Part - A Overview of Various CBS and Basic Concepts
2. Part - B List of Important Menu Commands of CBS
3. Part - C Illustrative Checklists on different Audit activities through CBS
4. Part - D Illustrative list of Special purpose / Exception Reports



Part - A

Overview of Various CBS and Basic Concepts

Introduction to FINACLE

A Financial Package, for Banking Solution developed by Infosys on a platform of Oracle, is thus named as FINACLE. Presently, many Indian Public Sector Banks, Private Sector Banks and Foreign Banks operating in India are using this software as banking solution due to high flexibility and scalability. Finacle is an integrated, on-line, enterprise banking system designed to provide the "e-platform".

Prior to 1995 it was known as BANC 2000, a Total Branch Automation package with a distributed network. After 1995 Infosys developed the same as FINACLE, a Core Banking Solution.

Functionalities

- Finacle facilitates anywhere banking
- It is menu driven software with easy navigation.
- It is functionality rich and addresses the retail and corporate banking requirements.
- Customization and parameterization are two special features of Finacle.
- Finacle provides multi-lingual support
- Finacle provides multi-level security i.e. operation, database and application level security
- It supports workflow based Transaction Processing.
- It has High level of security control and audit capabilities
- It has a common transaction interface for all type of transactions.
- It provides a browser based GUI interface to Finacle
- SQL & PL SQL is used for generation of MIS, Reports, Queries at Centralized Level.
- Designed for optimum Usage Of Network Bandwidth
- There are two Functional Modules -
 - a. *Retail and Corporate Module* - Encompassing Saving Accounts, Current Accounts, Term Deposits, Cash Credit Accounts, Overdraft Accounts, Term Loans, Demand Loans.
 - b. *Trade Finance Module* - Encompassing Inland & Foreign Bills, Forward Contracts, Inland & Foreign Documentary Credits, Inland & Foreign Bank Guarantees, Inland & Foreign Remittances and Preshipment Credits.

Finacle (Ver. 7) Overview

Finacle User Menu							
Menu Block				Favorites !			
Main Menu -> Sub Menu -> Menu Description [Menu Code]				User Defined Favorites			
MESSAGE AREA							(A)
Menu Option	(B)	Btn.1	Btn.2	Btn.3	Btn.4	Btn.5	Btn.6 Btn.7
Action Bar							

A = Progress Indicator

B = Field to Specify Menu Option

- *Menu Block*: The block houses all the menu and sub-menu options available in Finacle.
- *Menu Option Block*: Menu Code to be entered to gain access to the respective menu.

- **Action Bar:** User can execute the process of Finacle Operations by clicking on various options on this bar. The Hot-Keys are also assigned for all options, which appear on the bar.
- **Action Buttons:** Every action button has a specific purpose. E.g. On clicking WhoAml button, system will display user_id of the user who is currently logged in & other information viz. date, name of SOL in a message box.
- **Message Bar:** The message bar displays warnings, exceptions, errors or Lists under a specific field code.
- **Favorites:** Menu items which are required and used on Regular basis can be put in favorites by copying from Menu Block. As a one time process Specific Menu Item which is required to be copied to Favorites should be located in Menu Block and with the use of Drag and Drop the function can be stored under Favorites menu.
- **Progress Indicator:** It shows the progress of the action initiated through the use of Colours (i.e. **Green** indicates that the System is "Ready" for processing, **Red** indicates that the "System is busy in Processing Activity and **Yellow** indicates that browser is performing internal processing like assembling / painting screen as per requirement. User should not operate the system)

General Key Map

Default Physical Keys in Finacle are as follows. However, default key map differs in individual bank.

Physical Key	What does it do?
F1	Field level help. Like in several word processors and spreadsheet packages, F1 displays context sensitive help messages and field level help messages.
F2	List. This key lists the codes that may be used in a particular field.
F3 / ESC	Quit/ Back. Quits and takes the user back to where he started when in action. It can be used when the input is incorrect and the user wants to abandon what he has been doing. It can also be used to go back to the previous menu.
F4	Accept. After the user has completed the input, this key can be used to accept the data.
F5	Background Menu
F6	Next Block
F8	Copy Record
F9	Display Signature
F10	Commit/ Save. This is very important key and this concludes the transactions. This is the commit and transactions get into the General Ledger (database) when this key is used.
F11	Next field
F12	Previous Block
TAB	Go to next valid field
ENTER	Go to the next field
DOWN Arrow ↓ (NextRec button)	Next Record (In a list or result of a query)
UP Arrow ↑ (PrecRec button)	Previous Record (In a list or result of a query)
CTRL+F1	Help maintenance
CTRL+F3	Show key map
CTRL+F4	Display error
CTRL+F8	Terminal lock
CTRL+F9	Memo pad look up
CTRL+F11	Context level help
CTRL+D	Page down on a list



Physical Key	What does it do?
CTRL+E	Explode. This key is particularly useful for the further inquiry.
CTRL+F	Clear field. This key combination can be used when the user wants to clear the field.
CTRL+T	Display LGL. The user ID, Terminal ID, SOL, BOD Date and language details are displayed.
CTRL+U	Page up on a list
CTRL+X	Put BOD date. This key combination populates the default BOD date in the field.
SHIFT+F4	Select the current item from the list. This key combination can be used to select a value from the list of valid values listed for a particular field.
SHIFT+F11	Transmit
SHIFT+TAB	Go to the previous field

At present there are two versions of Finacle in operations i.e. Version 7 and Version 10 ("Finacle 10X"). Few of the important changes in Finacle 10 are as follows.

- Entire new module "CRM" in place of CUMM command
- CRM Module under Finacle 10 contains various fields for capturing of information. Viz.
 - ✦ General Details,
 - ✦ Demographic,
 - General
 - Caste | Nationality | Marital Status | Mailing Preference | Tax Exemption Form Ref. | Tax Exemption Start and End date | TRC Validity
 - Qualification
 - Employment
 - Income & Exp. Details
 - ✦ Psychographic info.
 - Profile
 - General details
 - Segmentation
 - Preferential Discount
 - Relationship Details
 - Introducer | Guarantor | Reference | Ben. Owner
 - Asset
 - Assets purchased with Finance details
 - Credit Bureau Preferences
 - External Rating details
 - ✦ Trade Finance
 - ✦ BASEL Profiling
- Trade Finance and Foreign Exchange Menus have also undergone changes. For instance
 - ✦ Single Reg. Type code is prescribed instead of two codes as was applicable in Ver. 7.
 - ✦ Flag in Inward Remittance module for Advance against Exports cases
- There is completely New UI (User Interface) in Finacle 10.
- Menu codes have also undergone changes as compared to Version 7.

- Account Setup is now different for Operative Account and Term Deposits Accounts.
- Signature verification system separated from Main Application. New module “SVS”. Though linking is available besides account no. for seamless movement.
- Apart from enhancements and above points there are various Navigational Changes and Process Changes in Finacle 10X.

Introduction to TCS BaNCS

A Financial Package, for Banking Solution offered by Tata Consulting Services. The Core Banking solution TCS BaNCS is an integrated solution that automates all aspects of core banking operations across entities, languages and currencies. BaNCS is built on open architecture, component-based product suite to leverage service-oriented and event-driven architectures.

Functionalities

- Entire range of banking products including savings, checking, overdraft and deposit accounts
- Entire range of lending products
- Complement of transactional services including remittance, foreign exchange, cards and trade finance
- Accessibility through multiple channels, including mobile banking and web
- Full integration of front-, middle-, and back-office processes
- Accurate, timely and actionable information about customer relations
- Single view between bank and customer
- “Anytime anywhere” banking

Introduction to Oracle FlexCube

FlexCube provides a comprehensive, integrated, interoperable, and modular solution that enables banks to manage evolving customer expectations.

Functionalities

- 24/7 processing of large transaction volumes, with high availability
- Multiple delivery channel support
- Security management covering application and role-based access
- Service-oriented architecture supports agile business process management
- Componentized architecture helps build scalable and reusable solutions

Quick access screens through Hot Keys in Flexcube

Hot Keys	Screen Name	Description
Alt + B	Balance Inquiry	This screen displays the account details of the savings and checking account balances such as the available balance, nucleated balance, current book balance, passbook balance, net balance, etc.
Alt + C	Customer Name And Address Inquiry	This screen displays the details such as the name, address, city, country, SSN/TIN number, etc of the selected customer
Alt + A	Account Details	This screen displays the account details of the customer such as account number, account branch, account currency, customer name, etc.



Hot Keys	Screen Name	Description
Alt + S	Amount based Account Image Display	This screen displays the images on the basis of the details maintained in the Amount Based Operating Instruction Maintenance (Fast Path: 7116) option
Alt + P		This will enable the user to print the receipt of the transaction.
F8		This will enable the user to return to the same screen.

General Concepts of CBS and of Finacle:

- **SOL ID & Set ID (Init. Br. ID)**

SOL ID: Under Core Banking System, each Branch, Back Office, Administrative / Controlling Office are assigned a code i.e. Service Outlet ID [SOL ID]. It helps in identifying the Branch / Office under which the Account is maintained. Hence, if a branch at Delhi is assigned a SOL ID of "0089", the accounts opened under Delhi Branch will display "0089" as SOL ID in CBS.

As discussed above under CBS any branch can initiate transaction for any of the account maintained with the bank. Hence, a distinction is required between the branch which maintains the account and the branch who initiate the transaction.

Set ID (Init. Br. ID): Set ID or Initiating Branch ID is a SOL ID of the Branch who initiated the transaction.

E.g.: Transaction of a Cash withdrawal by a customer of Mumbai Branch (SOL ID "0044") from Delhi Branch (SOL ID "0089"). In the instant case "0089" is Init. Br. ID and "0044" is Account SOL ID. In order to search transactions based on the branch who initiated transactions in Finacle, SET ID (Init. Br. ID) parameter is required to be used under Menu Code "FTI".

- **Tran ID, Journal No. & Date**

Each transaction in Finacle will be assigned a unique Transaction ID. The Transaction ID remains unique only for the day, since, on the next day the Transaction IDs are reset.

Combination of Transaction ID and transaction date make it unique across the system. In Finacle, once the transaction is "Entered", a Tran ID is generated. To locate any transaction from the database the user need to use Tran ID and Date at TI/TM Menu command.

Under BaNCS the transaction number is known as Journal Number.

- **Transaction Type & Subtype**

Transactions in Finacle are entered with the Transaction Type and Transaction Subtype. It easier to trace set of transactions with Transaction Type & Sub Type.

Codes for Transaction Type and Sub Types are prescribed differently by each bank.

E.g.: Transaction Type codes for Cash and Transfer may be of following types.

✦ Tran Type: Cash: "C", Transfer: "T"

✦ Sub Tran Type: CR - Cash Receipt, CP: Cash Payment

The auditor must acquaint himself with the Transaction Types used by each bank. It helps auditors to design query (search parameters) for inquiry of financial transactions.

- **Customer Master Level Configurations**

Under CBS, the customer is identified by a number generally called CUST ID / CIF No. Following are the advantages of separate configuration for Customer and Accounts of Customer.

- + Identification of unique customers.
- + Data redundancy can be reduced by eliminating the process of updating repetitive details about customer at each time of opening of Account.
- + It is easier to comply with Customer centric Regulations. E.g. TDS provisions under Income Tax Act (where payment to customer is important than payment for an account), IRAC Guidelines (where classification of account is Borrower-wise and not Account-wise)
- + Multiple accounts of the customer can be mapped to a customer for better identification.

Under the Customer Master Level configuration basic details about the customer are updated. Details include Name, Date of Birth, PA Number etc.

Once the CUST ID / CIF is opened, various accounts can be opened under the said CUST ID / CIF. Relationship between CUST ID/CIF No. and Account is that of Parent and Child wherein the Account Master inherits the information and parameter values from Customer Master.

In Finacle menu command **CUMM / CUMI** is used for inquiry on CUST ID / CIF No. Under BaNCS the customer master details can be reviewed through "Customer Master Details" module.

Important Points for Auditors:

1. Issues with multiple CUST-ID:

In terms of guidelines issued by RBI on UCIC, each customer in bank is required to be assigned a unique ID. However, it has been observed in many banks that multiple CUST IDs have been opened for a customer. It has also been observed that at the time of migration had migrated old customer information to one CUST ID and have opened new CUST IDs for opening of new accounts post migration.

Due to multiple CUST ID the vary purpose of having configuration of CUST ID is defeated. The auditors should verify such discrepancies at the time of account opening verification. Moreover, the auditors should also seek help of bank's IT Dept. for generation of report based on combination of information viz. Name, PAN, date of birth, employee code etc. to identify existing cases of multiple CUST ID in the system.

2. Difference in customer's name at CUST ID and at Account Level:

At the time of opening of Account, Finacle automatically displays the name of Account Holder based on CUST ID details. However, Finacle also allows user to amend the name. Generally the said change is configured as an exception which requires sufficient powers / work class in the system to override.

The Auditor at the time of Account Opening verification should verify the details as per CUST ID and in Account. Difference in names at both the places increases unwarranted confusion. Moreover, auditor should seek help of bank's IT Dept. for generation of report based on difference in name as per CUST ID and as per Accounts opened (if any).

- **Account Level Master Configurations**

Configurations / parameters for are setup at the time of Account Opening. Modification afterwards is also permitted.



Account Level master contains the parameters and details specifically with respect to account. For instance, Interest Rate, Interest payment periodicity, Freeze, Lien etc.

It is important to note here that under CBS majority of functions and transactions are master driven and hence, any minor error at Master Level (whether Customer Master or Account Master) can have magnanimous effect on transaction processing. E.g. if Interest Collection Flag is selected as "N" at Account Master Level, the system will not collect any interest. Hence, accuracy of master is a vital audit area.

- **Pointing Type Accounts / Self Reconciling Accounts**

Apart from maintaining Customer Accounts, the bank's general ledger also contains various Suspense / Sundry Accounts. Such accounts can be with Debit or Credit balance.

The said accounts are used for limited purpose and for parking of entries for limited time frame. Transactions wherein either Debit / Credit leg is not confirmed / identifiable at the time of Transactions are parked in such accounts. E.g. An amount of Rs. 1,000 is given to an employee in advance for purchase of Stationery item for branch. The said transaction will be kept under such Suspense / Sundry account till the date the employee submits the bill / returns the advance.

The transactions processed in such accounts are not routine hence it calls for continuous monitoring and earliest reversal. Moreover, numerous transactions in an office account make it difficult for reconciliation. In earlier times, the activity of reconciling the office account was manual.

However, under CBS such accounts are opened under Pointing Type Office Account / Self Reconciling Accounts Scheme Code which facilitates automatic reconciliation and real-time information on outstanding / non-reversed transactions.

Transactions in such type of accounts are in two parts. i) Originating Transaction ii) Reversal Transaction. For each reversal entry, the system will prompt the user to point it to an originating transaction. There can be multiple reversals against single originating transaction. Such type of Account will also ensure that in case of a Debit Type Office Account, Credit entry as Originating entry will not be permitted.

On the users side, at the time of reversal of Transaction the system will ask the user to "Point" the Originating Transaction against which the transaction is being reversed. On selection, the system will reduce the balance under the said Originating Transaction. Under this type of Pointing Type Account, at any given point of time aggregate of outstanding transaction-wise balance will be equal to the Office Account Ledger Balance.

Under Finacle, verification of outstanding / non-reversed entries can be verified from menu command **IOT (Inquire on Transaction)**. Moreover, a report on outstanding office account transaction can be generated through Menu **MSGOIRP**. Various customized reports for the said purpose are also available under each banks "Report" menu in Finacle.

Under BaNCS, the outstanding entries are available through offline reports viz. "Audit BGL accounts age wise break up" and "GL-Outstanding-Accnts" report.

- **Interest Table Maintenance**

Interest collection as well as payment in CBS can be through Interest Tables or can be by way of absolute rate. In case a loan account wherein Interest Rate is based on a reference rate (say Base

Rate), the Interest Rate field is updated with the Reference Rate Table to ensure automatic updation of Interest on subsequent change.

In case of Interest Table master, the primary rate is sourced from a Master Table. For instance, in case of Loan sanctioned as Base Rate + 3 % whereas Base Rate at the time of Sanction was 10%, the Interest Rate field will be updated either with BR+3 Table code or with BR Table with 3% updated in Account Preferential Debit Interest with +3%. Method of updation of interest may differ from bank to bank.

In case of few specialized products (e.g. subsidy linked accounts) limit level interest rate is required to be applied. In such case the parameters are setup at Interest Table Master Level and the said table code is updated under Interest Table field at Account Master Level.

In case of a fixed rate loan, the interest rate is updated as absolute figure in Interest Rate field instead of Table. However, few banks follow the practice of updating "ZERO Interest Rate Table" with necessary interest rate at Account Preferential Debit Interest.

- **Interest Flags**

Values at Interest Flags determine the payment & collection of Interest. Applicable flags (i.e. Interest payment, Interest collection) are required to be updated at Account Master Level. Hence, if the Interest Collection Flag is updated as "N", there will not be charging of interest by system, although proper Interest Table Master is selected.

- **Withholding Tax Flags**

Interest payment to the customer is aggregated at Customer Master Level (i.e. for all the accounts opened under a CUST ID / CIF No.). The threshold limit for TDS is computed based on the amount aggregated at CUST ID Level. Once the payment of Interest exceeds minimum threshold level prescribed under Income Tax provisions, the system initiates deduction of taxes from Interest. However, for cases wherein customer has submitted Form 15H/ 15G / tax exemption certificate, necessary flags are required to be updated to prevent deduction of taxes upto the enhanced limit (as applicable).

Withholding Tax flags are available at both CUST ID and Account Master Level. With the recent change in the Income Tax guidelines w.r.t. online submission of details of Form 15G/15H, the exemption is required to be flagged at CUST ID level for the amount of Interest Income declared by the customer.

In Finacle, withholding (TDS) flags are driven by Tax Slab. For each type of customer different tax slabs have been defined at Master Level e.g. TDS for individuals, TDS for corporate, TDS for exempt entities. It is important for auditor to verify correctness of Tax Slab vis a vis constitution of customer.

- **Freeze Flags (Debit, Credit and Total)**

In case of court order, dispute between the joint account holders, recovery notice from revenue authority the transactions in accounts are required to be suspended. Depending upon the requirement the transactions are suspended (viz. Debit, Credit or all) through Freeze Flags.

The freeze can be applied at CUST ID Level (i.e. all the accounts of the customer) or specific account of the customer. The source documents are required to be verified for marking of freeze



and unfreeze event. The inquiry of accounts with Freeze Flag can be made in Finacle through ACS Menu Command with Freeze Flag as "T"=Total Freeze, "D"=Debit Freeze, "C"=Credit Freeze.

- **Schemes & Scheme Codes**

Different types of account products are offered to customer with different characteristics. For instance, various types of Savings Accounts are offered. The aggregation of account balance for such cases will take place at Sub GL & GL Level. However, for account operations and account master setup different schemes are setup in CBS. Scheme Code acts as a placeholder. Inquiry for different types of accounts can be made in Finacle through ACS Menu Command with "Scheme Code".

- **Exception Types**

The transaction errors are handled in CBS through following modes.

- *Warning* - Warns user for possible errors based on prefixed criteria
- *Exception* - Allows user (with sufficient power) to override. However, the transaction will be recorded in Exception Report for the day
- *Error* - Does not allow user to proceed further, unless the correct values are filled in.

- **Maker & Checker Matrix for valid transaction**

Under CBS the transactions are processed by atleast two officials of the bank under Maker and Checker mode. The same is tracked through the transaction events (viz. entry, posting and verification). Posting is the event which updates the GL Balance. Posting activity depends on the rights assigned to each user ID.

- **Inventory Locations**

The inventory concept under CBS refers to handling of security stationeries viz. Non-personalized cheque books, Demand Drafts, Term Deposit Receipts. Each bank, as per the requirement, creates different inventory location and inventory sub location codes in CBS.

Predominantly, locations are created for Joint Custody (Dual Custody), Employee Custody, External Locations. Barring, external location, balancing of security stationery is available for all the locations.

In Finacle the report on outstanding inventory items can be generated through Menu command ISRA. Whereas under BaNCS the same set of reports can be generated through VPIS (Valuable Paper Inventory System) module.

- **Zones in Clearing Modules**

For easy identification of Type of cheque and proper reconciliation various zones are opened on daily basis (as per clearing cycle) in CBS.

Various zones are opened for Non CTS Cheques, Interbank Cheque, KYC Cheques, MICR Cheques, Non-MICR Cheques, Warrants, CMS Cheques etc.

Opening of Zone is the primary event before lodging any Inward Clearing instrument or Outward Clearing Instrument.

- **Limit and Limit Node**

Under Finacle the Limit Management is done through Limit Node Maintenance. Wherein, the limits are specified at each node level with capping.

- Credit Limits can be set at Account Level as well as at Node Level for deriving the Drawing Power for a customer. Setting up of Limit at Node level has following advantages.
 - i. Managing two or more accounts with drawing power deriving from the same security.
 - ii. Interchangeability of limits among different accounts.
 - iii. Monitoring the overall exposure to a single client / group of clients.
 - iv. Exposure to a select commodity / security. *Limit Node Maintenance* helps to build these requirements in the limit management
- Limit Node:
 - i. Limit nodes are used to group accounts under one node to enable easy monitoring and organization.
 - ii. A limit node can be linked to a security for deriving drawing power.
 - iii. Distribution of overall group (group may be a group of clients or a group of accounts) limits to individual members (members may be accounts or clients) is possible through creation of Parent Node and Child Nodes.
 - iv. Every child node can further be distributed to group of accounts or clients.
 - v. This is diagrammatically explained through below example.

Facility Type	Particulars	Limit (Rs. Lacs)	Remarks
Funded	Term Loan	225	Funded Limit Cap is 500 Lacs <i>Upper Limits fixed in each type of Facility</i>
	WCDL	75	
	CC	200	
	BP / FBP / BD	50	
Total Funded Facilities		500	
Non-Funded	LC	300	Non Funded capping is at Rs. 500 Lacs
	BG	300	
Total Non-Funded Facilities		500	
Total Company Exposure		1000	Total Exposure to Company should not exceed 1,000 Lacs

• **Temporary Overdraft (TOD) Setup:**

Granting of TOD to a customer is a credit decision from Bank's perspective. Auditor has to review the source documents and delegated powers to ascertain whether the sanction was inline with the guidelines prescribed by the bank.

Setup of TOD is done in Finacle as follows. TOD is granted to an account under various circumstances. For instance,

Type	Event	Mode
TODIC	Interest Calculation	Single
TODDL	Drop in Limit	Single
TODMN / TODUG	Manual / User Generated	Single / Running / Adhoc

Explanation of various TOD modes is as follows.

Mode	Narrative
Single (S)	It refers to TOD for specific Purpose / transaction. It can be used only for the specific transaction during which the same was granted.



Mode	Narrative
Running (R)	It refers to setting up of a parallel limit at account level for a defined period over and above credit limits (if any).
Adhoc (A)	Adhoc allows customer with OD / CC Accounts to operate within TOD Limits for defined period.

From above narrative it appears that running and adhoc TODs serve the same purpose. However, from CBS perspective, both the events are different. In case of single and running TOD, CBS computes the number of TOD sanctioned in the account. In case the cumulative number exceeds the prescribed limit for an account, an exception gets triggered for all subsequent transactions. Whereas in case of Adhoc TOD the said TOD is not counted under number of TODs thereby circumventing the exception controls embedded in the system.

It is important for auditors to verify cases wherein Adhoc Limits have not been delinked on expiry in system.

Register Type & Subtype (Trade Transactions)

The concept of Register Type and Sub Type is same as Transaction Type and sub types as discussed above. The types are used to aggregate transactions of same nature in system. It helps in identifying and tracking of transaction in a better manner. In Finacle, Register Type and Sub Types have been used in Inland Trade Transaction and Foreign Trade Transactions modules.

List of few Register Types and Subtypes for an Import Transactions is as follows.

Reg. Type	Sub Type
Import Bill on Collection	Sight
Import Bill on Collection	Usance
Import Bill under LC	Sight
Import Bill under LC	Usance
Direct Import Bill	TT (Telegraphic Transfer) / DD (Foreign Demand Draft)
Advance Remittance against Import	TT (Telegraphic Transfer) / DD (Foreign Demand Draft)

Part - B

List of Important Menu Commands of CBS

Following is the list of various important menu commands across multiple CBS based on area of operations in the bank.

i. Accounts, Customer Master and Inquiry

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	CUMM / CUMI	Customer Master Maintenance / Inquiry	Inquiry
Finacle 7	ACM / ACI	Account Master Maintenance / Inquiry	Inquiry
Finacle 7	ACLI	Account Ledger Inquiry	Inquiry
Finacle 7	ACCBAL	Component of Account Balance Inquiry	Inquiry
Finacle 7	ACS	Account Criterion Search	Inquiry (Search / Criterion based)
Finacle 7	CUS	Customer Selection / Inquiry	Inquiry (Search / Criterion based)
Finacle 7	ACINT	Interest Run for Accounts	Inquiry / Report
Finacle 7	INTTM	Interest Table Master Maintenance	Inquiry
Finacle 7	AFI	Audit File Inquiry	Inquiry
Finacle 10	CRM Module	Customer Master maintenance	Inquiry & Modifications
Finacle 10	HACLI, HACLINQ	Account Ledger Inquiry	Inquiry
Finacle 10	HACM, HACMTD	Account Master, Account Master Term Deposits	Inquiry
Finacle 10	HINTTM	Interest Table Master Maintenance	Inquiry
Finacle 10	HAFI	Audit File Inquiry	Inquiry
BaNCS	Customer Management -> Enquiries -> Search by CIF Number	To verify all accounts of one Customer	Inquiry
BaNCS	Customer Management -> Enquiries -> Search by ID Number	Search using available information (ID Number)	Inquiry
BaNCS	Customer Management -> Enquiries -> Search by Name	Search using available information (Name)	Inquiry
BaNCS	Customer Management -> Relationship / Ownership -> Associated Accounts	Inquiry on Linked Accounts, Owned Accounts etc.	Inquiry
FlexCube	CH021	Account Master Maintenance	Inquiry
FlexCube	CH701	Customer account balances-Other than loans-For standard accounts but including CC limit accounts	Inquiry
FlexCube	CH703	RD account balances- Customer wise	Inquiry
FlexCube	2000	CTI Customer Search	Inquiry



CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
FlexCube	7004	Customer Name and Address Inquiry	Inquiry
FlexCube	7100	All Balance Inquiry	Inquiry
FlexCube	7105	Display Customer Image	Inquiry
FlexCube	BA095	Account Level Attributes Inquiry	Inquiry
FlexCube	7002	Balance Inquiry	Inquiry
FlexCube	CH031	Statement Inquiry	Inquiry
FlexCube	BAM24	Account Status Audit Trail Inquiry	Inquiry
FlexCube	1337	Term Deposit Interest Payout Inquiry	Inquiry
FlexCube	7020	TERM DEPOSIT Balance Inquiry	Inquiry
FlexCube	TD023	TERM DEPOSIT Rates History Inquiry	Inquiry
FlexCube	TD031	TERM DEPOSIT Audit Trail Inquiry	Inquiry
FlexCube	TD037	TERM DEPOSIT Account Ledger Inquiry	Inquiry
FlexCube	TD050	TERM DEPOSIT Interest Inquiry	Inquiry
FlexCube	TD11	TDS Inquiry	Inquiry

ii. Transactions

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	TM / TI	Transaction Maintenance / Inquiry	Inquiry
Finacle 7	FTI	Financial Transaction Inquiry	Inquiry (Search / Criterion based)
Finacle 7	FTR	Financial Transaction Inquiry Report	Report
Finacle 10	HTI	Transaction Maintenance / Inquiry	Inquiry
Finacle 10	HFTI	Financial Transaction Inquiry	Inquiry (Search / Criterion based)
BaNCS	Deposit / CC / OD Accounts & Services -> Enquiries -> Transaction	Transaction Enquiry (Additional options available: Transaction Types: 99 - All Financial, 98 - Cash Transaction, 25 - Repayment Details, 33 - Message Details)	Inquiry
BaNCS	-> Branch Accounting (BGL) -> Enquire -> Transaction	BGL Transaction Enquiry	Inquiry
FlexCube	TD044	TD Transactions Inquiry	Inquiry
FlexCube	LN058	Loan Interest Adjustment Transaction	Inquiry
FlexCube	PM025	Payment Transaction Inquiry	Inquiry
FlexCube	GLM04	GL Transactions and Movements Inquiry	Inquiry
FlexCube	AT002	Audit Trail Financial Transactions Inquiry	Inquiry
FlexCube	BA777	Audit Trail Inquiry for Non-Financial	Inquiry

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
		Txns	

iii. Clearing Transactions

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	MCLZOH	Maintain Clearing Zone	Inquiry
Finacle 7	OCTM	Outward Clearing Transaction Maintenance	Inquiry
Finacle 7	ICTM	Inward Clearing Transaction Maintenance	Inquiry
Finacle 10	HOCTM	Maintain Clearing Zone	Inquiry
Finacle 10	HICTM	Outward Clearing Transaction Maintenance	Inquiry
Finacle 10	HMCLZOH	Inward Clearing Transaction Maintenance	Inquiry
BaNCS	Collection and Cheque Purchase -> Enquiries -> Enquiries	Inquiry for Cheque Purchase / on Collection	Inquiry
FlexCube	ST023	Outward Clearing	Inquiry
FlexCube	ST033	Inward Clearing	Inquiry
FlexCube	BA990	Clearing Inquiry	Inquiry
FlexCube	ST002	Value Date Clearing Inquiry	Inquiry

iv. Office Accounts Maintenance

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	ACLPOA	Account Ledger Print Office Account	Report
Finacle 7	IOT	Inquire on Transaction	Inquiry & Report
Finacle 7	MSGOIRP	Outstanding Items Report	Report
Finacle 10	HIOT	Inquire on Transaction	Inquiry & Report
Finacle 10	HACLPOA	Account Ledger Print Office Account	Report
BaNCS	-> Branch Accounting (BGL) -> Enquire -> Account	Enquiry on BGL Account	Inquiry
BaNCS	-> Branch Accounting (BGL) -> Enquire -> Account Number Search	Search an Account Number by BGL Name	Inquiry
BaNCS	-> Branch Accounting (BGL) -> Enquire -> Transaction	BGL Transaction Enquiry	Inquiry
Flexcube	GLM01	GL Voucher Entry	Inquiry
Flexcube	GLM02	Chart of Accounts	Inquiry
Flexcube	GLM04	GL Transactions and Movement Inquiry	Inquiry
Flexcube	1005	Miscellaneous GL Transfer (Dr/Cr)	Inquiry



v. Loans & Advances

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	SRM	Security Register Maintenance	Inquiry
Finacle 7	HCLM / CLL	Collateral Maintenance	Inquiry
Finacle 7	ACHLM	Account History Limit Maintenance	Inquiry
Finacle 7	ALM	Account Lien Maintenance	Inquiry
Finacle 7	ACTODM	Account TOD Maintenance	Inquiry
Finacle 7	TODRP	TOD Register Printing	Inquiry
Finacle 7	PSP	Pass Sheet Print	Report
Finacle 7	ACLPCA	Account Ledger Printing	Report
Finacle 7	LAGI	Loan General Inquiry	Inquiry (Criterion based search)
Finacle 7	LAOPI	Loan Overdue Position Inquiry	Inquiry (Criterion based search)
Finacle 7	LTL	Limit Tree Lookup	Inquiry
Finacle 7	LNDI	Limit Node Inquiry	Inquiry
Finacle 7	AINTRPT	Interest Report for Accounts	Report
Finacle 10	HSCLM	Security Register Maintenance	Inquiry
Finacle 10	HALM	Account Lien Maintenance	Inquiry
Finacle 10	HACTODM	Account TOD Maintenance	Inquiry
Finacle 10	HPSP	Pass Sheet Print	Report
Finacle 10	HACLHM	Account Limit History Maintenance	Inquiry
Finacle 10	HAINTRPT	Interest Report for Accounts	Report
Finacle 10	HINTPRF	Interest Proof Report	Report
BaNCS	Deposit / CC / OD Accounts & Services -> Enquiries -> Deposit / CC / OD Account	To verify the Account Master Details	Inquiry
BaNCS	Deposit / CC / OD Accounts & Services -> Enquiries -> Statement Print	Printing Statement of Account for a Deposit or CC / OD	Report
BaNCS	Deposit / CC / OD Accounts & Services -> Enquiries -> Short	Basic details on Enquiry on Screen on Deposit Accounts	Inquiry
BaNCS	Deposit / CC / OD Accounts & Services -> Enquiries -> Long	Additional Details on Enquiry Screen for Deposit Accounts	Inquiry
BaNCS	Deposit / CC / OD Accounts & Services -> Interest Rate History	Details of changes in Interest Rate for an account	Inquiry
BaNCS	-> DL/TL Accounts & Services -> Loan Tracking -> Operations	Loan account operations	Inquiry
BaNCS	-> DL/TL Accounts & Services -> Loan Processing -> Generate Repayment Schedules -	To print Repayment schedule for a DL / TL Account	Report

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
	>Action - "E"		
BaNCS	-> DL/TL Accounts & Services -> Enquiries -> Short -> Option "Balance Breakup Enquiry"	To view amount of Arrears & Breakup of Principal, Interest Realized, Charges & Arrear of Interest	Inquiry
BaNCS	-> DL/TL Accounts & Services -> Security (Primary / Collateral) -> Customer -> Enquiry -> Enquire Security Summary	Enquire on linked collateral	Inquiry
FlexCube	CH066	Limit Collateral Inquiry	Inquiry
FlexCube	CHM06	OD Collateral Maintenance	Inquiry
FlexCube	CHM07	OD Limit Master Maintenance	Inquiry
FlexCube	ST070	Cheque Purchase	Inquiry
FlexCube	CH033	Average Quarterly / Monthly Balance Inquiry	Inquiry
FlexCube	TDM24	Lien Master	Inquiry
FlexCube	1413	Loan Disbursement Inquiry	Inquiry
FlexCube	LN522	Account Schedule Inquiry	Inquiry
FlexCube	LMN10	Account Transactions Inquiry	Inquiry
FlexCube	BA433	Collateral To Accounts Inquiry	Inquiry
FlexCube	BA434	Account To Collateral Inquiry	Inquiry

vi. DD / PO, Cheque Book maintenance, Stop Payments and Security Stationery maintenance

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	DDSM	DD Status Maintenance	Inquiry
Finacle 7	DDIP	Inquiry on Specific DD Paid	Inquiry
Finacle 7	ISRA	Inventory Status Report	Report
Finacle 7	IMI	Inventory Movement Inquiry	Inquiry
Finacle 7	ICHB	Issue Cheque Book	Inquiry
Finacle 7	CHBM	Cheque Book Maintenance	Inquiry
Finacle 7	SPP	Stop Payment of Cheque	Inquiry
Finacle 7	SPRG	Stop Payment Register	Report
Finacle 10	HDDSM	DD Status Maintenance	Inquiry
Finacle 10	HDDIP	Inquiry on Specific DD Paid	Inquiry
Finacle 10	HISRA	Inventory Status Report	Report
Finacle 10	HIMI	Inventory Movement Inquiry	Inquiry
Finacle 10	HICHB	Issue Cheque Book	Inquiry
Finacle 10	HCHBM	Cheque Book Maintenance	Inquiry
Finacle 10	HSPP	Stop Payment of Cheque	Inquiry
Finacle 10	HSPRG	Stop Payment Register	Inquiry
BaNCS	-> Valuable Paper Inventory System [VPIS] -> Enquiry of VPIS ->	To check inventory status	Inquiry



CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
	General Enquiry		
BaNCS	-> VPIS -> Lost / Damaged / Cancelled Inventories	Location for Lost / Damaged / Cancelled Inventories	Inquiry
BaNCS	-> VPIS -> Enquiry of VPIS -> Teller Level Inquiry	Details of Inventory available at Teller level	Inquiry
FlexCube	CH078	Cheque Status Maintenance	Inquiry
FlexCube	CHM35	Stop Cheque Instructions	Inquiry
FlexCube	CHM37	Cheque Book Issue Maintenance	Inquiry
FlexCube	IV011	Stock Inquiry	Inquiry
FlexCube	IV004	Inventory Lost report Register maintenance	Inquiry
FlexCube	MCA80	Inquiry of sold/issued inventory	Inquiry

vii. Compliances

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	TDSIP	TDS Inquiry / Print	Inquiry and Report
Finacle 7	AFSM	Account Freeze Maintenance	Inquiry
Finacle 10	HTDSIP	TDS Inquiry / Print	Inquiry and Report
Finacle 10	HAFSM	Account Freeze Maintenance	Inquiry
FlexCube	TDS06	Tax Parameters Maintenance	Inquiry
FlexCube	TDS04	Tax waiver criteria Maintenance	Inquiry
FlexCube	TDS05	Customer special Tax code maintenance	Inquiry
FlexCube	TDS11	Tax Inquiry	Inquiry

viii. Trade Finance and Foreign Exchange Transactions

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	INBOEM	Bill of Entry Maintenance	Inquiry
Finacle 7	BI	Bills Inquiry (Inland)	Inquiry (Criterion based search)
Finacle 7	BP	Bills Inquiry (Inland) - Printing	Report
Finacle 7	BM	Bill Maintenance (Inland)	Inquiry
Finacle 7	FBI	Foreign Bill Inquiry	Inquiry (Criterion based search)
Finacle 7	FBM	Foreign Bill Maintenance	Inquiry
Finacle 7	FBP	Foreign Bill Inquiry - Printing	Report
Finacle 7	BRBPR	Balancing Report for Bills Purchased (Inland)	Report
Finacle 7	BRCR	Balancing Report for Bills on Collection (Inland)	Report
Finacle 7	FBBR	Balancing Report for Foreign Bills	Report
Finacle 7	DCQRY	Documentary Credit Query	Inquiry (Criterion based search)

CBS Package	Menu Code / Access path	Menu Name	Menu Type (Inquiry / Report)
Finacle 7	GI	Guarantee Inquiry	Inquiry
Finacle 7	IRM	Inward Remittance Maintenance	Inquiry
Finacle 7	ORM	Outward Remittance Maintenance	Inquiry
Finacle 10	HINBOEM	Bill of Entry Maintenance	Inquiry
Finacle 10	MIIB	Maintain Import & Inward Bills	Inquiry
Finacle 10	MEOB	Maintain Export & Outward Bills	Inquiry
Finacle 10	IBL	Bill Inquiry	Inquiry (Criterion based search)
Finacle 10	HBRBPR	Balancing Report for Bills Purchased (Inland)	Inquiry
Finacle 10	HBRCCR	Balancing Report for Bills on Collection (Inland)	Inquiry
Finacle 10	HFBBR	Balancing Report for Foreign Bills	Inquiry
Finacle 10	HGI	Guarantee Inquiry	Inquiry
Finacle 10	HIRM	Inward Remittance Maintenance	Inquiry
Finacle 10	HORM	Outward Remittance Maintenance	Inquiry
FlexCube	SY001	Guarantee Inquiry	Inquiry
FlexCube	BIM04	Bill Parameters Maintenance	Inquiry
FlexCube	BIM05	Bills Processing Maintenance	Inquiry
FlexCube	BI001	Bills Data Entry	Inquiry

Note:

The discussion of Menu codes / commands in this chapter is only for guidance of members. The purpose of inclusion of the same here is to understand functioning of banking software. Moreover, with the continuous changes and customization requests by banks, all the menu codes may not be available / accessible in all the banks.

The Finacle menu codes discussed in this chapter is for version 7 (except expressly mentioned).

Disclaimer:

Images, Logo, Screen Shots, Menu Codes, Software Name etc are the property of respective Software developer / Trademark owners.



Part - C

Illustrative Checklist on Audit activity through CBS

1. Parameters affecting automatic identification of NPAs and re-designing of audit processes

In terms of directives issued by Ministry of Finance and Reserve Bank of India, it is mandatory for banks to identify the bad loans through CBS / Systems instead of conventional methods. CBS like other software work on GIGO principle. Master Data play an important role in correct identification of Bad Loans.

Following are few scenarios wherein incorrect updation in Master Data, manipulation through transactions etc. may impact correct identification of bad loans through CBS.

Parameters	Auditors' Primary Checks	Suggested System Support
Discrepancies in setting up the EMI / Installments	<ul style="list-style-type: none"> ➤ Whether EMI / installment is correctly setup. ➤ Whether EMI / installment amount is matching with the Sanctioned Terms. ➤ Whether periodicity of Installment is correctly classified as per Sanctioned Terms? 	<p>Finacle:</p> <ul style="list-style-type: none"> – ACI -> Option "E" Repayment details <p>BaNCS:</p> <ul style="list-style-type: none"> – DL/TL Accounts & Services -> Enquiries -> Account – Deposit / CC / OD Accounts & Services -> Enquiries -> Deposit / CC / OD Account <p>(Short & Long Inquiry options are available under both menu.)</p>
Multiple sets of EMI / Installments	<ul style="list-style-type: none"> ➤ For case of Multiple sets of EMI e.g. For 1-5 years EMI of Rs. 7,000 and after 5 years Rs. 7,500 ➤ Whether sets of EMI are properly entered? ➤ Is there any substantial difference between 1st set of EMI and 2nd or other sets (e.g. 1st set Rs. 5,000 and 2ndRs. 1,00,000) which cast doubt on debt serviceability? 	<p>Finacle:</p> <ul style="list-style-type: none"> – ACI -> Option "E" Repayment details <p>BaNCS:</p> <ul style="list-style-type: none"> – DL/TL Accounts & Services -> Enquiries -> Account – Deposit / CC / OD Accounts & Services -> Enquiries -> Deposit / CC / OD Account <p>(Short & Long Inquiry options are available under both menu.)</p>
System determined Asset Classification vis a vis User defined Asset Classification	<ul style="list-style-type: none"> ➤ CBS contain two sets of parameters. At first instance CBS identify the account based on set parameters under Asset Classification types. ➤ In few CBS it has been observed that user is generally given the option to differ and select / amend the classification. In such cases detailed scrutiny of NPA system is required to be 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACM / ACI Option – 'Y' Asset Classification Inquiry ➤ A report containing accounts wherein there is difference between Asset Classification by System and by user should be requested for. Accounts listed in the said report should be thoroughly verified.

Parameters	Auditors' Primary Checks	Suggested System Support
	<p>carried out.</p> <ul style="list-style-type: none"> ➤ Due to errors in certain Master Data, there can be erroneous identification of account as NPA. However, such accounts require detailed scrutiny. 	
Manipulation in SL / DP	<ul style="list-style-type: none"> ➤ Changes in SL / DP should be cross checked with Sanctioned Letter. ➤ Whether any change in Limit is supported by necessary documentation? 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACLHM - Account Limit History Maintenance <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Tailormade report on Changes in Account Limits
Incorrect moratorium period	<ul style="list-style-type: none"> ➤ Based on moratorium period CBS will identify the Loan Installment and will track repayment. ➤ In case the moratorium period / installment start date is erroneously updated system will not show correct result. 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACI - Option "E" - Repayment Details <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Account Master details (Long Inquiry)
Re-phasement without reporting it as reschedule	<ul style="list-style-type: none"> ➤ Loan Account Installments are rephased / recalibrated without reporting the same as Re-schedule. ➤ Verify whether any change in Repayment instruction is made through System. Compare the said accounts with list of Restructured Accounts. 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACI - Option "E" - Repayment Details <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Account Master details (Long Inquiry) ➤ Report containing details of all the cases wherein EMI / Installment is changed should be sought
Installment Start Date is Future Date	<ul style="list-style-type: none"> ➤ Check whether Installment Start Date entered as per sanctioned term? ➤ In case of future date system will not identify installment and any repayment received will be shown as "Overflow". 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACI - Option "E" - Repayment Details <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Account Master details (Long Inquiry)
Interest Demand date (Future Date)	<ul style="list-style-type: none"> ➤ Check whether Interest Start Date entered is as per Sanctioned Term? ➤ In case of future date as Interest Demand Date system will not accrue interest and any repayment received will be shown as "Overflow". 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACI - Option "E" - Repayment Details <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Account Master details (Long Inquiry)
Fictitious credit through Office Account / Inter-	<ul style="list-style-type: none"> ➤ Are there any quarter / year end credits cited in the account? 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACLI - (Use CTRL + E to Explore the Tran)



Parameters	Auditors' Primary Checks	Suggested System Support
branch Account	<ul style="list-style-type: none"> ➤ Check the source of Credit Entries. ➤ Review transactions in Office Accounts / Inter Branch Accounts. 	<ul style="list-style-type: none"> ➤ Review of Office Account Ledgers <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Deposit / CC / OD Accounts & Services -> Enquiries -> Transaction ➤ DL/TL Accounts & Services -> Enquiries -> Transaction
Round tripping from internal accounts	<ul style="list-style-type: none"> ➤ Close scrutiny of transaction and review of chain / series of transaction for accounts with deficiency is required. ➤ Such transactions will inflate the Credit Turnover in the account. 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACLI - (Use CTRL + E to Explore the Tran) ➤ Using only Account Turnover Information generated through "ATOR" / "CUTI" / "ACTI" menu may lead to incorrect inference, since the credits are not solitary credits in account. <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Deposit / CC / OD Accounts & Services -> Enquiries -> Transaction ➤ DL/TL Accounts & Services -> Enquiries -> Transaction
Temporary Overdrafts	<ul style="list-style-type: none"> ➤ Check whether the TOD is sanctioned in order to bring the overdrawn limit to base level additional facility through TOD is sanctioned. 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACLI - Option "O" ➤ TODRP - TOD Register Printing <p>BaNCS:</p> <p>TOD Report</p>
Devolved bills parked in Office Accounts and not in limit account	<ul style="list-style-type: none"> ➤ Devolved Bills under LCs are required to be debited to the Limit Accounts only. Assessment of Asset Classification will be based on composite overdrawn portion Limit + LC Devolved amount (if any on devolvement) ➤ Check whether the amount of devolvement of LC backed bills are parked in Office Accounts or any separate account? 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ BI & FBI - with Bill Status as "K" using status date filter <p>BaNCS:</p> <p>Report on Devolved bills under Import LC</p>
Multiple CUST ID to prevent the other account from becoming NPA	<ul style="list-style-type: none"> ➤ Check whether multiple CUST IDs have been opened for the borrower with different accounts? ➤ NPA Report and search all the case by few characters of Name. 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ ACS - Account Selection (Search based on Name) ➤ LAGI - Loan Account General Inquiry (Inquiry based on other parameters) <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Customer Management -> Enquiries -> Search by Name

2. Parameters affecting collection of Interest / Revenue

Primary revenue for banks is Interest on Loans and Advances. Charging of Interest is completely automated barring few products. However, the processing is based on certain important parameters. System parameters / fields which affect the Interest Computation should be thoroughly verified.

Important Interest Parameters

- Interest Table
 - Debit Interest Rate & Credit Interest Rate
 - Interest Version
 - Currency
 - Limit Level Interest
 - Penal Interest
- Interest Rate (Static / Absolute & Based on Ref. Rate)
- Interest Preferential Customer Level: Interest Rate preference will be applied to all the accounts of the customer based on type of Interest.
 - Debit Interest Preferential
 - Positive preference value
 - Negative preference value
 - Credit Interest Preferential
 - Positive preference value
 - Negative preference value
- Interest Preferential Account Level: Interest Rate preference will be applied to the specific account wherein the preference is updated.
 - Debit Interest Preferential
 - Positive preference value
 - Negative preference value
 - Credit Interest Preferential
 - Positive preference value
 - Negative preference value
- System Support / Important Menu Codes:
 - Finacle: INTCL, AINTRPT, INTPRF, INTTM
 - TCS Bancs: i) OD/CC Accounts -> Interest Rate History ii) DL / TL -> Interest Rate History

Following are few events / scenarios wherein there is a possibility of non application / incorrect application of Interest.

Sr. No.	Event / Scenario
1	Interest pegging in Advance Accounts set as "Y". (If "Y" is selected, system will charge interest at the rate prevailing at the time of Account Opening. For the cases of Fixed Rate Loans Pegging Flag will be "Y")
2	Future Date is updated in Interest Demand Date
3	Interest on Principal / Payment of Interest Flag is set as "N"
4	Effective Rate of Interest is updated as "0"
5	Account Open and Installment Start Dates are identical.
6	Account Open and Interest Demand Dates are identical.
7	Interest Table Code "Zero" is selected
8	Interest Demand Date is Past Date
9	Interest Demand Frequency is Blank.



3. Audit of Foreign Exchange Transactions with the use of CBS

The liberalization of economy is paving way for opening of new areas for Inbound and outbound investment. Moreover, with the increase in the global trade the foreign exchange and cross border transactions are increasing at a rapid speed. However, it also poses challenge of preventing misuse of regulations and money laundering activities.

Following are few activities that the auditor must carry out for audit of Foreign Exchange Transactions.

Audit Activity	Important Menu Codes of Finacle
Review of Letter of Credits issued, Expired, Search on Outstanding LCs	For Inquiry - DCQRY For Report - DCREG, DCRPTS, DCSTMT
Review of Bank Guarantee issued, invoked, closed, outstanding, Search on expired BGs	For Inquiry - GI For Report - GILR, GPI
Audit of Inland Bills (under collection, under LC, discounted)	For search: BI Search result printing: BP For specific bill: BM
Audit of outstanding Inland Bills	Report – BRCR (Collection Bills), BRBPR (Purchased Bills)
Audit of Foreign Bills (under collection, under LC, discounted)	For search: FBI Search result printing: FBP For specific bill: FBM
Audit of outstanding Foreign Bills	Report - FBBR
Audit of Inward and Outward Remittances (Other than Import and Export Transactions)	For Inward Remittance: IRM For Outward Remittance: ORM
Tracking of Packing Credit granted and tracking of order in case of Running Packing Credit	Account wise Packing Credit: ACLI Running Packing Credit: RPCTM

4. Audit of Office Account Transactions through CBS

Office accounts are opened for the purpose of parking entries till the time the final effect is not determined. However, at various occasions it has been observed that the entries remain in the said parking accounts for a long period. Moreover, in case of weak monitoring of the said accounts, the Office Accounts are susceptible to fraud and misappropriation.

There are various types of office accounts.

1. Based on Functionality
 - a. Pointing Type / Self Reconciling Accounts
 - b. Non Pointing Type Accounts
2. Based on Type of Entry
 - a. Sundry Accounts, Suspense Accounts
 - b. EOD/BOD Check Accounts
 - c. Inter branch Account
 - d. Mirror Accounts
 - e. Pool Accounts

Following are few audit actionables for auditor carrying out audit of Office Account Transactions.

Events	Audit actionable	Suggested system support
Cash Payment from Office Accounts	Authorization of Transaction as per Delegated Authority	Finacle: <ul style="list-style-type: none"> • ACLI - For Transaction • FTI - For Search BaNCS:

Events	Audit actionable	Suggested system support
		<ul style="list-style-type: none"> • BGL -> Enquire -> Transaction
TOD through Office Accounts	Through ineligible credit originating from a office account, customer can be accommodated. It also circumvent the number of TODs granted to Customer. Moreover, interest will not be applied in the said case.	Finacle: <ul style="list-style-type: none"> • ACLI - For Transaction in Office Account BaNCS: <ul style="list-style-type: none"> • BGL -> Enquire -> Transaction
Parking of Cash Difference in Office Accounts, Clearing / Remittance differences through Office Accounts	Difference in Reconciliation, Cash Shortage debited to Office Account and not reversed. Review ledger account in detailed.	Finacle: <ul style="list-style-type: none"> • ACLI - For Transaction in Office Account • IOT - For inquiry on outstanding transaction • MSGOIRP - For Printing of outstanding office account transaction report BaNCS: <ul style="list-style-type: none"> • BGL -> Enquire -> Transaction • "Outstanding BGL Transaction" Report
Rotation of entries in Office Accounts	To prevent entry being reported as long outstanding entry, a new transaction with debit and credit leg in the same account is posted. Thus, the system considers the new transaction date for reporting as outstanding entries. Review transactions with same Debit and Credit amount through Ledger Scrutiny.	Finacle: <ul style="list-style-type: none"> • ACLI - For Transaction in Office Account BaNCS: <ul style="list-style-type: none"> • BGL -> Enquire -> Transaction
Correctness in mapping of reversal transaction to originating transaction	If the transactions have not been reversed against the related originating entries the report generated by CBS will show incorrect outstanding items.	Finacle: <ul style="list-style-type: none"> • ACLI - For Reversal Transaction in Office Account BaNCS: <ul style="list-style-type: none"> • BGL -> Enquire -> Transaction
Value Dated (Back Dated) Transactions	Transaction credited in the Advance type accounts, Operative accounts with a value date (Back date) wherein the clear funds were not available in the office accounts. Review the transactions from	Finacle: <ul style="list-style-type: none"> • ACLI - For Transaction in Office Account • FTI - For Value Dated Transaction BaNCS: <ul style="list-style-type: none"> • BGL -> Enquire ->



Events	Audit actionable	Suggested system support
	Revenue Leakage perspective.	Transaction
Round Tripping	Rotation of entry from office account to operative account(s) without any justification / source document. Review the transactions from the perspective of inflating credit turnover of account.	Finacle: <ul style="list-style-type: none"> ACLI - For Transaction in Office Account BaNCS: <ul style="list-style-type: none"> BGL -> Enquire -> Transaction
Advance paid for Fixed Assets not capitalized	Entries for payment of advance against procurement of Fixed Assets not reversed.	Finacle: <ul style="list-style-type: none"> ACLI - For Transaction in Office Account IOT - For inquiry on outstanding transaction MSGOIRP - For Printing of outstanding office account transaction report BaNCS: <ul style="list-style-type: none"> BGL -> Enquire -> Transaction "Outstanding BGL Transaction" Report
Income realized not credited to Revenue Account	Loan Installment received from Customer, not adjusted. Processing Fees received, not credited to Income Account Charges collected, not credit to Income Account	Finacle: <ul style="list-style-type: none"> ACLI - For Transaction in Office Account IOT - For inquiry on outstanding transaction MSGOIRP - For Printing of outstanding office account transaction report BaNCS: <ul style="list-style-type: none"> BGL -> Enquire -> Transaction "Outstanding BGL Transaction" Report

5. Manual updation in CBS and its verification aspects

Under any CBS the transactions are processed as per predefined process. Majority of the processes in CBS are automated and based on masters. A manual intervention in automated process leads to error in transaction processing.

Following are few manual changes / modification in system which affects the transaction processing. The auditor must review the manual updation in CBS.

Manual Entry	Probable impact
Advances	
Interest Rate change	Revenue Leakage, Excess collection of Interest
Change in EMI	Revenue Leakage, NPA Identification
Processing of transactions against	Recovery of amount from customer in case of

Manual Entry	Probable impact
uncleared outward clearing effect	cheque return
Backdated Renewal Date updation (Updating Date of Renewal on running date with past date)	NPA Identification
Change in Limit - From Non Fund Base to Fund Base	NPA Identification
<u>Account & Customer Master</u>	
Tax exemption updation	Non compliance with TDS provisions
Dormant to Active	Susceptible to fraud
Interest Table Code as "0"	Revenue Leakage
Interest Collection Flag "N"	Revenue Leakage
Reclassification of Agriculture Advance as per revised RBI norms dt. April 23, 2015	Sectorial Classification
<u>Foreign Exchange Transactions</u>	
Erroneous Foreign Exchange Rate	Revenue Leakage, Accommodation to customer
Full BOE received flag marked as "Y" wherein BOE for entire transaction is not received	Reporting to RBI under BEF Return
FIRC Issuance (without updating flag printed "Y")	Duplicate issuance of FIRC without "Duplicate FIRC" inscription.
Merchant Trade Transaction (Manual mapping)	Reporting to RBI
<u>Transaction Processing & Housekeeping</u>	
Changes / Modification in Auto Calculated charge amount at the time of posting of transaction	Revenue Leakage
Ineligible Credits to NRE and FCRA Accounts	Non compliance of FEMA Guidelines
ATM Replenishment entries	Susceptible to Fraud
Payment for FD Closure proceeds in Cash through Office Accounts in excess of Rs. 20,000	Non compliance with Income Tax Guidelines
Revalidation of Old DDs	Susceptible to Fraud
Value Dating (Credit Transactions in CC / OD Account with Value Date without Value Dating at Debit Leg)	Revenue Leakage
Debit to Income Account (though Transaction Maintenance Menu)	Revenue Leakage
Manual Credit to Income Account (though Transaction Maintenance Menu)	Revenue Leakage (Computation of Income credited to be verified)
RTGS / NEFT in cash through office accounts > 49,999	Non compliance with AML guidelines
Delay in posting of clearing cheque return	Accommodation to customer
Manual Transfer of Security Stationery from Inventory location to External Location	Susceptible to Fraud (Avoid reporting of missing inventory)

6. Generation & verification of specific reports based on various criteria:



CBS allows generation of various reports through Frontend as well as through Backend. Few important reports for review by auditors are as follows.

(a) Exception Report

Reports for the month end and two days prior and after month end should be verified. Exceptions of following natures should be closely verified.

- (i) Balance exceeded Account Limit
- (ii) Manual debits to Income Account
- (iii) Value Dated Transactions
- (iv) Manual entry for SI Failure cases
- (v) Instrument passed against Clearing
- (vi) Backdated entries (normally restricted)

(b) Irregularity Report

Reports for the month end and two days prior and after month end should be verified. Report contains details of Accounts where Balance in Accounts are greater than the Limits Sanctioned. Check whether the same is due to,

- (i) Application of Interest
- (ii) Granting of Intra Day TOD
- (iii) Passing of Instruments against Clearing Effects

(c) Accounts where Interest Code is '0'

Interest will not be charged from Accounts where Interest Code is selected as '0'. Hence, a detailed checking is required. Possible reasons can be if it is a NPA account or an account with a moratorium.

(d) Interest Collection Flag as "No"

If Interest Collection Flag is selected as "No", Software will not consider the account for calculation and entry for Debit Interest.

(e) Debit Interest SI Failed Report

Failure of Standing Instruction for Debit Interest should be closely verified. If the SI is failed the Account will not be debited for Interest. SI Failure can be for any reason like

- (i) Non availability of Balance in Account (In case of TOD in Operative Account)
- (ii) Non availability of Limit in Account
- (iii) Technical Snag in execution

Whether Branch has manually passed the entry for all such cases should be verified.

(f) Loan Installment SI Failed Report

Same as above

(g) Report containing all Advance Accounts with Limits

Generally, CBS Softwares generate a Report wherein details of all Advance Accounts are listed. Excel can be used to verify cases of DP > SL, Margin Requirement, etc.

(h) TOD Report

Documents and sanction orders should be verified for all the cases of Manually granted TODs. In Finacle the report can be generated through Menu Code "TODRP".

(i) Account Turnover Report

To review the quantum of transactions in the borrower accounts turnover reports should be used. In Finacle, inquiry for Account Turnover can be carried out through "ACTI, CUTI" Menu codes and report can be generated through "ATOR" Menu.

(j) Loan Inquiry

In Finacle, criterion based search for Loan Accounts is available through Menu option "LAGI". The said menu can be used to verify,

- New sanction, Accounts closed
- Loans under various schemes
- Loans based on Account Classifications
- Accounts search based on Limit (Credit & Stock Audit)

(k) Loan Overdue Inquiry

In Finacle, criterion based search for Overdue & Overflow Loan Accounts is available through Menu option "LAOPI". In case of BaNCS the said details are available through offline daily report. The said menu can be used to verify,

- Principle & Interest Overdue & Overflow
- Overdue in "%" as well as Overdue in "No. of Days"

(l) Financial Transaction Inquiry

In Finacle, report based on different criteria for financial transactions can be generated through Menu Option "FTR". The said menu can be used to verify,

- Loan disbursement in Cash (SubGL code & Tran Type)
- Value Dated Transactions verification (Only value dated flag)
- Transactions in Loan / OD-CC Accounts (SubGL, Tran Type, Part Tran Type)
- Credits to NRE Accounts in a period (SubGL, Part Tran Type)
- Credits to FCRA Accounts in a period (SubGL, Part Tran Type)
- Cash Deposit Transactions above Rs. 50,000 to verify compliance with Income Tax Guidelines on PAN (Tran Type, Tran Sub Type)
- Cash Transactions above Rs. 10 Lacs to verify compliance with AML Guidelines (Tran Type)
- Debits to ESCROW Accounts to verify compliance with ESCROW Agreement (SubGL, Part Tran Type)

7. Guide on Audit Activity through CBS for LFAR and Tax Audit Requirements

Following are few checkpoints for auditors for reporting under Long Form Audit Report alongwith suggested system support.

Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
Cash	<ul style="list-style-type: none"> ➤ Physical verification of Cash Balance ➤ Cash Balance as on the date of Audit Period 	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "ACLI" - Account Ledger Inquiry (Vault A/c and Teller Accounts) <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HACLI, HACLINQ <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ -> Reports -> Cash Related -> View Cash Summary (Click on Fetch) ➤ -> Branch Reports -> Cash Officer's Jotting Book Report



Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
		<ul style="list-style-type: none"> ➤ -> Reports -> Printing Reports -> Cashier / Teller Cash Report <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ GLM02 - Chart of Accounts ➤ GLM04 - GL Transactions and Movement Inquiry
Balances with RBI / SBI / Other Banks	<ul style="list-style-type: none"> ➤ Balance as on Date ➤ Transactions in Mirror Accounts ➤ Reconciliation Statement (Generally outside of CBS) 	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "ACLI" - Account Ledger Inquiry (Vault A/c and Teller Accounts) <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HACLI, HACLINQ <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ -> Branch Accounting (BGL) -> Enquire -> Transaction <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ GLM02 - Chart of Accounts ➤ GLM04 - GL Transactions and Movement Inquiry
Advances	<ul style="list-style-type: none"> ➤ Sanction Limit / Drawing Power setup 	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "ACLHM" - Account Limit History Maintenance ➤ "ACM / ACI" - Account Master (Go to Limit details) ➤ "LTL" - Limit Tree Lookup (Tree view of all Limits) <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HACLHM - Account Limit History Maintenance ➤ HACM / HACI, HACMTD (For TD) ➤ HLMTREEI Customer Limit Tree Details <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ DL/TL Accounts & Services -> Enquiries -> Account ➤ Deposit / CC / OD Accounts & Services -> Enquiries -> Deposit / CC / OD Account <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ CHM07 (OD Limit Master Maintenance)

Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
		➤ CH409 (OD Limit History Report)
Advances	<ul style="list-style-type: none"> ➤ Account & Customer Master parameters setup viz. <ul style="list-style-type: none"> ➤ Interest Parameters (Regular & Penal Interest) ➤ Repayment Instructions ➤ Standing Instructions (SI) Parameters ➤ Linking of Interest Rates with Benchmark Rates 	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "ACLHM" - Account Limit History Maintenance for DP & SL - Account Specific ➤ "ACM / ACI" - Account Master ➤ "CUMM / CUMI" - Customer Master <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HACLHM - Account Limit History Maintenance ➤ HACM / HACI, HACMTD (For TD) ➤ CRM Module <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ DL/TL Accounts & Services -> Enquiries -> Account ➤ Deposit / CC / OD Accounts & Services -> Enquiries -> Deposit / CC / OD Account <p>(Short & Long Inquiry options are available under both menu.)</p> <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ BAM12 (Interest Index Maint.) ➤ BAM13 (Interest Index Rates) ➤ LN060 (Loan Product Rates Plan) ➤ LNM41 (Interest Rules) ➤ LNM42 (Product Interest Attributes Maintenance) ➤ LNM81 (Rate Change)
Advances	<ul style="list-style-type: none"> ➤ Transactions in Borrower's Account 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ "ACLI" - Account Ledger Inquiry <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HACLI, HACLINQ <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Deposit / CC / OD Accounts & Services -> Enquiries -> Transaction ➤ DL/TL Accounts & Services -> Enquiries -> Transaction <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ CH031 (Statement Inquiry)
Advances	<ul style="list-style-type: none"> ➤ Interest Rate History 	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "INTTM" - Interest Table Master



Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
		<p>Maintenance (Under Inquire Mode - Account Specific)</p> <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HINTTM <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Deposit / CC / OD Accounts & Services -> Interest Rate History ➤ DL/TL Accounts & Services -> Interest Rate History <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ LN022 (Interest Calculation Inquiry) ➤ LN608 (Interest Charges Report) ➤ LN801 (Loan Interest Report)
Advances	<ul style="list-style-type: none"> ➤ Conduct of Account and Credit Turnover ➤ Turnover of CC Account based on Borrower's Business profile ➤ In case of Loan accounts ACTUAL recovery of Installments and Interest 	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ "ATOR" - Account Turnover Report ➤ "ACTI" - Account Turnover Inquiry ➤ "CUTI" - Customer Level Turnover Inquiry <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ DL / TL Accounts & Services ->Enquiries ->Long ➤ Deposit/CC/OD Accounts & Services ->Enquiries ->Long
Advances	<ul style="list-style-type: none"> ➤ Temporary Overdraft 	<p>Finacle – 7 :</p> <ul style="list-style-type: none"> ➤ ACTODM / ACTODI - Account TOD Maintenance ➤ ACLHM - Account Limit History Maintenance ➤ TODRP - TOD Register Printing <p>Finacle – 10:</p> <ul style="list-style-type: none"> ➤ HACTODI - Account TOD Inquiry ➤ HTODRP - TOD Register Printing <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Deposit / CC / OD Accounts & Services -> Enquiries -> Interest Rate History -> Select 'Limit history' from drop down menu <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ CHM07 (OD Limit Master Maintenance)

Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
		➤ CH226 (Adhoc List of Overdue CASA Accounts)
Advances	➤ Non Performing Asset ➤ Search an Account based on Criteria	Finacle-7: ➤ "ACS" - Account Selection (2 nd Screen - IRAC Code - Main Asset Classification) Finacle-10: ➤ HACSP BaNCS: ➤ DL / TL Accounts & Services - ->Enquiries ->Short -> Select Option "1" - TL / DL [Long Inquiry for NPA Date] ➤ Deposit/CC/OD Accounts & Services ->Enquiries ->Short -> Select Option "2" - CC / OD [Long Inquiry for NPA Date] ➤ Common Processing ->Overdue / NPA ->NPA Enquiry (Risk Grade Inquiry / NPA Status Inquiry) Flexcube: ➤ AC02 - CRR (Credit Risk Rating) Inquiry ➤ LN156 - Non Performing Loan Details Report ➤ LN191 - Accounts in NPA Status
Advances	➤ Interest Report	Finacle-7: ➤ "AINTRPT" - Interest Report for Account Finacle-10: ➤ HAINTRPT Interest Report for Accounts ➤ HINTPRF Interest Proof Report BaNCS: ➤ Product Sheets - To be requested from Data Center (if not available through user login) Flexcube: ➤ LN022 (Interest Calculation Inquiry) ➤ LN608 (Interest Charges Report) ➤ LN801 (Loan Interest Report)



Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
Advances	➤ Primary & Collateral Security Maintenance	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "SRM" - Security Register Maintenance ➤ CLL Collateral Maintenance ➤ HCLM Collateral Maintenance <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HSCLM Collateral Maintenance <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ DL/ TL Accounts & Services -> Security (Primary/ Collateral) -> Customer -> Amend / Enquiry -> Amend / Enquire Security <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ CH066 Limit Collateral Inquiry ➤ CHM06 OD Collateral Maintenance
Advances	➤ Lien Marking	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "ALM" - Account Lien Maintenance <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ HALM - Account Lien Maintenance <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ DL/ TL Accounts & Services -> Security (Primary/ Collateral) -> Customer -> Amend / Enquiry -> Amend / Enquire Security (Under BaNCS – Collateral ID is required to be created before setting up limits) <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ TDM24 Lien Master
Advances	➤ Account Ledger Printing	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "PSP" - Pass Sheet Print ➤ "ACLPCA" - Customer Ledger Account Print <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ "HPSP" - Pass Sheet Print <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Print Menu available under DL / TL Accounts & Services and Deposit / CC / OD Accounts & Services

Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
		Flexcube: <ul style="list-style-type: none"> ➤ CH031 Statement Inquiry ➤ 7010 Passbook update ➤ LNM10 Account Transactions Inquiry ➤ LN421 Statement of Account NPA
Advances	<ul style="list-style-type: none"> ➤ Non Fund based Facility (LC, BG) 	Finacle-7: <ul style="list-style-type: none"> ➤ "GI" - Guarantee Inquiry ➤ "DCQRY" - Documentary Credit Query Finacle-10: <ul style="list-style-type: none"> ➤ HGI - Guarantee Inquiry BaNCS: <ul style="list-style-type: none"> ➤ Report generated from Trade module
Stationery	<ul style="list-style-type: none"> ➤ Physical Verification of Stationery and confirmation of Balance as per CBS 	Finacle-7: <ul style="list-style-type: none"> ➤ "ISRA" - Inventory Status Report (<i>Locationwise viz., Dual Lock, Individual, Cancelled etc.</i>) Finacle-10: <ul style="list-style-type: none"> ➤ HISRA Inventory Status Report ➤ HIIA Inventory Inquiry All BaNCS: <ul style="list-style-type: none"> ➤ Through Valuable Paper Inventory System [VPIS] module Flexcube: <ul style="list-style-type: none"> ➤ IV011 - Stock Inquiries ➤ IV001 - Stock Transactions ➤ IV002 - Stock Adjustment
Office Accounts (Suspense, Sundry etc.)	<ul style="list-style-type: none"> ➤ Outstanding entries for reporting ➤ Entries outstanding - Whether any provisioning is required? 	Finacle-7: <ul style="list-style-type: none"> ➤ "IOT" - Inquire on Transaction (As on date Inquiry) ➤ "MSGOIRP" - Outstanding Items Report ➤ MSOIRP Minor Subsidiaries Outstanding Items Report Finacle-10: <ul style="list-style-type: none"> ➤ "HIOT" - Inquire on Transaction (As on date Inquiry) BaNCS: <ul style="list-style-type: none"> ➤ Through offline reports viz. "Audit



Audit Activity / Process / Audit Area	Auditors' Primary Checks	Suggested System Support
		<p>BGL accounts age wise break up" and "GL-Outstanding-Accnts" report.</p> <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ GLM02 - Chart of Accounts ➤ GLM04 - GL Transactions and Movement Inquiry
Office Accounts (Suspense, Sundry etc.)	➤ Printing of Office Accounts	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "ACLPOA" - Account Ledger printing Office Account <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ "HACLPOA" - Account Ledger printing Office Account <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ BGL Accounting Menu
Inter Branch Account	➤ Un-reconciled transactions	<p>Finacle:</p> <ul style="list-style-type: none"> ➤ Through Outstanding IBR Report. <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Through offline "Outstanding IBR Report"/ "IBR Summary report"
TDS Related	➤ TDS Information and Reports	<p>Finacle-7:</p> <ul style="list-style-type: none"> ➤ "TDSIP" - TDS Inquiry & Reports ➤ Month-end report on accountwise / transactionwise Tax deduction. ➤ Bank specific customized Menu / report <p>Finacle-10:</p> <ul style="list-style-type: none"> ➤ "HTDSIP" - TDS Inquiry & Reports <p>BaNCS:</p> <ul style="list-style-type: none"> ➤ Through offline monthly report on accountwise / transactionwise Tax deduction. <p>Flexcube:</p> <ul style="list-style-type: none"> ➤ TDS11 TDS Inquiry ➤ TDS15 Inquiry on Projected Tax

Part – D

Illustrative list of Special purpose / Exception Reports

An indicative list of reports (if generated through MIS System) will benefit SCAs and SBAs (if shared in advance) while undertaking the audit in fully computerised environment. Generally these reports are generated through Structured Query Language (SQL) by MIS Team at Bank. Each report require framing of detailed query as per the parameterization in bank. The role of Auditor is to guide MIS Team on Trigger / Exception Logic for generation of such reports. It requires detailed understanding of CBS, parameterization, master data etc.

Advances

Sr. No.	Report
1.	Advances Snapshot covering all important parameters
2.	Accounts with overdue in excess of 90 Days and are classified as Standard Assets
3.	List of LCs devolved during the period / year and current status of account
4.	List of BGs invoked during the period / year and current status of account
5.	Standalone Non Fund Based Limits granted to customers
6.	List of SMA / Watchlist / Probable NPA accounts as on the last date of Audit period
7.	Backdated updation of stock and book debt statements (Difference between Date of updation in CBS and Date of Stock Statement updated)
8.	List of Accounts wherein the facility is not renewed / reviewed
9.	List of Accounts slipped to NPA during the current period
10.	List of Accounts wherein there is an amendment in Date of NPA
11.	List of Accounts written off during the period / year
12.	List of Accounts upgraded (alongwith date of upgrade and the overdues on the date of upgrade)
13.	Quick Mortality (NPA within 1 year of Advance)
14.	List of NPA Accounts with Security Valuation not carried out within the prescribed period
15.	List of accounts wherein rephasing (Change in EMI, Tenor, Moratorium period) is carried out in CBS (excluding rephasing due to change in the reference rate)
16.	Loan / OD against FD with no linkage to FD (i.e. Security)
17.	Loan to Minor (Excluding Non individual accounts and excluding Education, Loan/OD against Deposit cases)
18.	Loans below the benchmark rate (as applicable in each bank)
19.	Loans above the maximum lending rate (as applicable in each bank)
20.	Loans where disbursement is made in Cash (Threshold limit may be prescribed)
21.	Credit transactions in CC / OD / Loan Accounts with Value Date (Back Date) without Value Date (Back Date) at Debit Leg.
22.	Advance accounts where effective interest rate is Zero.
23.	CC Accounts with primary security is "Nil"
24.	Multiple TODs / Adhoc Sanctions for a customer.
25.	Non delinking of Adhoc facility sanctioned on expiry



Profit & Loss

Sr. No.	Report
1.	Manual debit to Interest Income and Other Income Account
2.	Manual credits to Interest Income and Other Income Account
3.	Manual debit to Interest Expense Account
4.	Interest Pegging marked as "Y" for loans sanctioned at variable rate i.e. w.r.t. benchmark rates (Pegging may freeze the interest rate at the respective time.)

Foreign Exchange, Internal Controls and Systems

Sr. No.	Report
1.	Bills under LC devolved and not crystallized. / Bills under LC devolved wherein the crystallization account is office account / not of customer.
2.	Export Bills discounted / purchased and outstanding beyond due dates.
3.	Packing Credits Accounts outstanding beyond due dates / Running Packing Credit accounts with age of un-utilized orders is more than 365 days.
4.	Resident Customers having Non Resident Account (under same or multiple customer master)
5.	NRE Account Holder having Resident Savings Account (under same or multiple customer master)
6.	FDs / RDs with aggregate balance at customer master level in excess of Rs. 20,000 and closed one / all FDs / RDs in cash
7.	Cash Payments from Office Accounts in excess of Rs. 10,000
8.	Non Senior Citizen customers (based on DOB) with Senior Citizen Interest Table code
9.	Preferential Interest Rate applicable to Staff applied in non staff deposit (Refer the policy of bank w.r.t. extending facility to ex-staff and relatives of staff / ex-staff)
10.	List of Outstanding Office Accounts entries (Pointing type accounts)
11.	Accounts with invalid PAN (No. of digits, structure, constitution code mapping with 4 th Digit)
12.	List of Foreign Exchange transactions with Exchange Rates beyond the card rate / Maximum-Minimum Rate during the period

Capital Adequacy

Sr. No.	Report
1.	Accounts above threshold limit wherein External Credit Rating is not obtained / updated
2.	Bank Guarantees and LC Expired and not reversed.
3.	Accounts with mismatch in Constitution code and BASEL Mapping

The above list of reports is indicative only. There are various other reports that can be generated. However, as mentioned earlier, the generation of reports requires in-depth review of bank's systems, processes and gaps. The reports can be made more effective through continuation review and update mechanism.

Section -4 A brief note on “Exploring basics of Microsoft Excel for Bank Branch Audit”

Exploring basics of Microsoft Excel for Bank Branch Audit

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Use of Excel vis a vis various Audit Processes:

The dictionary meaning of “Audit” is “An inspection of the accounting procedures and records by a trained accountant” and “A methodical examination or review of a condition or situation”.

Auditing starts with right from collection of data and ends with final reporting to the stakeholders. The whole process of Audit can be categorised as follows.

1. Collection of Raw Data
2. Processing of Data
3. Reporting of Information in a structured form

Data Collection:

MS-Excel can be used for audit purposes only after obtaining Data from an authenticated database containing financial and other related transactions. The data for audit purposes can be in a pre-defined structured form or can be in a delimited (raw) form. Excel has capability to convert all such types of data extracted from database to a logical format.

It generally happens that the clients provide data from their Mainframe Data Server where the data is stored in predefined format. However, after extraction process the system gives data in Text Format. It becomes very difficult to process data obtained through text file as all the contents are stored in a **SINGLE CELL** only. For any data processing activity it is the pre-requisite that the data must be stored in proper pre-defined format.

We have talked lot about word “Text” in above paragraph. Let’s have some information about the word “Text” in the context of MS – Excel.

“When user enter data into a cell, Excel immediately goes to work and determines whether user is entering a formula, a number (including a date or time), or anything else. Anything else is considered text.”

A term called “string” is also used interchangeably. Sometimes, they even appear together, as in text string.”

Take an example to understand how Excel can convert Data in a logical form in both the situations i.e. 1) Data fields with Fixed Width and 2) Data in a delimited form.



We all are aware about widely used accounting software called “Tally”. Tally 5.4 versions and above has capability to generate a SDF file, ASCII File, HTML File and XML File for each and every Report displayed on Screen.

The SDF (Fixed Width) and ASCII File (Comma delimited) created by Tally can be opened in Excel for further processing. After opening the file in excel following dialogue box will appear.

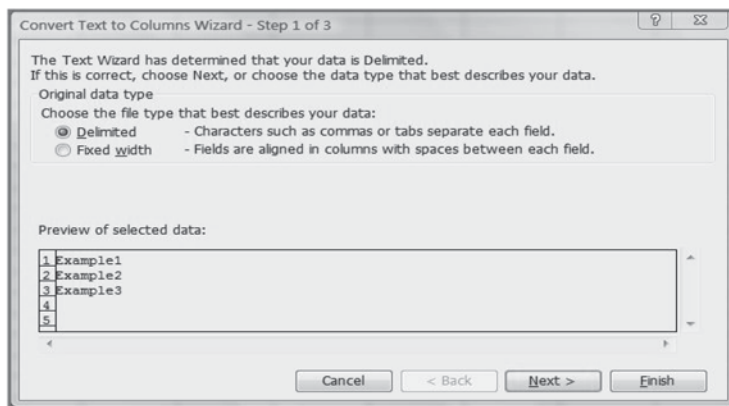


Figure: Text to column Wizard – Step -1

Step – 1: The user will be prompted to select the data type (i.e. Delimited or Fixed width). Till now, one may find the words “Delimited” or “Fixed Width” annoying as I have used the same in above paragraphs at least twice without mentioning the meaning of the same. Let us now know the meaning of both the phrases and then will see further steps.

Delimited: A plain dictionary meaning of Delimit (verb) is “*Set, mark, or draw the boundaries of something*”. In the context of MS-Excel it means that the data fields separated by some identification marks i.e. Comma (,), Semicolon (;), Tab, Space, Pipe Symbol (|) or any other mark used throughout the database.

The identification mark will guide Excel in breaking the data entry into logical format (i.e. various columns).

Fixed Width: Fixed Width in context of a Database means the data field with a standard character size irrespective of the length of content punched in. E.g. A “Name” Field in a database has character size of 50 will leave space equivalent to 50 characters in each entry. Therefore if the characters in a name are 10 only then space equivalent to 40 characters will be shown as blank space.

Step – 2:

For fixed width database user can select just by clicking the place from where new column is to be created. (Refer the following figure)

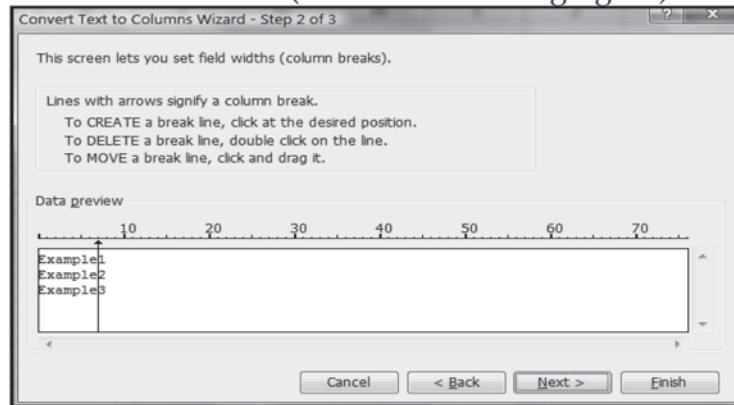


Figure: Text to column Wizard – Step - 2

However, for file having fields separated by delimiters will need to select the Delimitation Mark to create column. (Refer the following figure)

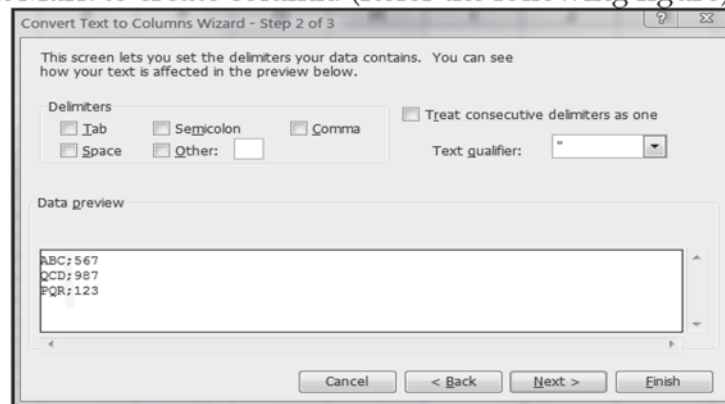


Figure: Text to Column Wizard Step – 2 (Before selecting Delimiter)

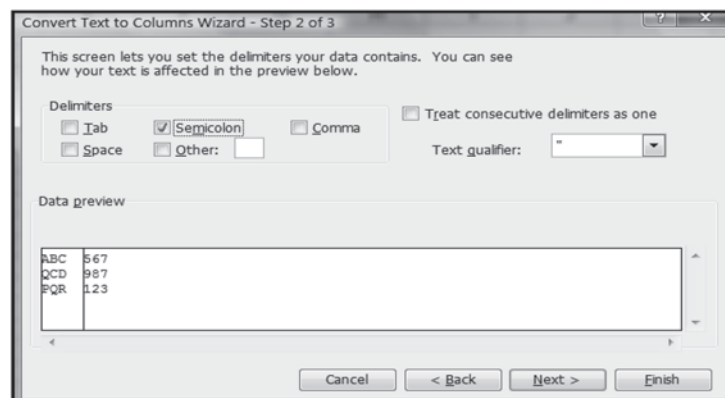


Figure: Text to Column Wizard Step – 2 (After selecting Delimiter i.e. Semicolon)



Step – 3:

User is required to select the type of data stored in a column. Depending upon the data the user is required to select Column Data Format.

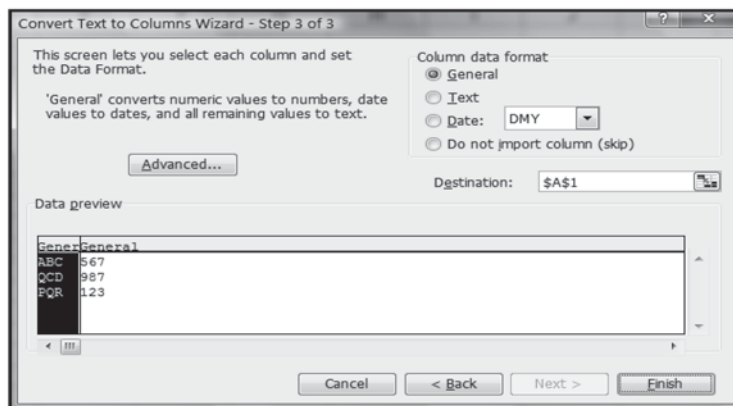


Figure: Text to Column Wizard Step – 3

Data Processing:

Next step after collecting and converting data, is processing of Data. Processing of data consist of many techniques like sorting, filtering, reviewing formula and its logic, Tracing Cell's Relationships etc.

Sorting of Data:

The basic function to do with data is Sorting. Data Sorting means arranging the data into a predefined form.

To use sort command first select the range of data to be sort and then go to Data Menu and Select Sort. Excel allows sorting in both Ascending and Descending Forms with maximum Three Fields.

You might be thinking that which cell will come first in Ascending Sort and which cell will come last? What is the Sorting Rules in Excel? Here is the answer to all your queries.

The cell in excel may contain number, text, logical value or even a blank space. There are specific Rules for each type. The effect with following type is with respect to Ascending Order Sorting.

1. Numbers: Numbers are sorted **from smallest negative to largest positive**. Dates and times are treated as values. In all cases, the sorting is done by using the actual values (not their formatted appearance).

2. Text: In alphabetical order, as follows:

0 1 2 3 4 5 6 7 8 9 (space) ! " # \$ % & ' () * + , - . / : ; < = > ? @ [\] ^ _ ` { } ~ A B C D E F G H I J K L M N O P Q R S T U V W X Y Z.

3. Logical values: False comes before True.

4. Blank cells: Blank cells always appear last.

Sorting in descending order reverses the above sequence - except that **blank cells are still sorted last**.

Tip:

Often, the user **wants to keep the records in their original order** but perform a temporary sort just to see how it looks. Let us have a live example for the same to see how the same can be done.

A user might face a problem where the sorting is to be done with a predetermined list order. As in simple sorting function user is allowed to use only two Functions "Ascending" and "Descending" Sorting. Excel performs the task according to cell contents (as mentioned above). However, the same methodology doesn't work where sorting is to be done in a predefined order. Let us understand the same with the use of an example.

e.g. Reliance Fresh has decided to have a list of stores in Ahmedabad to be sorted for reporting in following pattern only.

S. G. Road
Bopal
Mithakhali
Navrangpura
Naranpura
Ambawadi
Bodakdev
Jodhpur

The above list does not fit into our criteria for Simple Sorting. In such a case the "Custom List" option can be used. [*Path: Tools Menu -> Options -> Custom List*]

A user can define the list under "Custom Lists" tab. The same can be used in any workbook afterwards.



Filtering of Data:

A dictionary meaning of Filter (Verb) is *“Remove by passing through a filter”*. The dictionary meaning is sufficient to understand what the Filtering Command in Excel will do.

Filtering is one of the best tools available in Excel. The power of Filter option in Excel is beyond imagination of any user. However, due to time constraint it is not to explore all the features.

MS-Excel 2003 and later versions have feature of sorting data from Filtering option itself.

Lookup and References:

Auditing process requires look-up and reference of specific value for cross check purposes. For Lookup purpose the Excel has two good functions called VLOOKUP and HLOOKUP. VLOOKUP stands for Vertical Look Up whereas HLOOKUP stands for Horizontal Look Up.

One may have some questions in mind that what is the need to know a new function called VLOOKUP or HLOOKUP. The following are some reasons describing the need of these functions.

- It allows one to **automatically lookup a particular cell** of data **from a larger data range**. This is especially useful when,
 - A large data section that contains information for multiple records somewhere on the spreadsheet (e.g., a small database)
 - A calculation area somewhere else, and user needs to refer to some specific data elements for specific records
- VLOOKUP and HLOOKUP allows finding of a specific cell of data in a larger data range
 - Use VLOOKUP when each row contains a separate record and the associated columns contain data for that one record
 - Use HLOOKUP when each column contains a separate record

First of all, let us understand syntax for VLOOKUP and HLOOKUP Function to have a better clarity.

Syntax – VLOOKUP:

VLOOKUP (SearchValue, Range, ColumnNumber, Error)

Meaning:

Look for a value **in the row specified** by SearchValue and the column specified by ColumnNumber

Syntax – HLOOKUP:

HLOOKUP (SearchValue, Range, RowNumber, Error)

Meaning:

Look for a value **in the column specified** by SearchValue and the row specified by RowNumber.

Description of Parameters:

- **SearchValue** indicates the “match key” (i.e., find the row that contains the SearchValue in the first column)
- **Range** specifies the cells containing the data
- **ColumnNumber** specifies the column that contains the required data element
- **Error** determines what happens when Excel does not find the exact SearchValue specified. FALSE leads Excel to display a #N/A when an exact match cannot be found. TRUE leads Excel to display the next smaller value than SearchValue

NOTE: The 1st column of data must be sorted in ascending order when using VLOOKUP, and the 1st row of data must be sorted if using HLOOKUP

Auditing Feature in Excel:

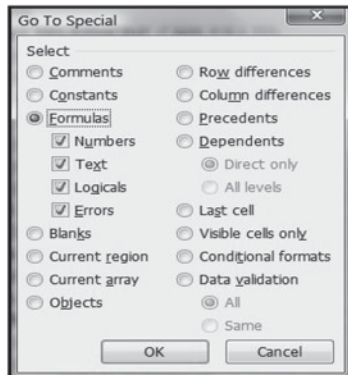
Excel has number of tools to trace formula errors. However, apart from using functions the auditor must have knowledge about the Type of Error and Interpretation of Error Code. A list showing common Error Type with its Interpretation is as follows.

1. Error Handling:

Error Type	Interpretation
#DIV/0!	The formula is trying to divide by zero. This also occurs when the formula attempts to divide by a cell that is empty.
#NAME?	The formula uses a name that Excel doesn't recognize. This can happen if user delete a name that's used in the formula or if user have unmatched quotes when using text.
#N/A	The formula is referring (directly or indirectly) to a cell that uses the NA function to signal that data is not available. Some functions (for example, VLOOKUP) can also return #N/A.
#NULL!	The formula uses an intersection of two ranges that don't intersect.
#NUM!	A problem with a value exists; for example, user has specified a negative number where a positive number is expected.
#REF!	The formula refers to a cell that isn't valid. This can happen if the cell has been deleted from the worksheet.
#VALUE!	The formula includes an argument or operand of the wrong type. An <i>operand</i> is a value or cell reference that a formula uses to calculate a result.

2. Identifying Cell of a Particular Type:

One of the tools to trace the error is “Identification of Cell of a Particular Type”. The “Go To - Special dialog box” (refer the following figure) enables auditor to specify the type of cells that one want Excel to select.



3. **Auditing of Formula:**

The other tool is related to auditing in Excel is “Auditing of Formula”. By using buttons CTRL + ` (grave accent) displays formulas in active window.

Tip:

One should create a new window for the workbook before issuing this command. This way, one can see the formulas in one window and the results of the formula in the other window. *Use the Window - > New Window command to open a new window.*

4. **Trace Cell Relationships:**

Tracing Cell Relationships is like verifying Audit Trail in manual accounts. The relationship of a cell will be useful in determining the correctness and validity of a defined formula.

To understand how to trace cell relationships, one needs to familiarize himself with the following two concepts:

- **Cell Precedents:** Applicable only to cells that contain a formula, a formula cell's precedents are all the cells that contribute to the formula's result. A direct precedent is a cell that is used directly in the formula. An indirect precedent is a cell that isn't used directly in the formula but is used by a cell that referred to in the formula.
- **Cell Dependents:** These are formula cells that depend on a particular cell. A cell's dependents consist of all formula cells that use the cell. Again, the formula cell can be a direct dependent or an indirect dependent.

E.g.:

Consider the simple formula entered into cell A3: =SUM(A1:A2)

Cell A3 has two precedent cells (A1 and A2). These are all direct precedents. Cells A1 and A2 each have a dependent cell (cell A3), and they are all direct dependents.

5. Comparison of Two Files:

In some cases, auditor may want to compare data in two workbooks or worksheets. In such cases use of Excel's **Compare Side by Side** feature will be the best possible option. The function can be accessed only when two or more windows are open. The function can be accessed by using Window -> **Compare Side by Side With**.

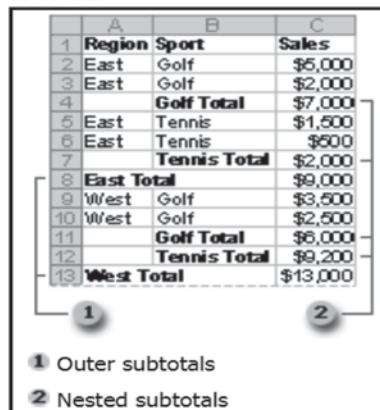
However, it may be noted here that the above feature is available in MS-Excel 2003 or above versions only.

Reporting of Information in a structured Format:

There are various features available in Excel like Subtotal, Pivot Tables, Charts, Group and Outline etc. to present data in a structured Format.

Subtotal:

Excel's ability to create automatic subtotals is a handy feature to save valuable time. However, to use this feature, the list must be sorted, because the **subtotals are inserted whenever the value in a specified field changes**. When user insert automatic subtotals, Excel outlines the list so that user can display and hide the detail rows for each subtotal.



	A	B	C
	Region	Sport	Sales
1	East	Golf	\$5,000
2	East	Golf	\$2,000
3		Golf Total	\$7,000
4	East	Tennis	\$1,500
5	East	Tennis	\$500
6		Tennis Total	\$2,000
7		East Total	\$9,000
8	West	Golf	\$3,500
9	West	Golf	\$2,500
10		Golf Total	\$6,000
11		Tennis Total	\$9,200
12		West Total	\$13,000

1 Outer subtotals
2 Nested subtotals

Figure: Understanding Subtotal

By using Subtotal feature one can prepare **summary report** and **chart for summary data**.

Pivot Tables:

A PivotTable report is an interactive table that quickly combines and compares large amounts of data. Its rows and columns can be rotated to see different summaries of the source data, and the details for areas of interest can be displayed.



A pivot table is essentially a dynamic summary report generated from a database. The database can reside in a worksheet or in an external data file. A pivot table can help transform endless rows and columns of numbers into a meaningful presentation of the data.

Let's understand Pivot Table by following example.

Example:

1. Following is the table showing Raw (Source) Data for which Pivot Table is to be constructed.

	A	B	C	D
1	Sport	Quarter	Region	Sales Fig.
2	Cricket	Qtr1	North	100
3	Tennis	Qtr2	South	200
4	Soccer	Qtr1	West	250
5	Tennis	Qtr2	South	150
6	Tennis	Qtr4	North	900
7	Cricket	Qtr3	West	500
8	Soccer	Qtr1	East	650
9	Tennis	Qtr2	West	350
10	Soccer	Qtr1	East	750
11	Cricket	Qtr3	North	450

Figure: Source Data

2. PivotTable Report is used when one want to **analyze related totals**, especially when one have a long list of figures to sum and wanted to compare several facts about each figure. In the report illustrated below, one can easily see how the First-Quarter Soccer Sales in cell C5 stack up against sales for another sport or quarter, or the total sales. Because a PivotTable report is interactive, one can change the view of the data to see more details or calculate different summaries, such as counts or averages.

	A	B	C	D	E
1	Region	(All) ▼			
2					
3	Sum of Sales Fig.	Sport ▼			
4	Quarter ▼	Cricket	Soccer	Tennis	Grand Total
5	Qtr1	100	1650		1750
6	Qtr2			700	700
7	Qtr3	950			950
8	Qtr4			900	900
9	Grand Total	1050	1650	1600	4300

Figure: Pivot Report

Creating Pivot Table Report:

To create a PivotTable report, run the PivotTable and PivotChart Wizard from Data Menu. In the wizard, select the source data from worksheet list or external database. The wizard then provides with a worksheet area for the report and a list of the available fields. By dragging the fields from the list window to the

outlined areas, Microsoft Excel summarizes and calculates the report automatically.

After creating a PivotTable report, it can be customized to focus on the information one want i.e. changing the layout, changing the format, or drill down to display more detailed data.

Group and Outline:

We have already seen this feature while understanding Subtotal Feature of MS-Excel. However, there are various different uses of both the features.

Answer to my following question will provide reasons as to why this feature should be used.

"How often would you like to hide or unhide parts of a complex spreadsheet?"

If your answer is "**very often**", you will like to group/ungroup function instead of the hide/unhide command, since you will be able to toggle between hidden or displayed columns or rows.

A next question may come up in your mind that how to use this feature. Following are the steps to use "Group – Outline Feature".

- Mark the row or column that you would like to "fold", i.e. hide for the moment.
- Click on *Data: Group and Outline: Group*
- To "fold" click now on the "minus" sign outside of your column or row
- You may also group or ungroup hierarchically

Certain useful Functions / Features for Auditing:

1. SubTotal Function:

The function can be used in P&L and B/s where subtotal is used for disclosures. The Function **ignores the subtotal presentation** and it only take care of **actual values**.

Syntax and Parameters:

= SubTotal (function_num, ref1, ref2, ...)

Function_num: Refer following Table.



Function_num (includes hidden values)	Function_num (ignores hidden values)	Function
1	101	AVERAGE
2	102	COUNT
3	103	COUNTA
4	104	MAX
5	105	MIN
6	106	PRODUCT
7	107	STDEV
8	108	STDEVP
9	109	SUM
10	110	VAR
11	111	VARP

Ref1, Ref2 ... : Refers to Range

Example:

In following table SUBTOTAL Function is used. To have better understanding let us see the formula used to derive the results.

	A	B	C
1	Example of Group and Outline with Subtotal Function		
2			
3			
4		Purchase (Rs.)	Sales (Rs.)
5			
6	Delivery Based	3780	6450
7	Pharma	450	600
8	Ranbaxy	100	500
9	Torrent Pharma	350	100
10	IT	1200	3000
11	Infy	100	700
12	Wipro	500	800
13	TCS	600	1500
14	Energy	1000	850
15	Torrent Power	350	250
16	BSES	650	600
17	Auto	1130	2000
18	Maruti	250	450
19	Bajaj	540	900
20	TVS	340	650

Figure: Table where Subtotal Function is used

Following figure displays the Formula Part of SubTotal Function. The formula in Cell B6 and C6 works in a way that it **ignores the subtotal presentation** and it only take care of **actual values**.

	A	B	C
1	Example of Group and Outline with Subtotal Function		
2			
3			
4		Purchase (Rs.)	Sales (Rs.)
5			
6	Delivery Based	=SUBTOTAL(109,B7:B20)	=SUBTOTAL(109,C7:C20)
7	Pharma	=SUBTOTAL(109,B8:B9)	=SUBTOTAL(109,C8:C9)
8	Ranbaxy	100	500
9	Torrent Pharma	350	100
10	IT	=SUBTOTAL(109,B11:B13)	=SUBTOTAL(109,C11:C13)
11	Infy	100	700
12	Wipro	500	800
13	TCS	600	1500
14	Energy	=SUBTOTAL(109,B15:B16)	=SUBTOTAL(109,C15:C17)
15	Torrent Power	350	250
16	BSES	650	600
17	Auto	=SUBTOTAL(109,B18:B20)	=SUBTOTAL(109,C18:C20)
18	Maruti	250	450
19	Bajaj	540	900
20	TVS	340	650

Figure: Display of SUBTOTAL Function (Formula Display)

2. SUMPRODUCT:

The function Multiplies corresponding components in the given arrays, and returns the sum of those products. Let us understand the same by way of example.

Syntax:

=SUMPRODUCT (Array1, Array2, ...)

Example:

Many a times we calculate Total of Multiplication of an array of values as below. Instead of using conventional method, we can directly get the figure by using SUMPRODUCT Function (Refer following Figure).

	A	B	C	D	E	F
1	Conventional Method					
2	100	x	50	=	5000	
3	200	x	60	=	12000	
4	300	x	70	=	21000	
5	400	x	80	=	32000	
6	500	x	90	=	45000	
7	600	x	100	=	60000	
8	700	x	40	=	28000	
9	800	x	30	=	24000	
10	900	x	20	=	18000	
11	1000	x	10	=	10000	
12	Total				255000	
13						
14	Using SUMPRODUCT Function					
15						
16	Same total by using SUMPRODUCT Function					
17						
18	Function	=SUMPRODUCT(A1:A10,C1:C10)				
19	Result	255000				



3. Calculating difference of Days, Months and Years between Two Dates:

While preparing Interest Element in Tax Computation Statement we require difference of months between two dates. Date Difference in Days or in Months or In Year can be obtained by using DATEDIF function.

Note:

The function is not available in Paste Function Dialogue Box. The one reason can be that the function DATEDIF was originated with Lotus 1-2-3 (a spreadsheet program like MS-Excel). MS-Excel has provided the function for compatibility purpose only. However, the function is still working in all the versions of Excel. As no help about the function is available it is important to note down syntax of the function properly.

Syntax:

=DATEDIF (start_date, end_date, unit_code)

Description of Parameters:

start_date: Date from which the difference is to be calculated.

end_date: Date to which the difference is to be calculated.

unit_code: Unit Code refers to the time unit of interest (refer following table)

Unit Code	Returns
"y"	The number of complete years in the period.
"m"	The number of complete months in the period.
"d"	The number of days in the period.
"md"	The difference between the days in start_date and end_date. The months and years of the dates are ignored.
"ym"	The difference between the months in start_date and end_date. The days and years of the dates are ignored.
"yd"	The difference between the days of start_date and end_date. The years of the dates are ignored.

Note:

The function does not calculate full period. Hence, the difference of 1 day will be shown as 1 year. E.g. Date Difference between 31/12/2007 and 01/01/2008 is only of 1 day. However, formula will return the same as 1 year.

4. Count and Countif Function:

Count and Countif Function proves very handy during audit. Description of Function Count and Countif is mentioned herebelow for ready reference.

Count Formula Description

- COUNT(Range1,Range2,Value1,...) ==> count the number of cells containing numbers
- COUNTA(Range1,Range2,Value1,...) ==> count the number of non-empty cells

- COUNTBLANK(Range) ==> count the number of empty cells in the range

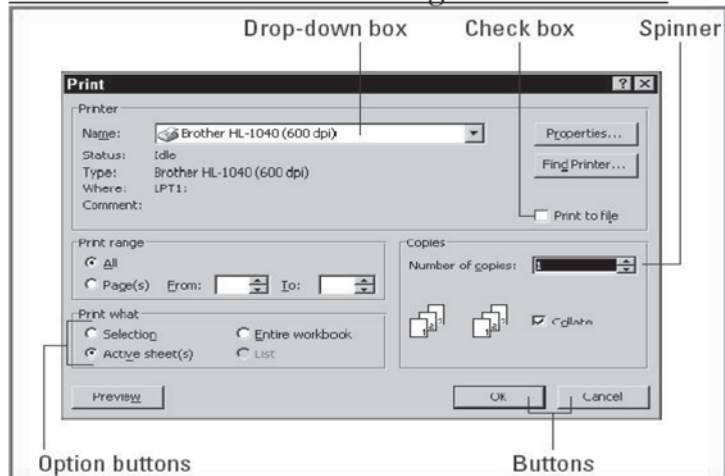
Countif Formula Description

=COUNTIF(Data,12)	Returns the number of cells containing the value 12
=COUNTIF(Data,"<0")	Returns the number of cells containing a negative value
=COUNTIF(Data,"<>0")	Returns the number of cells not equal to 0
=COUNTIF(Data,">5")	Returns the number of cells greater than 5
=COUNTIF(Data,A1)	Returns the number of cells equal to the contents of cell A1
=COUNTIF(Data,">"&A1)	Returns the number of cells greater than the value in cell A1
=COUNTIF(Data,"*")	Returns the number of cells containing text
=COUNTIF(Data,"???")	Returns the number of text cells containing exactly three characters
=COUNTIF(Data,"budget")	Returns the number of cells containing the single word budget (not case sensitive)
=COUNTIF(Data,"*budget*")	Returns the number of cells containing the text budget anywhere within the text
=COUNTIF(Data,"A*")	Returns the number of cells containing text that begins with the letter A (not case sensitive)
=COUNTIF(Data,TODAY())	Returns the number of cells containing the current date
=COUNTIF(Data,">"&AVERAGE(Data))	Returns the number of cells with a value greater than the average
=COUNTIF(Data,">"&AVERAGE(Data)+STDEV(Data)*3)	Returns the number of values exceeding three standard deviations above the mean
=COUNTIF(Data,3)+COUNTIF(Data,-3)	Returns the number of cells containing the value 3 or - 3
=COUNTIF(Data,TRUE)	Returns the number of cells containing logical TRUE
=COUNTIF(Data,TRUE)+COUNTIF(Data,FALSE)	Returns the number of cells containing a logical value (TRUE or FALSE)
=COUNTIF(Data,"#N/A")	Returns the number of cells containing the #N/A error value



Tips and Tricks in Excel:

1. Understand some of the Dialogue Box Controls

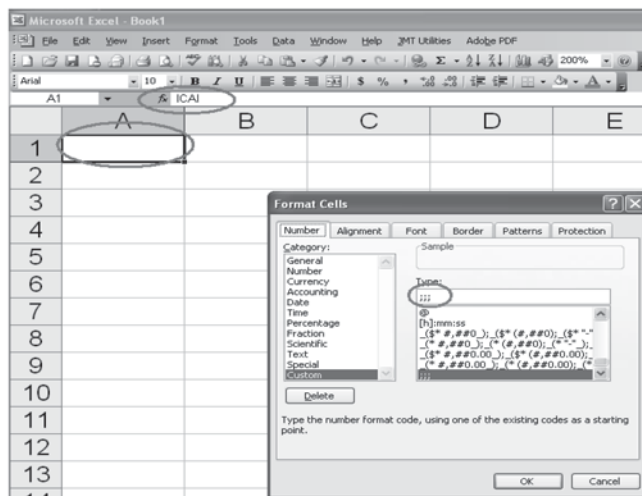


2. Explore the feature “**Paste Special**”:

- a. Saves you lots of time
 - i. Retyping formulas
 - ii. Converts formulas into values
 - iii. Reformatting cells
 - iv. Transposing cells (i.e., convert row-entered data blocks into column-entered ones)

3. Wanted to Hide Cell Contents without removing the same?

Select the cell for which the contents need to be hidden on screen. Go to Format -> Cells -> Number (Tab) -> Select Custom -> Type ;;;



4. Scrolling in Large Excel Worksheet?

You can scroll through the worksheet without changing the active cell by turning on Scroll Lock. This can be useful if you need to view another area of your worksheet and then quickly return to your original location.

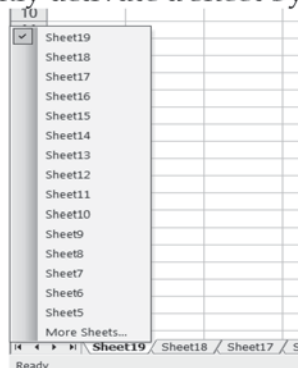
Just press Scroll Lock and use the direction keys to scroll through the worksheet. When you want to return to the original position (the active cell), press Ctrl+Backspace. Then, press Scroll Lock again to turn it off.

When Scroll Lock is turned on, Excel displays SCRL in the status bar at the bottom of the window.

5. Display Single Workbook in more than One window:

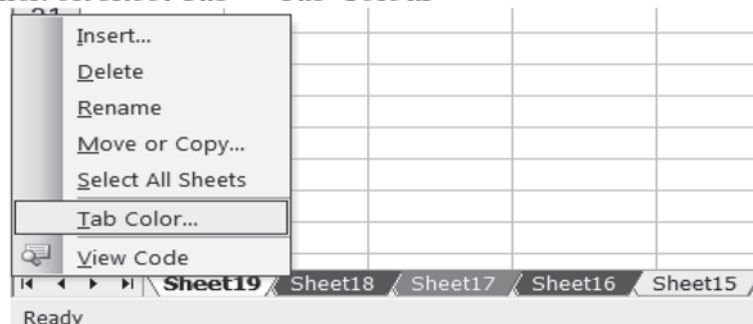
Go to Window Menu -> New window

6. Jump to the Worksheet Directly: When you right-click any of the tab-scrolling buttons to the left of the worksheet tabs, Excel displays a list of all sheets in the workbook. You can quickly activate a sheet by selecting it from the list.



7. Format On Screen Worksheet Arrangement:

Right Click on sheet Tab -> Tab Colour



8. Closely Watch the activity in Particular Cell:

The function can be useful at the time of preparing Tax Computation Sheet.



Go to Tools -> Formula Auditing -> Show Watch Window -> Add Watch -> Specify the cells to keep under close watch.

9. Use of Office Clipboard:

Copy what ever you want and then paste them all together or thorough selection. Clipboard Basket can hold upto 24 items.

10. Problem in writing Firm's Name in Header and Footer?

E.g. If you want to write ABC & Co. in header / footer in Excel write the same in this way. "ABC && Co." Because Excel uses an ampersand to signal a code.

11. Increase the Limit of Undo Stake:

By default the user can undo 16 prior actions. Excel will replace the action at 1st Level at the time of 17th action. Many a time the limit of 16 actions under Undo command is not enough. To increase the limit certain changes are required to be made. Let us see live how the same can be done!

12. Use Names to work with Cell Ranges:

Dealing with cells and range addresses are often confusing since the user is required to refer the cells and ranges by combination of Column and Row Indexes (e.g. B2). Fortunately MS Excel allows users to assign meaningful (descriptive) names to the cells and/or ranges. Such name can be used in entire workbook. There are various advantages like easier to remember, formulation of formula becomes easier, makes formula understandable etc.



CA Abhay Kumar Chhaged,
FCA, DISA, FAFD (Cert.) IFRS (Cert.)

- Born in the year 1973. Completed schooling from Campion School, Bhopal in the year 1991.
- Completed Articleship from A.F. Ferguson & Co., Mumbai.
- Fellow Member of ICAI and has completed Diploma in Information System Audit and Certification Course of IFRS and Forensic Accounting and Audit.
- Practicing as partner with S.L.Chhaged & Co., LLP, Bhopal since 2000 and is heading the Audit and Assurance Division.

Post Held at ICAI:

- Elected as Managing Committee Member of Bhopal branch of ICAI and has held position of Chairman, Vice-Chairman, Secretary and Treasurer during the year 2010-2013.
- Got elected as a Regional Council Member of Central India Regional Council of ICAI for the period 2013-16 and 2016-19 and has held position as Chairman (2016-17), Vice-Chairman, Treasurer and CICASA Chairman during the period 2013-16. He was co-opted member in Valuation Standard Board Committee of ICAI for the year 2019-20.
- Elected as Central Council Member, ICAI for the term 2022-25. He is in Executive Committee of ICAI and Vice chairman in Accounting Standard Board, Financial Review Reporting Board and Taxation Audit Quality Review Board and members in various Non- Standing Committees.



Orater:

- Has been speaker at various forums on different topics like Bank Audit, Companies Act, Internal Audit, Standard on Auditing, Peer Review, Forensic Audit etc.
- Conducted several presentations at study circles of the ICAI. and in GMCS and Orientation classes, career counseling program etc for CA Students.
- His articles are published in CIRC and branch newsletters.

International Exposure:

- He has worked as Senior Audit Accountant with Berdon LLP, Newyork, USA and gained experience. Currently supervising US Accounting and Data processing assignment for more than 3 years.

Other Extra Curricular Achievements:

- He is an active Rotarian and was the president of Rotary Club of Bhopal - Midtown and held position as Assistant Governor during the year 2016-17.
- He is also one of the trustee of their own Chhajed Charitable Trust whose is regularly encouraging CA Students by giving Cash Awards to IPCC and Final Students at Bhopal branch and at CIRC and Scholarship to need based students on monthly basis.
- Is a Patron member of Jain International Trade Organisation (JITO).
- life member of Bhopal Management Association.
- He has been an active sports person and has keen interest in cricket. He has been playing for Bhopal CA cricket team since past 10 years and has won many awards.

Technical Session-II

**Long Form Audit Report
(LFAR)**

Speaker: **CA. Abhay Chajjed,**
Central Council Members, ICAI
Bhopal



HYDERABAD BRANCH OF SIRC OF ICAI

LONG FORM AUDIT REPORT(LFAR)

OF

BANK BRANCH AUDIT

16th March, 2022

CA. Abhay Chhajed, FCA, DISA, FAAD (Cert.), IFRS (Cert.)
S.L.Chhajed & Co. LLP, Bhopal

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Disclaimer

These are my personal views and can not be construed to be the views of the ICAI or my firm.

No representations or warranties are made by the CIRC with regard to this presentation.

These views do not and shall not be considered as a professional advice.

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Annual Financial Inspection of RBI

- RBI conducts *Annual Financial Inspection (AFI)* of all the banks every year. There has been a customary that if the **RBI observes any material (say 10-15% or more) divergence between the Asset Classification** by bank and as certified by the Statutory Auditor as compared with their assessment, the auditors were called for the explanation.
- The RBI has been taking a stricter cognizance of the divergences. If Auditors found negligent, (or *rather not so diligent*), RBI has issued a Letter of Caution or if the amounts involved are material a member firm may face delisting from RBI for the purpose of bank audits.

3

The Pre-requisites

The bank branch audit necessitates reading and knowledge of following basic three things:

- **Master circulars/ Directions/ Notifications issued by RBI:** The master circular was last issued on 1st July 2015 and expired on 30th June 2016. Since then, Master directions are issued for any regulatory changes.
- **Closing circular issued internally by the Bank:** Every bank issues the closing circular.
- **Guidance Note on Bank Audits issued by ICAI**
- **Technical Guide on Internal Financial Control.**

4

Overview and Planning

- Once the **Appointment letters** is received, declarations to be submitted only after confirming that the **firm/ partner is not disqualified to carry out the audit and Corresponding declarations** is obtained from all the partners and **documented in the permanent audit file** in terms of **Standard on Quality Control (SQC) 1**.
- **NOC to previous branch auditors** seeking their no objection either by post/ email.
- **Issue Audit Engagement letter** as per SA-210 "Agreeing the Terms of Audit engagements".
- **Enquiry letter to the Branch manager** for requirements for the purpose of the audit and co-ordination with the Branch Management.
- **Audit program** and its execution. LFAR questionnaire should be covered.
- Copies of the **all reports for audit done at the branch need to be obtained and reviewed** to get an insight into the irregularities persisting.

5

Some of the system generated reports which will assist in more effective documentation and timely completion audit:

- List of Standard Non Agricultural Advances where date of last credit is more than 90 days old
- Where credit during the last 90 days is less than the interest debited during the same period or
- Where there are no credits during the last 90 days.
- List of Advances where there is amendment in date of NPA.
- List of Sub Standard NPAs where Provision held is not 15%.
- List of Doubtful 1 (D-1) NPAs where Provision is not 25%.
- List of Doubtful 2 (D-2) NPAs where Provision is not 40%.
- List of Doubtful 3 (D-3) NPAs where Provision is not 100%.
- Quick Mortality (NPA within 1 year of Advance)
- List of LCs devolved/ BGs invoked during the period / year and current status of account
- List of Standard Advances where renewal/ review is pending for more than 180 days
- List of Standard Cash Credit Advances where stock statements are pending for more than 90/180 days.
- One Account NPA all Account NPA.
- CC Accounts with primary security is "Nil"
- List of Potential/ Proforma NPAs/ SMA / Weak Accounts etc. on the last date
- List of NPA Accounts with Security Valuation not carried out within the prescribed period.
- Accounts above threshold limit wherein External Credit Rating is not obtained / updated.

6

Following are the Standard on Auditing to be followed during Branch Audit:

- SA-210: Agreeing the Terms of Audit Engagement
- SA-220: Quality Control for an Audit of Financial Statements
- SA-230: Audit Documentation
- SA-240: The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statement
- SA-300: Planning an Audit of Financial Statements
- SA-315: Identifying the Risk of Material Misstatements
- SA-320: Materiality in planning and performing an Audit
- SA-500: Audit Evidence
- SA-520: Analytical procedure
- SA-530: Audit Sampling
- SA-580: Written Representation
- SA-600: Using the work of Another Auditor
- SA-700: Forming an Opinion and Reporting on Financial Statements
- SA-705: Modifications to the Opinion in the Independent Auditor's Report
- SA-706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

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LONG FORM AUDIT REPORTING

Background

- Earlier format notified in 2001-02 which now stand repealed and a revised format notified vide circular no. DOS.CO.PPG/SEC.01/11.01.005/2020-21 dated 05.09.2020 which was applicable for the financial year 2020-21 and onwards.
- Focus not only on Advances but also the operational areas in the Branch.
- A Questionnaire, which asks specific questions for which replies should be specific.
- It not only provides issues in Transaction testing but also gives inputs to the Statutory Central Auditors on adequacy of implementation of various policy and regulatory requirements, including efficacy of the system and assurance functions (risk management, compliance and internal audit) at branch level.

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Remember!!

- Audit Report and LFAR are separate and distinct reports - **LFAR is not a substitute for the Branch Statutory report** and is not deemed to be a part of the said report.
- The main Audit Report is a self-contained document and should not make any reference to the LFAR. However, matters in the main report may be elaborated in the LFAR.
- **LFAR should be completed before main report.** Any adverse comment, the auditor can consider whether a qualification in main report is necessary.
- Any comments of qualificatory nature should be included in Audit report and also covered in LFAR.

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Highlights!!

- Detailed workings and documentation have to be carried out to prepare LFAR.
- Auditor can no longer Comment "YES, NO, N/A" in LFAR. He will have to gather information in order to report on Revised LFAR.
- RBI is expecting from the auditors to comment on the Quantitative and Qualitative reporting requirements like:-
 - Transaction Audit
 - ISA audit as a part of statutory branch audit.
 - A tool for Early warning signal
 - Forensic Audit where auditors needs to go through account operation transactions in details and comment accordingly.

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Coverage in LFAR

Assets	Liabilities and Other
Cash	Deposits
Bank Balance	Other Liabilities
Money at Call and Short Notice	Contingent Liabilities
Investments	Profit and Loss
Advances	General
Other Assets	Specialised Branches

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ASSETS

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1. Cash

- Check whether the system maintained is in **effective joint custody of two or more Officials**. Obtain the prescribed **guidelines from branch with regard to custody of Vault cash/ATM cash** and comments in case of deviation.
- Ensure that **custody of keys of vault/ATM machines** should be with the staff as mentioned in key register of the branch.
- Verify from records, whether **duplicate keys of Cash vault and ATM machines** are deposited with other branches as per guidelines.
- Obtain the prescribed **procedure in the bank for periodical verification of Cash/ ATM** and ensure that it is being strictly adhered to. **Report if there is any deviation** from the prescribed process. *(Clause 1(b))*
- Check whether balance in the branch books in respect of cash with its ATM tally with the respective ATMs, based on the year scrolls generated by the ATM and reconciliation with GL balance and also counting sheet should be counter signed by cashier and branch manager. *(Clause 1 (c) (iii))*

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1. Cash (Contd..)

- Obtain the **Cash retention limit of branch**. If cash balance generally exceeds significantly the retention limit, give comment. In case of ATM, obtain limit fixed for ATM. Verify that instances of excess cash beyond retention limit are being regularly reported in returns to HO/RO.
- **Adequate Insurance Cover:** Done by HO or Branch, a **management representation should be obtained** and commented upon accordingly if done at HO. If insurance cover details are available at branch, whether branch holds adequate insurance cover of Cash on hand, Cash in ATM, and Cash-in-transit.
- If officials who are not dealing with cash are also required to do verification of cash balances on monthly basis, ensure same has been conducted and evidenced on records.

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2. Balance with Reserve Bank of India and other banks (For Branch with Treasury Operations)

- Auditor should obtain **balance confirmation certificates pertaining to accounts maintained with Banks** and reconciliation made thereof. Auditor should also find out **old unexplained/ unadjusted entries** and unresponded for more than 15 days, give the details of old entries along with reasons. *Clause 2 (b)(iii)*
- Eg: Inward clearing cheques received from clearing house are lying in reconciliation instead of debiting to operating account. There is possibility that limit account/SB/current A/c were out of funds and would have become NPA in case of debit to these accounts on the date of payment to clearing house.
- In case **confirmation is not received**, same should be commented with name of bank and outstanding balance pending for confirmation.
- Entries originated prior to, but communicated / recorded after the year end in relation to currency chest operations at the branch/other link branches which are old unexplained/ unadjusted entries. Give details of such old entries along with reasons. *Clause 2(b)(iv)*

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3. Money at Call and Short Notice

(Applicable in Branches dealing with Treasury operations)

- Auditor should go through instructions received from HO with regard to amount deposited.
- If there are transactions, **obtain the instructions / guidelines laid down by the Controlling Authorities** and examine the compliance thereof. If there is any deviation, same should be commented.
- Verify whether interest accrued upto the year end has been accounted in Branch books. *Clause 3(b)*
- Verify whether Balance is duly confirmed and reconciled. *Clause 3(c)*

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4. Investments (For Branches outside India)

(Not applicable as SBA are appointed locally)

- If Investments are appearing in the Trial Balance, physical verification should be conducted and reported. Also verify investment balance confirmation of counter party (Investee) with balance appearing in Branch Books/Investment register. *Clause 4(a)*
- In case, if any certificate is not available, verify evidence for not keeping the same in possession. If certificates are sent for realization, verify acknowledgment. *Clause 4(b)*
- Check the system of reporting the receipt of income on the investment held on behalf of corporate office and ensure in all the cases, income is received on due date and reported to HO.
- The auditor should obtain the relevant valuation guidelines of regulatory authority of the country and compare those with the guidelines issued by RBI and check compliance thereof based on conservative principal of whichever guidelines are more stringent. *Clause 4(c)*

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4. Investments (Contd..)

- Verify the Investment register maintained and comment where investments have been matured or overdue and same have not been encashed. *Clause 4(d)*

S. No	Particulars	Book Value of Investments	Maturity Date

- If the investments are matured but maturity amount was not received or interest was not served, for more than 90 days, then the same should be classified as Non-Performing Investment (NPI) and provision should be made as per prescribed guidelines.

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5. Advances

- List of all large advances whose year end balance is in excess of Rs. 10 crores (earlier 2 crores) or 10% (earlier 5%) of the outstanding aggregate fund based and non-fund based year-end advances of the branch, whichever is less. Critical comments based on the review and other test check should be reported. *Clause 5(i) & (ii)*

For all accounts **above threshold**, transaction audit/ account specific details to be seen and commented whereas **below threshold**, process needs to be checked and commented upon. Comments on advances with significant adverse features which needs attention of Management/ SCA should be appended in LFAR.

(Clause 5(a))

List of account examined for audit (as per LFAR format):

Account No.	Account Name	Balance as at year end – Funded	Balance as at year end – Non-funded	Total
XXXX				
Total		A	B	C = A + B
Total Outstanding of the branch		X	Y	Z = X + Y
Percentage examined		A as % of X	B as % of Y	C as % of Z

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(i) Credit Appraisal (Clause 5(b))

- On the basis of verification of documents relating to loans, auditor should form opinion, **whether branch has complied with procedures/ instructions issued by Head Office/ Controlling Authorities on key issues.** Deviation should be commented upon.
- Auditor should examine, **whether appropriate loan applications, preparation of proposal for grant and renewal of advances and appraisal documentation as prescribed by corporate office** are being obtained according to nature of loan/limit. Major shortcomings in credit appraisal to be reported. *Clause 5(b)(i)*
- Auditor should verify, **proposal for grant of renewal/ review or enhancements of loans, whether in appraisal, important information of the borrower have been commented by branch officials.** For instance:
 - Unit is functioning properly.
 - All primary and collateral securities are in order and fully insured.
 - Borrower has not deviated from terms and conditions of sanction.
 - End use of loan is being done for the purpose for which it was disbursed.
 - There is no major difference between audited financial data and projections submitted earlier

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(i) Credit Appraisal (Contd..)

- We should verify, **whether all legal documents as prescribed in bank and as per sanction have been taken, executed and completely filled.**
- Verify that in case of **Lending under Consortium Arrangement/Multiple Banking Arrangements, any sanction of fresh loans/adhoc loans/renewal of loans to new/existing borrowers should be done only after obtaining/sharing necessary information among banks.** Report the cases where prescribed guidelines are not followed.
- Quick mortality cases: Any advance slippage to NPA within 12 months of its introduction/ disbursement. Can be verified from Audit reports/ MIS submitted. MRL if no such case should be obtained. *Clause 5(ii)*

Details of such accounts may be provided in following manner:-

- ☐ Account No.
- ☐ Account Name
- ☐ Balance as at year end

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(i) Credit Appraisal (Contd..)

- Verify on test check basis whether interest rate is correctly fed into the system as per sanction letter. Maker checker changes in master. To review HO guidelines/ instructions in this regard. *Clause 5(b)(iii)*
- Check MCLR/EBLR (external benchmarking lending rate) is updated regularly. *Clause 5(b)(iv)*
- Verify, any instances of frequent renewal/rollover of short term loans. Check whether necessary documents have been obtained at the time of such renewal / rollover. Report any irregularities noticed during renewal / rollover of the loans. *Clause 5(v)*
- Verify, correct and valid **credit rating**, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system for all accounts with exposure above Rs. 5 crore. Non availability of credit rating would attract higher risk. Report any irregularities. *Clause 5(vi)*

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(ii) Sanctioning /Disbursement (Clause 5(c))

- Report the cases where **credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch.** Whether such type of cases **promptly reported** to higher authorities. Such types of cases may be reported in the following format:

Name of the Borrower	Acc. No.	Type of Facility	Sanction Date	Sanction Limit	Balance outstanding as on 31.03.20XX	Amount Sanctioned exceeding the delegated Authority	Date of Sanction/ratification from Higher Authority

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- Report the cases where **advances have been disbursed without complying with the terms and conditions of the sanction letter.** For instance:
 - Not creating EM on property
 - Without obtaining personal guarantee of Directors
 - Necessary funds to be brought in by the Borrower
 - Unit not inspected
 - End use of funds not verified
- Check whether bank provide loans to companies for buy-back of shares/securities. Enquire with branch, review the sample selected and to verify end use of funds. Certificate obtained by bank from borrower. *Clause 5 (c) (iii).*
- To report all loans sanctioned for Buy back of shares/ securities.

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(iii) Documentation (Clause 5(d))

- Auditor comes across **any deviation in execution of documents** as per procedure/ bank circular, same should be commented with details of accounts and documents not obtained.
- Verify **Custody of Documents**. Nature of documentation defects observed during audit and suggestions to avoid such defects.
- Report cases of **Deficiencies in documentation**. For instance:
 - Document left Blank
 - Non-registration of charges
 - Non-obtaining of Guarantee
 - Overwriting in Documents
 - Joint Documentation in case of Consortium Advance
 - Inadequately Stamped
 - Document time barred
- In cases verified by auditor, if he finds any deviation in process of marking lien on **FDR pledged against loan**, such cases should be commented. For instance, lien on FDR receipt marked, FDR discharged properly, **securities matured but not adjusted against the loan** etc.

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(iv) Review/Monitoring and Supervision (Clause 5(e))

- Auditor should verify whether branch has followed **procedures laid down by bank for timely review/renewal**. Deviation in process should be commented upon.
- Provide analysis of the accounts overdue for review/renewal
 - a) between 3 to 6 months
 - b) over 6 months**{Whether accounts, due for review/renewal more than 180 days reported in LFAR, are NPA}**
- Check whether stock statements are received regularly and same are duly scrutinized. Also check whether **drawing power** is correctly calculated and latest audited financial statements are obtained for accounts reviewed / renewed during the year. *Revised Clause 5(e)(ii)*
- Whether interest and penal interest in case of delayed submission of stock statements, overdrawn accounts etc. is charged.

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(iv) Review/Monitoring and Supervision (Contd..)

- We should verify, that branch is obtaining **stock audit** reports periodically in all the cases as required by bank policy. Obtain details of-
 - ☐ Cases where stock audit was required but was not conducted.
 - ☐ Where stock audit was conducted but no action was taken on adverse features.

Further, verify deficiencies, reported in report, have since been rectified, if pending, auditor should give the details of pending issues. *Clause 5(e)(iii)*
- Obtain list of accounts of **Non Corporate Entities as per RBI guidelines with limit set by the Bank**. Auditor to ensure **latest audited accounts** are available on record. Deviation to be reported if any.
- Auditor should verify that bank branch has on its record a **due diligence** certificate/report in the form and manner required by the RBI in respect of advances under consortium and multiple banking. Give the list of accounts where certificate is not obtained or on record. *Clause 5(e)(v)*

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(iv) Review/Monitoring and Supervision (Contd..)

- Check whether **Inspection or Physical Verification of securities** been carried out by the branch at **regular intervals**. Also, verify whether there is a substantial deterioration in value of security during financial year as per latest valuation report. Auditor should obtain a list of cases where physical verification is not done as per prescribed guidelines as per PV register. *Clause 5(e)(vi)*
- In the cases examined, if auditor comes across **any deficiencies in value of securities, frequent overdrawn, unauthorised overdrawn, inadequate insurance cover** etc, same should be commented upon. Whether charge is registered with Registrar of Company in case of Company.
- Verify whether the branch has any **Red-flagged account**. RFA is one where a suspicion of fraudulent activity is thrown by one or more Early warning signals *Clause 5(e)(viii)*
- Also, examine adverse features considered significant in **top 5 Standard large advances**. Review Bank policy and report deviation observed. *Clause 5(e)(xi)*

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(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Clause 5(f))

- Check whether the branch has identified and classified advances into **standard/ substandard / doubtful / loss assets** through the automated system. Banks to fully automate Income recognition and Asset classification and provisioning process latest by 30th June 2021 as per RBI circular dated 14.09.2020. *Clause 5(f)(i)(a)*
- Verify whether the branch is following the system of classifying the account into **SMA-0, SMA-1, and SMA-2** and any disagreement should be commented upon. *Clause 5(f)(i)(c)*
- Obtain the list of accounts (with **outstanding in excess of Rs. 10.00 crore**) which have either been downgraded or upgraded with regard to their classification as NPA or Standard Asset during the year particularly upgradation must be checked properly with reasons. *Clause 5(f)(i)(e)*
- Check whether the branch has followed **RBI guidelines for restructuring** of accounts including special package for restructuring permitted due to COVID 19 and all such accounts are reported during the year to Controlling Authority of the bank. *Clause 5(f)(ii) (a)*

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(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Contd..)

- Compliance with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard. To enquire in account that has exposure over 2000 crore and above and report in case such account is under SMA category for more than 180 days. *Clause 5(f)(ii) (c)*
- Ensure that branch is prompt in reporting under Central Repository of Information on Large Credits (CRILC) within 15 days from end of quarter. Any delay in reporting should be viewed seriously and reported. *Clause 5(f)(ii) (c)*
- Verify whether the upgradations in non-performing advances is in line with the norms of RBI. Ordinarily, until all overdues are recovered, upgradation is not permitted. *Clause 5(f)(iii)*
- Verify whether there are any accounts wherein process under IBC is mandated but not initiated by the branch. To comment on adequacy of provision in the accounts. For the FY 2020-21 this is not applicable as forbearance is permitted by RBI. *Clause 5(f)(v)*

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(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Contd..)

- Check whether appropriate claims for credit guarantee (ECGC and others) have been duly lodged and settled. Also, provide details of claims rejected as per the below format and whether the same is appropriately considered while making provisioning. *Clause 5(f)(vi) (b) & (c)*

Particulars	Number	Amount
Claim at the beginning of the year		
Further claim lodged during the year		
Total A		
Amounts representing		
i) Claims accepted/ settled		
i) Claims rejected		
Total B		
Balance at the year end (A-B)		

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(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Contd..)

- Valuation reports of NPA accounts where outstanding amount is more than Rs. 1 crore and the valuation has been done prior to 3 years.
- We should verify the cases of compromise/settlement and write off during the year in excess of Rs. 50 lakhs and submit along with report. Verify prescribed policy of the bank for compromise/settlement and write off and is followed by the branch.
- Check the branch is prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers and is in line with HO guidelines. Provide age-wise analysis of decrees obtained and pending execution. *Clause 5(f)(ix)*
- Verify whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank. In case of errors in appropriation, appropriate Memorandum of Changes need to be suggested. *Clause 5(f)(x)*
- In cases where documents are held at centralized processing centers / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any. *Clause 5(f)(xi)*.
- Ensure that no manual intervention has been done to modify the NPA Classification. Any such cases should be looked into and reported accordingly.

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Non-Fund Based facilities (Clause 5(g))

- Details of outstanding amounts of guarantees invoked and funded by the branch at the end of the year may be obtained from the Management and reported in the following format:

S. No.	Invocation Date	Party Name	Beneficiary Name	Amount	Recovery Date

- While reporting these cases in LFAR, auditor should also verify simultaneously that **whether after considering above funds as part of principal operating account, the facility is becoming NPA**, if yes, same should be reported in MOC also for income recognition, asset classification and provisioning.
- Auditor should check if there are instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG. *Clause 5(g)(iii)*

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6. Other Assets - Suspense Accounts/ Sundry Assets

- Old debit entries in one asset account are reversed by transferring the amount to other asset account with new date. If auditor finds such cases, same should be reported.

For Instance:

- Entries debited in asset account to avoid declaring the operating accounts as NPA
- Fraudulent withdrawals debited to asset account pending for recovery.
- Shortage of cash debited in asset accounts pending recovery etc.
- Details of outstanding entries in excess of 90 days may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained.

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- Upon scrutiny of the accounts under various sub-heads reveal balances, which in Auditor's opinion are not recoverable, necessary provision/write-off to be done.
- If unusual items are identified upon applying test check, if the amounts involved exceeds the materiality threshold or are outstanding for substantial amount of time which require provisioning, the auditor should report the same and suggest MOC. Details to given in the following manner:

Sr no.	Particulars of Debit Entry	Outstanding balance as on 31.03.20XX	Whether provision is necessary, reason thereof and MOC Reference

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LIABILITIES

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Deposits

- Obtain the Bank guidelines with respect to conduct and operation of inoperative accounts.
- In case where **operation in inoperative accounts is permitted**, test check request letter duly signed by customer for activation along with reason for delay in operation in accounts.
- Any **unusual large movement in aggregate deposits after the balance sheet date**. Auditor should obtain clarification from the branch for unusual large movements of deposits and comment thereon.
- Verify that banks have a system of reckoning the effect of TDS on interest at the time credit/payment of Term deposits including upon renewal thereof.

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Deposits (Contd..)

- Verify Bank policy for renewal of FCNR(B) accounts and system parameters for automatic renewal marked in FCNR(B) accounts. Check the process of obtention of documents at the time of renewal of FCNR(B) accounts. *Clause 1 (c)*
- Policy of printing and dispatch of original receipts and control over them. Test check sample cases to form an opinion about the efficacy of the process. *Clause 1 (c)*
- Verify whether branch is complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts. *Clause 1 (d)*
- Check few sample accounts to ensure levy is fair and as per policy.

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Other Liabilities

Bills Payable, Sundry Deposits, etc.

- Number of items and the aggregate amount of **old outstanding items pending for 1 year or more** under the head **Bills payable, Sundry Deposits** etc. to be obtained and reported under appropriate heads. Give details thereof. *Clause 2 (a)*

Year	Number of items	Amount	Remarks

- We should verify entries relating to material withdrawals or debits in these accounts. If any unusual transaction found same should be reported.

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Contingent Liabilities

- At the time of audit, **branch keeps ready list of contingent liabilities**. Auditor should verify that all the contingent liabilities cases are included in that list and same are correctly valued.

For Instance:

- List of all the cases filed against branch by any person in consumer court or any other court.
- Any litigation cases pending for claims made by any government department etc.

- Auditor should obtain the representation from management that **all contingent liabilities have been disclosed**.
- In case of verification, if it appears to auditor that **bank loss is clear, identified and not disputed**, he should recommend for accounting of the liability for the same.

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PROFIT AND LOSS

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Profitability

- Auditor should verify whether branch is having **system of finding out the discrepancies in interest/discount/commission/fees and timely adjustment** for the same are being done as per prescribed guidelines.
- Verify **concurrent audit / internal inspection audit / income & expenditure audit reports**.
- Test check interest / discount calculations and whether the same is done as per HO guidelines. Generate Exceptional transactions report and verify that interest is applied to all applicable accounts.
- Verify Income in NPA account to be recognized on receipt basis as per IRAC norms of RBI.
- Verify Interest on deposits and report any excess or short debit of material amount.

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Profitability (Contd..)

- Check the system of estimating and providing interest accrued on overdue / matured term deposits. As per RBI Master Direction DBR. Dir. No.84/13.03.00/2015-16 dated March 03, 2016 (Updated on Feb 22, 2019) on Interest Rate on Deposits.
- If FDR matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest which is done at HO.
- Do comparative study of all major income and expenditure accounts figures with the previous year figures, any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch to be reported.
- Auditor to obtain an appropriate statement from the branch Management explaining the divergent trends in major items of income and expenditure.

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General

Gold/Bullion/ Security Items

- Check whether the system ensure that Gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank and report on exceptions if any. *Clause IV (1) (a)*
- Verify whether branch maintains adequate records for receipt, issues and balances of gold/bullion and updated regularly. The details of discrepancies noticed and the reporting to the controlling authorities should be taken and delays if any should be reported. *Clause IV (1) (b)*
- Check system of the Bank ensure adequate internal control over issue and custody of security items like Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Gift Cheques etc. Head office instructions to be reviewed for existence of Internal control. *Clause IV (1) (c)*

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General (Contd..)

Books and Records:

- Auditor should check whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS. Review software which has impact on financial statements. *Clause IV (2)(a)*
- Verify whether branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts. All the pending items with status of the same should be reported. *Clause IV (2)(b)(i)*
- Check whether branch is generating and verifying exception reports at the periodicity as prescribed by the bank. The auditor on sample basis should verify whether the branch has followed the instructions issued by Bank w.r.t. generation and verification of exception reports. *Clause IV (2)(b)(ii)*
- Auditor should check whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end. *Clause IV (2)(b)(iii)*

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Books and Records (Contd.)

- Verify the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention. *Clause IV (2)(b)(iv)*
- We should obtain instructions issued by bank for process to be followed when system generated data is manually altered.
- Auditor should comment on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level. *Clause IV (2)(b)(v)*
- Carry out test check to verify that the data being entered at branch level is done properly and there is proper maker checker principle for verification.

Inter-Branch Accounts

- Auditor should check whether branch complies with/respond to the communications from the designated cell/Head Office as regards unmatched transactions. Also, verify if there are any unresponded /un-complied queries or communications beyond 7 days. *Clause IV (3)*

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Frauds

- Auditor should obtain a list of frauds duly signed by BM which were discovered during the year under audit at the branch, together with your suggestions, if any, to minimize the possibilities of their occurrence. *Clause IV (4)(i)*
- Instances of frauds detected during the year wherein the confirmation for reporting the same to RBI is not made available to the auditor, the same should be reported in LFAR
- Check whether there are any suspected or likely fraud cases are reported by branch to higher office during the year. Provide the details of the same. *Clause IV (4)(ii)*
- Some of the potential risk areas which might lead to perpetuation of fraud. Falsification of accounts/false representation by the borrower; Misappropriation of funds List of Debtors/ Creditors were being fabricated etc. RBI circular dated July 1st, 2015 on "Wilful Defaulters" and RBI Master Directions dated 1st July 2016 (updated on 3rd July, 2017) on Fraud Reporting and Classification to be referred. *Clause IV (4)(iii)*
- Banks shall make suitable disclosures with regard to number of frauds reported, amount involved in such frauds, quantum of provision made during the year and quantum of unamortised provision debited from 'other reserves' as at the end of the year.

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Frauds (Contd.)

- The auditor should examine whether the branch has adequate system in place to identify Early warning signals regarding fraudulent activities. Few important Early Warning Signals: *Clause IV (4)(iv)*
 - Critical issues highlighted in the stock audit report
 - Liabilities appearing in ROC search report, not in annual report.
 - Not routing sales through consortium member bank
 - Raid by Income tax /sales tax/central excise duty officials

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Implementation of KYC/AML Guidelines

- Whether the branch has adequate systems and processes to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing. *Clause IV (5)*
- Check Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors. As regards KYC, Auditor may go through and rely on the concurrent audit reports. *Clause IV (5)*
- Auditor is also suggested to ask for Cash transaction/ suspicious transaction (CTR/STR) reports of the branch. This will provide sufficient insight into the adherence to AML and other suspicious monetary activity of any of the account in the branch.

Management Information System

- Check whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. *Clause VI (6)*
- Further any transaction process where the maker checker principle is missing, such observations must be highlighted Also obtain copy of IS audit reports. *Clause VI (6)*

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Miscellaneous

- Auditor should consider the major adverse comments arising out of the latest reports such as: *Revised Clause IV (7)*
 - Previous year's Branch Audit Report / LFAR.
 - Internal audit/ Snap Audit/ concurrent audit report(s).
 - Credit Audit Report.
 - Stock audit Report.
 - RBI Inspection Report, if such inspection took place.
 - Income and Expenditure (Revenue) Audit.
 - IS/IT/Computer/Systems Audit.
 - Any special inspection / investigation report.
- Any other matters, which you as a branch auditor would like to bring to the notice of the Management or the Central Statutory Auditors.

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Branches Dealing in Foreign Exchange Transactions

- Auditor should go through Concurrent Auditors, Internal auditors and/or the Reserve Bank of India's inspection reports and furnish adverse features with respect to NRE/NRO/NNR/FCNR-B/EEFC/RFC and other similar deposits accounts mentioned in these reports which are pending for resolution and still persist.
- Auditors should obtain the instruction and guidelines of the controlling authorities in relation to foreign exchange and verify whether same are being followed. If any deviation found same should be reported with details in Deposits, Advances, Export Bills, Bills for Collection etc.
- Auditor should obtain a list of NOSTRO account from the branch. Verify, whether account is being regularly operated and verify whether balance confirmations have been obtained from all overseas branches/correspondents. Details of accounts where confirmations are not received should be given

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Branches Dealing in Foreign Exchange Transactions (Contd..)

- Check if there are any dormant/closed NOSTRO accounts in respect of which balances continue to exist in the books of the branch, at year end. *Revised Clause A(3)(c)*
- Auditor should check whether the NOSTRO balances been converted at year end at the rates of exchange as prescribed by controlling authorities and check whether the matters that deserves special attention of the management are reported. *Revised Clause A(3)(d)*
- Verify, whether account is being regularly operated if not give the list of NOSTRO accounts with balances and since when same are not being operated. *Revised Clause A(3)(e)*

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Branches dealing in clearing house operations, normally referred to as Service Branches

- Verify, branch has system of periodic review of outstanding entries. Find out branch is doing follow up for old entries.
- On test check basis, verify if the prescribed system of review and follow up is being adhered to.
- On review of clearing adjustment account (Inward/outward clearing) give the break up of old entries with number of entries and value outstanding since long.
- Auditor should verify, whether branch follows the guidelines of the controlling authority of bank with regard to operations relating to clearing transactions. In case, same has not been followed, auditor should report the deviation.

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Asset Recovery Management Branches

- Auditor should obtain the details of Advances with balances outstanding Rs.10.00 Crores and above and comment on the adverse features which might need the attention of the management / Statutory Central Auditors. *Clause C(1)*
- Obtain the list of cases, where accounts with balance outstanding in excess of Rs 10.00 Crores have been upgraded from NPA to standard and give brief details and reason of reclassification as per format. Review Movement during the year. *Clause C(2)*
- Auditor should verify and comment whether there is system of periodical obtainment and updation of valuation of security charged to bank.
- Age-wise analysis of the recovery suits filed and pending may be furnished for the last three years along with their latest status as per format. *Clause C(4)*
- Ensure in cases decree obtained, branches is prompt in execution for the decree. If not, same should be reported. List of cases, where decree is time barred same should be reported with reasons.

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Asset Recovery Management Branches (Contd..)

- Attach the list of all recoveries in NPA accounts for interest and principal.
 - (a) List of accounts settled/closed should be provided.
 - (b) Further in cases of recoveries, verify that accounting of revenue recognition has been done as per RBI guidelines and normal accounting principles consistently followed by bank.
- List of new accounts transferred to branch to be attached.
 - (a) Ensure all documents relating to these accounts obtained from transferor branch.
 - (b) Branch should obtain confirmation that all accounts of borrower transferred to branch.
 - (c) Any adverse features have been observed on transfer of cases same should be reported

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Branches dealing in very large advances such as Corporate Banking branches and Industrial Finance Branches or branches with advances in excess of Rs.100 crore

- Auditor should obtain the details of such advances in prescribed format from Branch Manager duly signed by BM.
- Give details of any adverse features like, non operative for quiet a long time, renewed without adequate appraisal or disbursement without any appropriate approval. Any other issue which auditor feels is adverse and requires attention of CSA/Management should be commented.
- Obtain the list of cases reclassified as from NPA to standard or vice versa and give brief details and reasons of reclassification.

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Important work to be ensured at the end of Audit

- Carefully review the Audit Process and confirm final Query Sheets and Reports. Re-Draft the same if necessary. Involve all team members.
- Prepare Draft Audit Report and draft of other documents to be certified by you. Discuss the same with Branch. Quantify and discuss MoCs suggested by you.
- Prepare Final Report.
- Quantify all points raised in report particularly from the point of view of materiality. This will help in deciding whether a particular comment or observation is necessary to be included in the report.
- Generate UDIN, separately for the statutory audit report and certificates, LFAR and the tax audit report. Refer FAQs on UDIN released by ICAI. These can be accessed at <http://udin.icaai.org/faqs>

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Important work to be ensured at the end of Audit

- Complete other formalities like stamping, signing and affixing date, etc.
- Handover final sets as required by adhering to the deadline given by bank authorities.
- Take all your working papers and final set without leaving any of your working papers at Branch. Delete working folders created on branch computer systems before leaving the branch.
- Certificate from Branch Manager for attendance of Audit.

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Documents/ Checklist for reference to undertake an effective Audit:

- Branch Audit Program
- Engagement Letter as per SA
- Branch Enquiry Letter
- Checklist of Advances
- Format of Audit report in terms of SA 700/705
- Latest LFAR format
- List of RBI Circulars applicable for the year 2021-22
- Management Representation - SA 580
- Master Circular of RBI dated 1st July 2015 and relevant Master Directions issued from time to time. Circular issued during the year 2020-21

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List of Relevant Master Circulars and Directions issued by RBI IRAC norms and provisioning

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

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

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

Provisioning pertaining to Fraud Accounts
RBI/2015-16/376 DBR.No.BP/BC.92/21.04.048/2015-16 April 18, 2016

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation
RBI/2019-20/158 DOR.No.BP/BC.33/21.04.048/2019-20 February 07, 2020

COVID-19 – Regulatory Package
RBI/2019-20/186 DOR.No.BP/BC.47/21.04.048/2019-20 March 27, 2020

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COVID19 Regulatory Package - Asset Classification and Provisioning
RBI/2019-20/220 DOR.No.BPBC.63/21.04.048/2019-20 April 17, 2020

COVID-19 – Regulatory Package
RBI/2019-20/244 DOR.No.BPBC.71/21.04.048/2019-20 May 23, 2020

Resolution of Stressed Assets – Revised Framework
RBI/2017-18/131 DBR.No.BPBC.101/21.04.048/2017-18 February 12, 2018

Prudential Framework for Resolution of Stressed Assets
RBI/2018-19/ 203 DBR.No.BPBC.45/21.04.048/2018-19 June 7, 2019

Resolution Framework for COVID-19-related Stress
RBI/2020-21/16 DOR.No.BPBC/3/21.04.048/2020-21 August 6, 2020

XBRL Returns – Harmonization of Banking Statistics
RBI/2017-18/117 DBR.No.BPBC.99/08.13.100/2017-18 January 04, 2018

Resolution Framework for COVID-19-related Stress – Financial Parameters
RBI/2020-21/34 DOR.No.BPBC/13/21.04.048/2020-21 September 7, 2020

Relief for MSME Borrowers registered under Goods and Services Tax (GST)
RBI/2017-18/129 DBR.No.BPBC.100/21.04.048/2017-18 February 07, 2018

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Encouraging formalisation of MSME sector
RBI/2017-18/186 DBR.No.BPBC.108/21.04.048/2017-18 June 6, 2018

Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances
RBI/2018-19/100 DBR.No.BPBC.18/21.04.048/2018-19 January 1, 2019

Micro, Small and Medium Enterprises (MSME) sector- Restructuring of Advances
RBI/2018-19/127 DBR.No.BPBC.26/21.04.048/2018-19 February 22, 2019

Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances
RBI/2019-20/160 DOR.No.BPBC.34/21.04.048/2019-20 February 11, 2020

Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances
RBI/2020-21/17 DOR.No.BPBC/4/21.04.048/2020-21 August 6, 2020

Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Refinancing of Exposures to Borrowers
RBI/2014-15/539 DBR.No.BPBC.85/21.04.048/2014-15 April 6, 2015

Automation of Income Recognition, Asset Classification and Provisioning processes in banks
RBI/2020-21/37 Ref. No. DoS.CO.PPG/SEC.03/11.01.005/2020-21 September 14, 2020

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
RBI/2021-2022/104 DOR.No.STR.REC.55/21.0 4.048/2021-22, October 1, 2021

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Circulars on loans and advances

Master Circular-Guarantees and Co-acceptances
RBI / 2015-16/76- DBR. No. Dir. BC.11 /13.03.00/2015-16 dated July 1, 2015

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

Master Circular on Wilful Defaulters
RBI/2015-16/100 DBR.No.CID.BC.22/20.16.003/2015-16 July 1, 2015

Master Direction - Interest Rates on Advances
RBI/DBR/2015-2016/20 Master Directions DBR.Dir.No.85/ 13.03.00/2015-2016 dated March 03, 2016 (Updated as on February 26, 2020)

Legal Audit of title documents in respect of large value loan accounts
RBI/DBS.FrMC.BC.No.7/23.04.001/2012-13 dated June 07, 2013

Credit Flow to Agriculture- Collateral free agricultural loans
RBI/2018-19/118 FIDD.CO.FSD.BC.No.13/05.05.010/2018-19 February 7, 2019

Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable and Intangible Assets in CERSAI
RBI/2018-19/96 DBR.Leg.No.BC.15/09.08.020/2018-19 December 27, 2018

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Guidelines on Loan System for Delivery of Bank Credit
RBI/2018-19/87 DBR.BPBC.No.12/21.04.048/2018-19 December 5, 2018

Master Direction – Export of Goods and Services
RBI/FED/2015-16/11 FED Master Direction No. 16/2015-16 January 1, 2016 (Updated on October 19, 2020).

Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses
RBI/2020-21/19 DoR.No.BPBC/6/21.04.048/2020-21 August 6, 2020

Scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020)
RBI/2020-21/61 DOR.No.BPBC.26/21.04.048/2020-21 October 26, 2020

Pre-shipment and Post-shipment Export Credit – Extension of Period of Advance
RBI/2019-20/246 DOR.DIR.BC.No.73/04.02.002/2019-20 May 23, 2020

Ad-hoc/Short Review/Renewal of Credit Facilities
RBI/2020-21/27 DoS.CO.PPG.BC.1/11.01.005/2020-21 August 21, 2020

XBRL Returns – Harmonization of Banking Statistics
RBI/2017-18/117 DBR.No.BPBC.99/08.13.100/2017-18 January 04, 2018

Detection and Impounding of Counterfeit Notes
RBI/2021-22/02 DCM (FNVD) G – 1/16.01.05/2021-22, April 1, 2021

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Other Important circulars

Master Directions on Frauds – Classification and Reporting by commercial banks and select FIs
RBI/DBS/2016-17/28 DBS.CO.CFMC.BC.No.1/ 23.04.001/2016-17 dated July 01, 2016. (Updated as on July 03, 2017)

Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016
RBI/DBR/2015-16/19 Master Direction DBR. Dir. No.84/13.03.00/2015-16 March 03, 2016 (updated as on February 22, 2019)

Master Circular - Disbursement of Government Pension by Agency Banks
RBI/2020-21/06 DGBA.GBD.No.01/31.02.007/2020-21 July 01, 2020

Master Circular on Conduct of Government Business by Agency Banks - Payment of Agency Commission
RBI/2020-21/03 DGBA.GBD.No.2/31.12.010/2020-21 July 1, 2020

Opening of Current Accounts by Banks - Need for Discipline
RBI/2020-21/20 DOR.No.BPBC/7/21.04.048/2020-21 August 6, 2020
RBI/2020-21/62 DOR.No.BPBC.27/21.04.048/2020-21 November 02, 2020
RBI/2020-21/79 DOR.No.BPBC.30/21.04.048/2020-21 December 14, 2020

RBI/2020-21/33 Ref.No.DOS.CO.PPG./SEC.01/11.01.005/2020-21 September 05, 2020
Long Form Audit Report (LFAR) – Review.

Bank Finance to NonBanking Financial Companies (NBFCs)
RBI/2021-22/149 DOR.CRE.REC.No.77/21.0 4.172/2021-22, January 05, 2022

Guarantees and Coacceptances
RBI/2021-22/121 DOR.STR.REC.66/13.07.0 10/2021-22, November 9, 2021

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Financial Inclusion and Development Circulars

Master Direction – Reserve Bank of India (Relief Measures by banks in areas affected by Natural Calamities) Directions 2018
RBI/FIDD/2018-19/64 Master Direction FIDD.CO.FSD.BC.No.9/05.10.001/2018-19 October 17, 2018

Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector
RBI/FIDD/2017-2018/56 Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 July 24, 2017 (Updated as on April 25, 2018)

Credit flow to Micro, Small and Medium Enterprises Sector
RBI/2020-2021/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 July 2, 2020

New Definition of Micro, Small and Medium Enterprises – clarifications
RBI/2020-2021/26 FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21 August 21, 2020

Master Directions – Priority Sector Lending (PSL) – Targets and Classification.
RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 September 04, 2020

Master Circular – Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM)
RBI/2019-20/05 FIDD.GSSD.CO.BC.No.01/09.16.03/2019-20 July 1, 2019

Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)
RBI/2020-2021/39 FIDD.GSSD.CO.BC.No.06/09.01.01/2020-21 September 18, 2020

Master Circular-Kisan Credit Card (KCC) Scheme
RBI/2018-19/10 FIDD.CO.FSD.BC.No.6/05.05.010/2018-19 July 4, 2018

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Kisan Credit Card (KCC) Scheme: Working Capital for Animal Husbandry and Fisheries
RBI/2018-19/112 FIDD.CO.FSD.BC. 12 /05.05.010/2018-19 February 04, 2019

Interest Subvention Scheme for Short Term Crop Loans during the years 2018-19 and 2019-20 RBI/2018-19/137
FIDD.CO.FSD.BC.No.15/05.02.001/2018-19 March 7, 2019

Interest Subvention Scheme for Kisan Credit Card (KCC) to Fisheries and Animal Husbandry farmers during the years 2018-19 and 2019-20
RBI/2019-20/48 FIDD.CO.FSD.BC.No.10/05.02.001/2019-20 August 26, 2019

Short Term Crop Loans eligible for Interest Subvention Scheme (ISS) and Prompt Repayment Incentive (PRI) through KCC
RBI/2019-20/166 FIDD.CO.FSD.BC.No.1785/05.02.001/2019-20 February 26, 2020

Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Crop Loans during the years 2018-19 and 2019-20: Extended Period on account of Covid-19
RBI/2019-20/224 FIDD.CO.FSD.BC.No.24/05.02.001/2019-20 April 21, 2020

Interest Subvention (IS) and Prompt Repayment Incentive (PRI) for Short Term Loans for Agriculture including Animal Husbandry, Dairy and Fisheries for extended period on account of Covid-19
RBI/2019-20/250 FIDD.CO.FSD.BC.No.25/05.02.001/2019-20 June 4, 2020

Interest Subvention Scheme for MSMEs
RBI/2018-19/125 FIDD.CO.MSME.BC.No.14/06.02.031/2018-19 February 21, 2019

Interest Subvention Scheme for MSMEs
RBI/2019-20/155 FIDD.CO.MSME.BC.No.17/06.02.031/2019-20 February 05, 2020

Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit-Extension
RBI/2019-20/231 DOR.Dir.BC.No.69/04.02.001/2019-20 May 13, 2020

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Thank You

For any Queries you may contact me at:

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CA. Dhananjay Gokhale

Profile

CA Dhananjay Gokhale is a Bachelor of Commerce from University of Mumbai and a fellow member of ICAI, and is into practice since last 25 years.

He is a founder partner of the firm M/s. Dhananjay J. Gokhale & Co., Chartered Accountants specialised in providing Management Consultancy and Auditing & assurance services in Corporate and Banking sector.

- Co-opted member of AASB of ICAI for FY: 2018 -19
- Nominated as a Sub Group Member of “Banking, Insurance & Pension Committee” of WIRC of ICAI for the year 2018 -19
- Convenor of the Study Group formed for ICAI Guidance Note on Audit of Banks 2019 Edition
- Co- opted as ‘Special Invitee’ at AASB of ICAI for FY: 2021-22
- Deputy Convenor of the Study Group formed for ICAI Guidance Note on Audit of Banks 2022 Edition
- Member of expert panel constituted by AASB of ICAI for addressing the bank audit queries of the members since FY: 2011-12



Authored articles in

- ICAI Magazine
- ICAI Guidance Note on Audit of Banks of 2016 to 2022 Editions
- Manual on Concurrent Audit of Banks
- Reference Material published by WIRC on Statutory Bank Audit
- Back-Ground Material for Executive Master's Program for New

Age Auditors by Centre of Audit Quality (CAQ) of ICAI. He has handled variety of assignments related to arena of bank audits including Statutory Central Audit of PSBs and Merger & Acquisition of Urban Co-operative Banks, and consultant to Board of Bank

He is a regular speaker at various seminars on Standards on Auditing and Bank Audit across all Regions and various branches of ICAI. He had been a speaker at Staff Training Seminars organized by Public Sector, Private Sector & Urban Co-operative Banks and Association of Banks.

Technical Session-III

**Overview of Income
Recognition & Asset
Classification – IRAC Norms**

Speaker: **CA. Dhananjay Gokhale,**
Mumbai



Overview of Income Recognition & Asset Classification – IRAC Norms

Conference on Bank Branch Statutory Audit
Prudential Norms on Income Recognition,
Asset Classification and Provisioning

Organised & Hosted by
Hyderabad branch of SIRC of ICAI

CA Dhananjay J. Gokhale

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Coverage

- Objective
- Identification of Account as NPA
- Exceptions / Clarifications
- Relief to MSME borrowers
- Covid 19 related Circulars
- Projects under Implementation
- Asset Classification and Provisioning
- Guidelines on Restructuring of Advances
- Prudential Framework for Resolution of Stressed Assets (RBI Circular dated 07.Jun.2019)
- Points to ponder

CA Dhananjay J. Gokhale

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RBI Circulars Reference

- Master Circular dated October 01, 2021 on IRAC Norms & clarificatory circulars dated November 12, 2021 and February 15, 2022
- Master Direction – RBI (Relief Measures by Banks in Areas affected by natural calamities) Directions, 2018 dated October 17, 2018
- Prudential Framework for Resolution of Stressed Asset –Circular dated June 07, 2019
- Relief for MSME Borrowers: 07.Feb.18, 08.Jun.18, 01.Jan.19, 11.Feb.20, 06.Aug.20 & 05.May.2021

CA Dhananjay J. Gokhale

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Covid19 related RBI Circulars

Date	Circular
27.Mar.2020	Covid-19 Regulatory Package
17.Apr.2020	Covid-19 Regulatory Package – Asset Classification & Provisioning
17.Apr.2020	Covid-19 Regulatory Package – Review of Resolution Timelines under Prudential Framework on Resolution of Stressed Assets
23.May.2020	Covid-19 Regulatory Package
23.May.2020	Covid-19 Regulatory Package – Review of Resolution Timelines under Prudential Framework on Resolution of Stressed Assets
06.Aug.2020	Resolution Framework for Covid-19 related stress
17.Sep.2020	Resolution Framework for Covid-19 related stress – Financial Parameters
13.Oct.2020	FAQs

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Covid19 related RBI Circulars

Date	Circular
05.May.2021	Resolution Framework 2.0 for Covid-19 related stress of Individuals and Small Businesses
05.May.2021	Resolution Framework 2.0 for Covid-19 related stress of MSMEs
04.Jun.2021	Resolution Framework 2.0 for Covid-19 related stress of Individuals and Small Businesses – Revision in threshold for aggregate exposure from Rs. 25 Cr to Rs. 50 Cr
04.Jun.2021	Resolution Framework 2.0 for Covid-19 related stress of MSMEs – Revision in threshold for aggregate exposure from Rs. 25 Cr to Rs. 50 Cr
07.Jul.2021	New definition of MSME – Addition of Retail and Wholesale Trade
06.Aug.2021	Resolution Framework for Covid19 relate stress – Financial Parameters – Revised timelines for compliance

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Objective

- The classification of assets of banks has to be done on the basis of objective criteria, which would ensure a uniform and consistent application of the norms.
- The provisioning should be made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof.

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Asset Types

Standard Assets Performing Assets (PA)	Non-Performing Assets (NPAs)
Not Non-Performing	Ceases to generate income
Do not carry risk more than normal banking risk	Higher risk than normal banking risk
Exempted categories to retain status as PA	NPA as per various criteria defined

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Criteria for NPA

Loans or Advance	<ul style="list-style-type: none"> Interest and/or installment remains overdue for a period of more than 90 days in respect of a term loan. <i>Concession of para 2.1.3 – an account is classified as NPA only if interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter : <u>Removed vide circular dated 12.Nov.2021</u></i>
Exceptions	<ul style="list-style-type: none"> Loans with moratorium for payment of interest Housing Loan or similar advance to staff

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Criteria for NPA

Bills Purchased and discounted	Bill remains overdue for a Discounted period of more than 90 days.
Agricultural Advances	Interest or installment remains overdue for two crop seasons for short duration crop, one crop season for long duration crop.
	<i>*Definitions crop season – 'period up to harvesting of crops raised' as determined by SLBC Long duration crop – Crops wherein crop season is more than 12 months</i>

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Criteria for NPA

Agricultural Advances	Banks have discretion of rescheduling the agricultural advances <u>in case of natural calamities</u> , which impair repaying capacity
Reference Circulars of Reserve Bank of India	FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015 FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015 Master Direction dated July 01, 2016, July 03, 2017, October 17, 2018
FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015	Defines 'Farm Credit'

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Criteria for NPA

FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015 Guidelines for relief measures by banks in areas affected by natural calamity	
Natural Calamity	12 types of natural calamities are defined
Institutional framework	The Banks to have blueprint of action plan with adequate delegation of powers with discretionary powers granted to Divisional / Zonal Managers, to ensure assistance provided without loss of time.

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity	
Meeting of SLBC / District Consultative Committee	<i>Immediate conveying of meeting by:</i> If calamity covers entire state SLBC If small part of the state District Consultative Committee
Declaration of natural calamity	Domain of Sovereign (Central / State Government) <u>Assessed Crop loss should be 33% or more</u>
Restructuring / rescheduling of existing loans	Agricultural Loans - Short Term - Long Term Other Loans

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Short Term Agricultural Loans

Eligibility: Loan should not be overdue at the time of occurrence of natural calamity

Crop Loss	Maximum repayment period extension (incl. of moratorium period)
33% to 50%	2 Years
50% or more	5 Years

- Moratorium period – at least 1 year
- Principal and interest due in the year of natural calamity to be converted into Term Loan
- Additional collateral security not to be insisted upon

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Long Term Agricultural Loans

Only Crop for that year is damaged and not the productive assets

- Reschedule installment during the year of natural calamity and extension of loan period by one year
- Willful defaulted installments not eligible for rescheduling
- Payment of interest may be postponed

Productive Assets are damaged (partially / totally)

Repayment period can be restructured provided generally it shouldn't exceed 5 years

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Criteria for NPA

Guidelines for relief measures by banks in areas affected by natural calamity

Asset Classification	<ul style="list-style-type: none"> - Restructured portion to be considered as current dues - Un-restructured portion to be governed by original terms and conditions - Additional finance to be treated as 'Standard Asset' - Second restructuring would not be considered as 'repeated restructuring'
Insurance Proceeds	To be adjusted against restructured loans wherein fresh loans are granted

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Criteria for NPA

Derivative Transaction	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date.
Liquidity facility	Remains outstanding for more than 90 days in respect of Securitisation transaction.
Credit Card dues	The minimum amount payable is not paid within 90 days from the next statement date. <i>The reporting to Credit Information Companies (CICs) & levying of penal charges only after 3 days from due date.</i>

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Criteria for NPA

Cash Credit Accounts	If the account is 'out of order'
<p><u>Conditions for out of order status</u></p> <ul style="list-style-type: none"> ▪ Outstanding Balance remains continuously in excess of sanctioned limit / drawing power for more than 90 days ▪ No credit continuously for 90 days as on the date of Balance Sheet (for 90 days as on EoD w.e.f. 12.Nov.21) ▪ Credits in the account are not sufficient to cover interest debited during the same period 	

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Criteria for NPA

What is 'Overdue'?

If an amount due to bank under any credit facility is not paid on the due date fixed by the bank.

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IRAC Master Circular dated October 01, 2021

Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

A] Para 4.2.2: Appropriate internal systems for proper and timely identification of NPAs (Ref. Circular dated 14.Sep.2020 on automation of IRAC and provisioning process)

B] Para 4.2.19.3: Credit card charges like penal charges, reporting to Credit Information Companies (CICs) only if credit card account remains 'past due' for more than three days

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IRAC Master Circular dated October 01, 2021

Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

C] Para 5.6.2.3: Utilisation of floating provision held as on 31.Dec.2020 permitted upto 31.Mar.2022

D] Para 6.2.2: Technical write-offs:
*Banks to extinguish all available means of recovery before writing off any account full or partially;
Need to disclose in FS.*

E] Para 7: NPA Management – Requirement of Effective mechanism & Granular Data

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IRAC Master Circular dated October 01, 2021

Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

F] Para 21.6 – Unrealised income represented by FITL: Corresponding provision as 'Sundry Liabilities Account (Interest Capitalisation)

G] Para 30 – Bank Loans for financing Promoters' Contribution: Permitted only to extend finance to 'specialized' entities (which are formed for taking over and turning around troubled entities)

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IRAC Circular dated November 12, 2021

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications

A] Specification of due dates / Repayment date

B] Classification of SMA and NPA
Accounts to be flagged as a part of day-end process

C] Definition of 'out of order'
Changed criteria from 'quarter-end' to '(moving) 90 days'

D] NPA classification in case of interest payments
Para 2.1.3 concession removed and usual 90 days norms to apply

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IRAC Circular dated November 12, 2021

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications

E] Upgradation of accounts classified as NPA
*Only when 'entire arrears on interest and principal' are paid by borrower.
Clarity about 'partial recoveries' and 'subsequent recoveries'*

F] Income recognition policy for loans with moratorium on payment of interest
*Recognition of interest when moratorium of repayment of interest is granted
Sanctioned interest capitalization thus wont affect reversal of interest after NPA as its nature is considered as capital portion*

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IRAC Circular dated February 15, 2022

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances - Clarifications

A] Applicability of 'out of order' to all loan products offered as Overdraft including those not meant for business

B] Concept of 'previous 90 days' for determination of 'out of order' status to include the day on which EoD process is run

C] Loan can be upgraded only when entire arrears pertaining to all credit facilities are repaid

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Criteria for NPA

Accounts with Temporary Deficiencies

Outstanding Balance in account based on the drawing power calculated from stock statements older than 3 months would be deemed as irregular & if such irregular drawing are permitted for a period of 90 days, account needs to be classified as NPA

Note: The leverage is applicable only for large borrowers

Non-renewal/ Non-regularisation of regular / adhoc limit within 180 days from the due date

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Criteria for NPA

Exceptions / Clarifications

- Advances against term deposits, NSCs, IVPs, KVPs and Life Insurance Policies need not be treated as NPAs, till security cover is sufficient to cover outstanding balance.
- Income to be recognised subject to availability of margin

Advance against Gold Ornaments / Government Securities not exempt

Central Government guaranteed advance to be classified as NPA only if Government repudiates the guarantee when invoked.

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Criteria for NPA

Exceptions / Clarifications

Classification Qua Borrower

All facilities granted to a borrower shall be treated as NPA & not only that facility which has become irregular

Exception

- (i) Credit facility to Primary Agricultural Credit Society (PACS) and Farmers Service Societies (FSS) under on lending arrangement;
- (ii) Bill Discounted against accepted LC

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Criteria for NPA

Exceptions / Clarifications

Consortium Advances

- Member banks shall classify the accounts according to their own record of recovery.
- Bank needs to arrange to get their share of recovery or obtain an express consent from the Lead Bank otherwise the account in such deprived banks might be treated as NPA for non-servicing.

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Criteria for NPA

Exceptions / Clarifications

Straightaway Classification (Potential threat of recovery)

- Erosion in Value Where realisable value of security is less than 50% of the value assessed (*by bank or value accepted in last RBI Inspection*), account to be straightaway classified as **Doubtful Asset**.
- Where realisable value (*as assessed by Bank / Valuator / RBI Inspector*) of security is less than 10% of outstanding balance, account to be straightaway classified as **Loss Asset**.

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Criteria for NPA

Exceptions / Clarifications

Straightaway Classification (Potential threat of recovery)

- Fraud
 - 100% to be provided irrespective of security spread over 4 quarters commencing from the quarter in which fraud has been detected, provided the unprovided provision is debited to 'Other Reserves'
- If not reported to RBI within timeframe, 100% to be provided instantly

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Criteria for NPA

Exceptions / Clarifications

Solitary or few credit entries recorded before Balance Sheet to regularise the account

Whether the account is having inherent weakness?



Yes	No
Mark the account as NPA	The bank to evidence the auditors about manner of regularisation of account

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Criteria for NPA

Mandatory Valuation of Securities

Applicable only if balance in NPA is Rs. 5 crores & above

- Annual Stock Audit by external agencies
- Immovable Properties – Valuation to be carried out once in three years by approve valuer

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Criteria for NPA

Vital aspects of Asset Classification / Upgradation

- Automation of IRAC and provisioning process in banks (RBI Circular dated 14.Sep.2020) w.e.f. 30.Jun.2021
- Upgradation of NPAs – Criterias
- Upgradation of NPAs
 - Partial Recoveries at cust-id level
 - Subsequent recoveries (after date of Balance Sheet)

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Relief for MSME Borrowers

Date of Circular	Details of Circular	PA cut-off date
07.Feb.2018	One time restructuring of MSME Advances	31.Aug.2017
06.Jun.2018	Encouraged formalisation of MSME Sector	
01.Jan.2019	Scheme extended (31.Mar.2020)	01.Jan.2019
11.Feb.2020	Scheme extended (31.Dec.2020)	01.Jan.2020
06.Aug.2020	Scheme extended (31.Mar.2021)	01.Mar.2020
05.May.2021	Scheme extended (30.Sep.2021)	31.Mar.2021

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Relief for MSME Borrowers

Circular dated May 05, 2021

MSME Sector restructuring of advances (in continuation of 06.Aug.2020 circular)

One time relaxation given for restructuring of MSME standard accounts without downgrade subject to conditions

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Relief for MSME Borrowers

Circular dated May 05, 2021

1. Aggregate exposures (FB + NFB) of banks and NBFCs should not exceed Rs. 25 crores as on 31.Mar.2021 (*later extended to Rs. 50 crores vide circular dated 04.Jun.21*)

Exposure need not be balance outstanding

2. Borrower account should be 'Standard Asset' as on 31.Mar.2021 and till date of implementation of restructuring

- An account not marked as NPA but fulfilling NPA criteria to become ineligible
- An account which is NPA as on 31.Mar.21 but upgraded subsequently ineligible

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Relief for MSME Borrowers

Circular dated May 05, 2021

3. Borrower entity should be registered on the date of implementation of restructuring (except for MSMEs exempt from GST Registration)

A borrower entity can opt for GST registration during the phase of implementation

4. Restructuring of borrower accounts to be implemented within 90 days from date of invocation (Invocation should be not later than 30.Sep.2021)

No apparent eligibility criteria defined for which accounts can be restructured besides no criteria defined as regards no. of years criteria for restructuring / reschedulement

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Relief for MSME Borrowers

Circular dated May 05, 2021

5. Asset Classification to be retained even if the account slips into NPA category between 01.Apr.2021 and date of implementation

6. Additional provision of 5% to be made and retained till end of specified period or account demonstrating satisfactory performance *(no payment should be overdue for more than 30 days during the period of one year from the date when first interest / installment is due)*

7. Account restructured earlier under MSME Reliefs is ineligible.

8. Need to be registered in Udyam Registration Portal by before date of implementation.

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Relief for MSME Borrowers

Circular dated May 05, 2021

9. Post restructuring usual NPA norms to apply

10. Disclosure in Notes on accounts required for MSME restructured accounts specifying no. of accounts and Amount

11. If restructured accounts is downgraded as NPA as per IRAC norms, the same would be eligible for upgradation only if it demonstrates satisfactory performance during the specified period

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Covid19 related RBI Circulars

Date	Circular
27.Mar.2020	Covid-19 Regulatory Package
17.Apr.2020	Covid-19 Regulatory Package – Asset Classification & Provisioning
17.Apr.2020	Covid-19 Regulatory Package – Review of Resolution Timelines under Prudential Framework on Resolution of Stressed Assets
23.May.2020	Covid-19 Regulatory Package
23.May.2020	Covid-19 Regulatory Package – Review of Resolution Timelines under Prudential Framework on Resolution of Stressed Assets
06.Aug.2020	Resolution Framework for Covid-19 related stress
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13.Oct.2020	FAQs

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Covid19 related RBI Circulars

Date	Circular
05.May.2021	Resolution Framework 2.0 for Covid-19 related stress of Individuals and Small Businesses
05.May.2021	Resolution Framework 2.0 for Covid-19 related stress of MSMEs
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07.Jul.2021	New definition of MSME – Addition of Retail and Wholesale Trade
06.Aug.2021	Resolution Framework for Covid19 relate stress – Financial Parameters – Revised timelines for compliance

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Resolution Framework for COVID-19 related stress (RBI Circular dated 06.Aug.2020)

Ineligible Exposures

1. MSME borrowers with aggregate exposure upto Rs. 25 crores as at 01.Mar.2020
2. Farm credits (as Master Directions to apply)
3. Loan Primary Agricultural Credit Societies (PACs), Farmers' Service Providers (FSS), etc. for onward lending to agricultural
4. Exposure to lending institutions to financial service provider
5. Exposures to Central / State / Local Govt. Bodies
6. Exposure to housing finance companies
7. Staff Loans

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Eligibility Criteria and other conditions – Personal Loans

1. Applicable only to pandemic affected borrowers
2. Board approved policy is required for implementation
3. Reference date for outstanding amount of debt for resolution shall be 01.Mar.2020
4. Account should be Standard and not in default for more than 30 days as at 01.Mar.2020

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Eligibility Criteria and other conditions – Personal Loan

5. Borrower account is required to be standard as on date of invocation of resolution under this framework
6. Date of invocation = Date on which both borrower and lender agree to proceed with resolution plan
7. Last date of invocation is 31.Dec.2020
8. Resolution to be implemented within 90 days from date of invocation

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

What can be a resolution plan? (Personal Loan)

1. Re-schedulement of payment
2. Conversion of interest accrued or to be accrued into another credit facility
3. Moratorium period subject to maximum of upto 2 years
4. Moratorium if granted would be effected immediately upon implementation, thus, would be always prospective

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

**When resolution plan can be said to be implemented?
(Personal Loan)**

1. All related documentation including execution of required agreements are completed
2. Change in terms & conditions of loan get duly reflected in books of lender
3. Borrower is not in default with lenders as per revised terms

If there is a breach of the conditions in implementation, usual NPA norms would apply

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Other Exposures

If there are multiple lending institutions

Resolution plan would be considered as invoked only if

1. 75% in value terms
2. 60% in number

of lending institutions agree to invoke the same

For single lender exposures, Board approved policy would govern the implementation of resolution

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Other Exposures

1. To be invoked upto 31.Dec.2020
2. To be implemented within **180 days** from date of invocation
3. Moratorium upto two years permitted
4. Sanction of additional credit facilities permitted

For multiple lending institutions, ICA to be signed by all lenders within 30 days from date of invocation or otherwise the invocation is considered as lapsed.

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Other Exposures

Expert Committee (Report published vide circular dated 07.Sep.2020)

Provided list of financial parameters & sector-specific desirable ranges of parameters

Vetting required for aggregate exposures above Rs. 1500 crores

Independent Credit Evaluation (ICE) by independent credit rating agency required if exposure is above Rs. 100 crores

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Asset Classification and Provisioning

Additional facilities sanction between invocation and implementation to be considered as 'Standard Asset' but if the implementation fails, same to be treated as 'qua-borrower'

Accounts which slip into NPA category in between invocation and implementation, can be upgraded to standard asset category on the date of implementation

Retention of class of asset benefit extended for covid19 resolution framework

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Asset Classification and Provisioning

Personal Loan – Provision

Provision held as on date of implementation or 10% whichever is higher

Other Exposure – Provision

if ICA signed within 30 days Provision held as on date of implementation or 10% whichever is higher

If ICA signed after 30 days – 20% provision

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Reversal of Provision

Personal Loan

Half to be reversed once 20% of residual debt is paid without slipping into NPA and balance after repayment of further 10%

Other Exposure

For signatories to ICA – Same like Personal Loans

For non-signatories to ICA – Same but IRAC provision to be continued

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Post Implementation Performance

Personal Loan : Usual IRAC norms to apply

Other Exposure (during monitoring period)

Monitoring Period: Period between implementation and repayment of 10% of residual period, subject of minimum of one year from commencement of first payment of Prin / Int.

If there is a default during monitoring period, 30 days review period would be triggered and if the borrower is in default at the end of review period, downgraded to NPA from date of implementation or NPA date before implementation of plan

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**Resolution Framework for COVID-19 related stress
(RBI Circular dated 06.Aug.2020)**

Disclosures and Credit Reporting

1. Disclosure as per format prescribed in quarterly and annual financials
2. Credit reporting to be made and 'restructured' status would be reflected

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**Resolution Framework 2.0: Resolution of COVID-19 related stress of Individual and Small Businesses
(RBI Circular dated 05.May.2021)**

Eligibility Criteria

1. Individuals availed of personal loans excluding staff loans, with aggregate exposures not more than Rs. 25 crores as on 31.Mar.2021
2. Small businesses including retailers / wholesale trades other than those classified as MSME as on 31.Mar.2021, with aggregate exposures not more than Rs. 25 crores as on 31.Mar.2021
3. Should not have availed any resolution in terms of Resolution Framework 1.0 except for special exemption

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**Resolution Framework 2.0: Resolution of COVID-19 related stress of Individual and Small Businesses
(RBI Circular dated 05.May.2021)**

Invocation of Resolution Process

1. Board to approve policies within four weeks
2. Facility is provided only to borrower having stress on account of Covid-19
3. Considered as invoked when Bank and borrower agree to proceed with efforts towards finalisation of resolution plan
4. Decision to be communicated to borrower within 30 days of receipt of application
5. Last date of invocation of resolution permitted is 30.Sep.21

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**Resolution Framework 2.0: Resolution of COVID-19 related stress of Individual and Small Businesses
(RBI Circular dated 05.May.2021)**

Salient Features

1. Re-schedulement of payment
2. Conversion of interest into another credit facility
3. Revisions in working capital sanctions
4. Granting of Moratorium for maximum period of 2 years with extension to that extent
5. Resolution plan to be finalised & implemented within 90 days from date of invocation of resolution process
6. The account will be upgraded to PA as on date of implementation if it's slipped into NPA between invocation & implementation

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**Resolution Framework 2.0: Resolution of COVID-19 related stress of Individual and Small Businesses
(RBI Circular dated 05.May.2021)**

Eligibility for Loans resolved earlier under Framework 1.0

1. If moratorium is availed for less than 2 years, moratorium for balance period can be availed
2. Working Capital – Margins & limits to be restored by 31.Mar.2022

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Few Important Circulars / Issues

Date	Circular
21.Aug.2020	Ad-hoc / Short Review / Renewal of credit Facilities
21.Aug.2020	New Definition of Micro, Small and Medium Enterprises – Clarifications
14.Sep.2020	Automation of Income Recognition, Asset Classification and Provisioning Process in banks (Cut-off date: 30.Jun.2021)
03.Sep.2020	Interim Order of Supreme Court <i>'the accounts which were not declared NPA till 31.08.2020 shall not be declared NPA till further orders.'</i>
07.Apr.2020	Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package
07.Jul.2021	New definition of MSME – Addition of Retail & Wholesale Trade

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Projects under Implementation

Essentials

Project loan means any term loan which has been extended for the purpose of setting up of an economic venture.

The bank needs to clearly spell out 'Date of Completion' (DC) and 'Date of Commencement of Commercial Operations' (DCCO).

Type of Project Loan:

1. Infrastructure Sector
2. Non-Infrastructure Sector

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Projects under Implementation

When not considered as Restructuring?

If *change in repayment schedule* is caused due to increase in project outlay on account of increase in scope and size of the project & following conditions are fulfilled:

1. The increase in scope and size of the project takes place before commencement of commercial operations of the existing project;
2. The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay;
3. The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO;
4. On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

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Projects under Implementation

Deferment of DCCO

If deferent and consequential shift in repayment schedule is for equal or shorter duration, not considered as restructuring if:

Particulars	Infrastructure	Non-Infrastructure
Revised DCCO is within	Two years from original DCCO	One year from original DCCO
Revision due to Court Case	2 + 2 Years from original DCCO	1 + 1 Years from original DCCO
Revision due to any other reason	2 + 1 Years from original DCCO	

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Projects under Implementation

Deferment of DCCO & Retention of Class – Conditions

1. Benefit of asset classification now available to CRE with extension by 1 year as per circular dated 07.Feb.2020
2. Application for restructuring (deferment of DCCO) is received upto to two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure
3. Account needs to be standard
4. If moratorium given for interest, income on accrual can be booked till two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure
5. Additional provision of 5% if extended beyond two years from date of original DCCO for Infrastructure and one year w.r.t. non-infrastructure

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Projects under Implementation

Deferment of DCCO & Retention of Class – Conditions

6. Additional provision of sacrifice (diminishing in fair value) for standard assets is required to be made for extension of DCCO
7. In case of Infrastructure projects under implementation, appointed date is shifted due to inability of concession authority to comply requisite conditions, the loan need not be treated as 'restructuring' provided:
 - i. Project should be Public Private Partnership model
 - ii. Loan is not yet disbursed
 - iii. Revised date is documented by way of supplementary agreement
 - iv. Viability to be re-assed and sanctioned

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Projects under Implementation

Retention of Class – Change of Ownership (2+2+2)

Additional extension of DCCO permitted upto 2 years with retention of class subject to:

1. Project is stalled due to inadequacies of the promoters;
2. Change of ownership resulting in high probability of commencement of commercial operations;
3. New promoters need to have sufficient expertise
4. New promoters should own at least 51% of paid up equity
5. Viability of the project to be established
6. Intra-group company take over not eligible

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Projects under Implementation

Retention of Class – Change of Ownership (2+2+2)

Additional extension of DCCO permitted upto 2 years with retention of class subject to:

7. Asset classification would be as of reference date (date on which preliminary binding agreement is executed)
8. Take over to be completed within 90 days
9. New promoters to demonstrate commitment by bringing in substantial portion of additional funds
10. Repayment schedule not to exceed beyond 85% of economic life
11. Facility available only once

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Projects under Implementation

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

1. Sanctioned at the time of initial financial closure
2. Purpose is to fund cost overruns, if required
3. To be disbursed only if cost overruns and not otherwise
4. Subsequent Standby Credit facility permitted if DCCO extended upto 2 / 1 year for infra and non-infra
5. Exemption from definition of restructuring provided:
 - i. Interest during construction due to delay can be funded
 - ii. Other cost overruns limited to 10% of original cost

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Projects under Implementation

Retention of Class – Financing of Cost Over-runs

Standby Credit Facility:

5. Exemption from definition of restructuring provided:
 - iii. Debt / Equity Ratio need to be unchanged (promoters to infuse funds)
 - iv. Disbursement only after promoter's contribution
 - v. No other change in terms and conditions
 - vi. 10% cost-over run ceiling is excluding interest but including currency fluctuations

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Income Recognition

For NPA accounts income should be recognised on realisation basis.

When an account becomes non-performing, unrealised interest / fees / commission of the previous periods should be reversed or provided.

Interest income on additional finance in NPA account should be recognised on cash basis.

In project loan, funding of interest in respect of NPA if recognised as income, should be fully provided.

If interest due is converted into (unlisted) equity or any other instrument, income recognised should be fully provided (if listed, income recognised to the extent of MV)

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Income Recognition

Order of Recovery

Suggested though not mandatory

Unrealised Expenses

Unrealised Interest

Principal Outstanding

Clarification vide Master Circular - in the absence of clear agreement between the Bank and the Borrower, an appropriate policy to be followed in uniform and consistent manner.

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Classification Norms

Standard Asset

The account is not non-performing.

Sub-Standard Asset

A sub-standard Asset is one which has remained NPA for a period of less than or equal to 12 months.

Loss Assets

These are accounts, identified by the bank or internal or external auditors or by RBI Inspectors as wholly irrecoverable but the amount for which has not been written off.

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Classification Norms

Doubtful Asset - Three Categories

Category

Period

Doubtful - I

Up to One Year

Doubtful - II

One to Three Years

Doubtful - III

More than Three Years

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Provisioning Norms

Primary Responsibility is of the Bank Management and Auditors

Standard Asset

▪Agricultural and SMEs Sectors	0.25%
▪Commercial Real Estate (CRE) Section	1.00%
▪CRE – Residential Housing Project	0.75%
▪Others	0.40%
▪Housing Loan during teaser rate period	2.00%

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Provisioning Norms

Sub-standard Asset

- 15% of total outstanding
- 25% of total outstanding if loan is unsecured
- 20% of total outstanding if infrastructure loan provided its backed by escrow facility with first charge

Definition of Secured Loan:

If security is not less than 10% of exposure (funded & non-funded) ab initio

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Provisioning Norms

Doubtful Assets:

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

Loss Asset 100% should be provided for

**Intangible Security: Considered only if backed by legally enforceable and recoverable right over collection and rest of intangibles like rights, licenses, etc. are considered as 'Unsecured'*

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Provisioning Norms

Provisioning for Country Risk

In respect of a country where its net funded exposure is $\geq 1\%$ of its total assets

Risk Category	ECGC Classification	Provision % age*
Insignificant	A1	0.25
Low	A2	0.25
Moderate	B1	5
High	B2	20
Very High	C1	25
Restricted	C2	100
Off-Credit	D	100

*Lower Provision @ 25% w.r.t. short term (180 d) exposures

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Provisioning Norms

Provisions under Special Circumstances

Advances guaranteed by CGTMSE / CRGFTLIH / ECGC, Provision should be made only for balance in excess of the amount guaranteed by these corporations

CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises

CRGFTLIH: Credit Risk Guarantee Fund Trust for Low Income Housing

Take Out Finance

Transactions that involve prior commitments shall be governed by the circular DBOD.No.BP.BC.144/21.04.048-2000 dated February 29, 2000 on "Income Recognition, Asset Classification, Provisioning and other related matters and Capital Adequacy Standards – Takeout Finance".

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Other Aspects

Post Shipment Suppliers' Credit

Exim Bank has introduced Guarantee-cum-Refinance Scheme
(Guarantee to settle claim within period of 30 days)

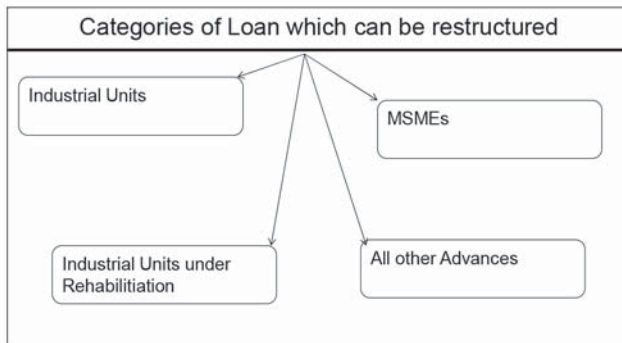
Export Project Finance

The lending bank needs establish through documentary evidence that importer has cleared the dues in full in the bank abroad when its PA

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Guidelines on Restructuring of Advances



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Guidelines on Restructuring of Advances

Eligibility

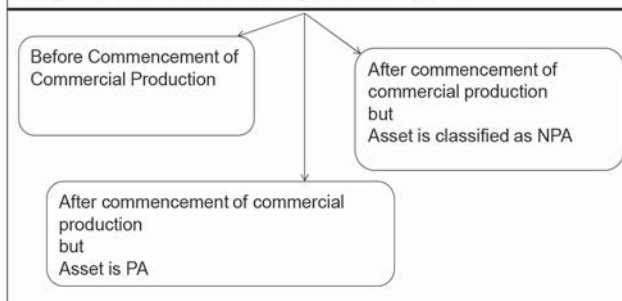
- Any account classified as standard, sub standard or doubtful.
- Restructuring cannot be done retrospectively and usual asset classification norms would continue to apply.
- Restructuring should be subject to customer agreeing to terms and conditions.
- Financial viability should be established.
- Borrowers indulging in frauds and malfeasance are ineligible.
- BIFR cases eligible for restructuring subject to approval from BIFR.

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Guidelines on Restructuring of Advances

Stage at which restructuring can take place

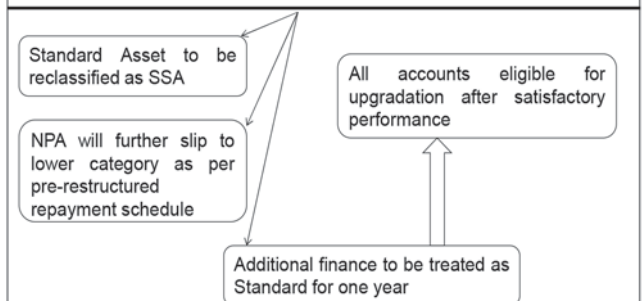


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Guidelines on Restructuring of Advances

Asset Classification Norms

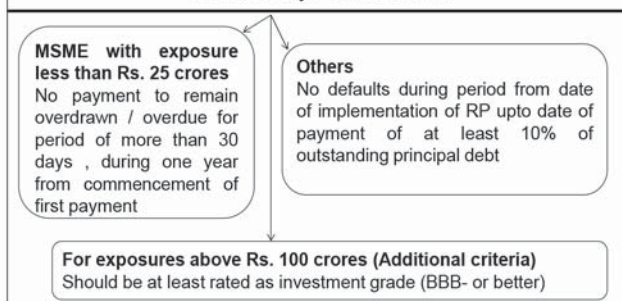


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Guidelines on Restructuring of Advances

Satisfactory Performance

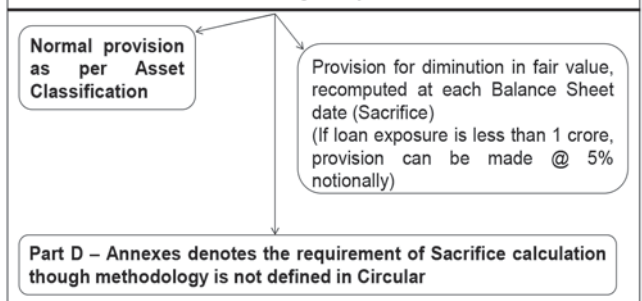


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Guidelines on Restructuring of Advances

Provisioning Requirements



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Guidelines on Restructuring of Advances

Calculation of Sacrifice

Discounting Rate =
BPLR / Base Rate +
appropriate Term and
Credit Risk premium on
the date of restructuring
applicable to borrower
category

Apply Discounting Rate to future
Cash Inflows of principal and
interest and calculate NPV as
per original and revised
repayment schedules

Total provision not
to exceed 100%

Working Capital Finance
Tenure to be presumed at One Year
for calculation of Sacrifice

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Early identification and reporting of stress

SMA Sub-category	TL - Basis for classification Principal / Interest or any other payment overdue partially or wholly for
SMA-0	1 to 30 days
SMA-1	31 to 60 days
SMA-2	61 to 90 days
SMA Sub-category	CC / OD - Basis for classification Outstanding Balance remains continuously in excess of the sanction limit / drawing power, whichever is lower for a period of
SMA-1	31 to 60 days
SMA-2	61 to 90 days

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Early identification and reporting of stress

Reporting Requirements to CRILC (Central Repository of Information on Large Credits) Reporting

1. Applicability: Coverage for Fund and Non-Fund based exposures above Rs. 5 crores excluding crop loans, Inter-Bank / SIDBI / EXIM / NHB / NABARD exposures
2. CRILC Main report – Monthly Basis
3. CRILC Weekly Reporting (Every Friday) – Defaults by all borrowers above Rs. 5 Crores of exposure

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Applicability of Prudential Framework for Resolution of Stressed Assets

(Ref.: RBI Circular dated June 07, 2019)

(Ref.: Para 9 of RBI Master Circular dated October 01, 2021)

Aggregate Exposure of Borrowers to the lenders	Reference Date
Rs. 2,000 crores and above	Date of these directions
Above Rs. 1,500 crores but below Rs. 2,000 crores	01.Jan.2020
Less than Rs. 1,500 crores	To be announced in due course

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Circular dated June 07, 2019

Prudential Framework for Resolution of Stressed Assets

Applicability of guidelines & its purpose

1. Applicable with immediate effect
2. Providing framework for early recognition, reporting and time bound resolution of stressed assets
3. These directions are issued without prejudice to issuance of specific directions, from time to time, by the Reserve Bank to banks, in terms of the provisions of Section 35AA of the Banking Regulation Act, 1949, for initiation of insolvency proceedings against specific borrowers under the Insolvency and Bankruptcy Code, 2016 (IBC)

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Circular dated June 07, 2019

Prudential Framework for Resolution of Stressed Assets

Framework

1. Early identification and reporting of stress
2. Implementation of resolution plan
3. Implementation of conditions for RP
4. Delayed implementation of Resolution Plan
5. Prudential Norms
 - a) Supervisory Review
 - b) Disclosures

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Early identification and reporting of stress

SMA Sub-category	<u>TL - Basis for classification</u> Principal / Interest or any other payment overdue partially or wholly for
SMA-0	1 to 30 days
SMA-1	31 to 60 days
SMA-2	61 to 90 days
SMA Sub-category	<u>CC / OD - Basis for classification</u> Outstanding Balance remains continuously in excess of the sanction limit / drawing power, whichever is lower for a period of
SMA-1	31 to 60 days
SMA-2	61 to 90 days

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Circular dated June 07, 2019

Reporting Requirements

1. CRILC Reporting for borrower accounts above Rs. 5 crores
2. CRILC Main report – Monthly Basis
3. CRILC Weekly Reporting (Every Friday) – Defaults by all borrowers above Rs. 5 Crores of exposure

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Circular dated June 07, 2019

Implementation of Resolution Plan

1. All lenders must put Board Approved Policy
2. Expected that the lenders initiate the process of implementing Resolution Plan even before a default
3. Once default is reported, "Review Period" of 30 days, wherein lenders may decide on resolution strategy, may choose to initiate legal proceedings for insolvency or recovery.

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Circular dated June 07, 2019

Implementation of Resolution Plan

4. If RP is to be implemented, all lenders to sign inter creditor agreement (ICA) during Review Period. Decision to be taken as agreed by lenders representing 75% by value of total outstanding credit facilities (FB+NFB) and 60% of lenders by number.
5. On or after the reference date, resolution plan must be implemented within 180 days from end of review period

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Circular dated June 07, 2019

Aggregate Exposure of Borrowers to the lenders	Reference Date
Rs. 2,000 crores and above	Date of these directions
Above Rs. 1,500 crores but below Rs. 2,000 crores	01.Jan.2020
Less than Rs. 1,500 crores	To be announced in due course

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Circular dated June 07, 2019

Implementation Conditions for Resolution Plan

1. 1 billion (100 Cr) and above exposure – Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for this purpose.
2. 5 billion (500 Cr) and above exposure – Two such Independent Credit Evaluation (ICE) of the residual debt by Credit Rating Agencies (CRAs) specifically authorised by RBI for this purpose.
3. RP is implemented if following conditions are met.

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Circular dated June 07, 2019

Conditions for Implementation of Resolution Plan

1. RP Not involving Restructuring / Change in Ownership shall be deemed to be implemented only if the borrower is not in default with any of the lenders as on 180th day from the end of Review Period
2. RP involving Restructuring / Change in Ownership shall be deemed to be implemented only if following conditions are met:
3. All related documentation, creation of security/charge / perfection of security are completed by the lenders

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Circular dated June 07, 2019

Conditions for Implementation of Resolution Plan

4. New Capital Structure and changes in terms of conditions of the existing loans gets duly reflected in the books of the lenders and borrower
5. Borrower is not in default with any of the lenders.

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Delayed Implementation of Resolution Plan

Additional Provision Requirement

1. 180 days from end of review period – 20%
2. 365 days from end of commencement of review period: 15%

Overall provision should not exceed 100%

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Circular dated June 07, 2019

Prudential Norms

Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower.

Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.

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Circular dated June 07, 2019

Few examples of Financial Difficulty

1. A default or Borrowers credit facilities are NPA
2. Borrower not in default, but is probable that the borrower will default on any of its exposures in foreseeable future without the concession,
3. Borrowers outstanding securities have been delisted
4. Actual performance vs estimates, cash flows to be assessed insufficient to service all of its loans or debt securities
5. Borrowers existing exposures are categorised as exposures that have already evidenced difficulty in borrowers ability to repay in accordance with banks internal credit rating system

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Circular dated June 07, 2019

Asset Classification

On restructuring account will be downgraded from Standard to Substandard. NPAs will remain in same category

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Circular dated June 07, 2019

Asset Upgradation

Only when all the outstanding loan / facilities in the account demonstrate 'satisfactory performance' during the period from the date of implementation of RP up to the date by which at least 10% of the sum of outstanding principal debt as per RP and interest capitalisation sanctioned as a part of the restructuring, if any is repaid
(provided that account can not be upgraded before one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of RP)

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Circular dated June 07, 2019

Asset Upgradation – Additional conditions

In case of aggregate exposure of Rs. 1 Billion and above

External credit rating of investment grade BBB- or better

In case of aggregate exposure of Rs. 5 Billion and above

Two such external credit ratings of investment grade BBB- or better

On failure to demonstrate satisfactory performance during monitoring period, asset classification upgrade is subjected to fresh restructuring / change of ownership framework as per IBC and additional provision of 15% for such accounts should be made at the end of review period.

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Circular dated June 07, 2019

Provisioning Norms

Accounts restructured under the revised framework shall attract provisioning as per the asset classification category as laid out in the Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015, as amended from time to time

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Master Direction on Transfer of Loan Exposures dated September 24, 2021

Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

A] Directions to come into immediate effect replacing existing instructions

B] NBV: Funded outstanding in a loan exposure as reduced by specific provision made against such exposure

C] Chapter IV – Transfer of Stressed Loans

C: Transfer of loans to ARCs

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Master Direction on Transfer of Loan Exposures dated September 24, 2021

Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

Para 73: Stressed Loans which are in default for more than 60 days can be transferred

Stressed Loan: Loan exposure that is classified as NPA or SMA

Para 75: If stressed loan is transferred to ARC at price below NBV ... *permitted to use countercyclical or floating provisions*

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Master Direction on Transfer of Loan Exposures dated September 24, 2021

Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

Para 76: If stressed loan is transferred to ARC at price above NBV – reverse excess provision to PL only to the extent of cash received as initial consideration

Para 77: SRs / PTCs to be M2M periodically at NAV

Proviso to Para 77:

(i) Accounting at lower of NBV or NAV

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Master Direction on Transfer of Loan Exposures dated September 24, 2021

Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

Proviso to Para 77:

(ii) when the investment by a transferor in SRs backed by stressed loans transferred by it, is more than 10 percent of all SRs backed by its transferred loans and issued under that securitisation, the valuation of such SRs by the transferor will be additionally subject to a floor of face value of the SRs reduced by the provisioning rate as applicable to the underlying loans, had the loans continued in the books of the transferor.

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Master Direction on Transfer of Loan Exposures dated September 24, 2021

Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021

Para 78: SRs/PTCs which are not redeemed as at the end of the resolution period (i.e., five years or eight years as the case may be) shall be treated as loss asset in books of the lenders and fully provided for.

Para 79: Valuation, classification and other norms applicable to Non-SLR instruments applicable

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Points to Ponder

Divergences in NPA observed by RBI AFI
Verification Parameters in CBS vis-à-vis RBI Circular
Purity of Master Data in CBS
Reversal of un-serviced Interest of NPA
Availability of valuation of security for advances below 5 crores
Authenticity and regularity of stock statements
Date of NPA – current and prior year of newly identified NPAs
Unique Customer-id of borrower accounts
Accounts upgraded during the year
Regularisation of account subsequent to balance sheet date

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Points to Ponder

Accounts other than Advances accounts including Sundries / Suspense Accounts
Accounts transferred to other branches – control over identification / classification of accounts
Income leakages identified and resulting in overdrawing of accounts
Recalculation of Drawing Power
Early Mortality Cases
Ever-greening of accounts
MOCs vis-à-vis Main Audit Report vis-à-vis LFAR

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Thank you!

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MOTTO

Ya esa suptesu jagarti kamam kamam Puruso nirmimanah |
Tadeva sukram tad brahma tadevamrtamucyate |
Tasminloka sritah sarve tadu natyeti Kascan | etad vai tat ||

य एष सुप्तेषु जागर्ति कामं कामं पुरुषो निर्मिमाणः ।
तदेव सुक्रं तद् ब्रह्म तदेवामृतमुच्यते।
तस्मिंल्लोका : श्रिताः सर्वे तदु नात्येति कश्चन । एतद् वै तत् ॥

(That person who is awake is those that sleep, shaping desire after desire, that, indeed, is the pure. That is Brahman, that, indeed, is called the immortal. In it all the worlds rest and no one ever goes beyond it. This, verily, is that, kamam kamam : desire after desire, really, objects of desire. Even dream objects like objects of walking consciousness are due to the Supreme Person. Even dream consciousness is a proof of the existence of the self.

No one ever goes beyond it : of. Eckhart : 'On reaching God all progress ends.')

Source : Kathopanishad