

BANK BRANCH AUDIT IN INDIA UNDER COMPUTERIZED ENVIRONMENT: AN OVERVIEW

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ABSTRACT

Banks are backbone of Indian economy. According to section 29 of the banking regulation act, 1949 every bank has to prepare Balance Sheet and Profit and Loss Account every year as per third schedule of the act. In India, statutory audit of bank branch is according to Banking Regulations Act, 1949. Beyond the statutory audit and furnishing a report pursuant thereto, RBI requires the banks to obtain, a Long Form Audit Report (LFAR) and also a Tax Audit Report under Section 44AB of the Income tax Act 1961 with certain validations /certificates. All Standards on Auditing (SA) for the audit are equally applicable to Bank. Statutory Audit Report and LFAR are two independent and different Audit Reports and cross-referencing for any qualifications should not be done. The Guidance Note on Bank Audit, 2019 provides detailed guidance to the bank auditors. Every year the Guidance Note is updated by ICAI. All the banks have equipped with technology and have switched over to fully computerized environment. The following points to be consider during audit of bank branch. 1. Engagement letter. 2. Letter for NOC to previous auditors. 3. Meeting and discussion with the bank branch management. 4. Review of previous year's audit report/ LFAR, current period's Internal Audit/concurrent Audit Report. 5. Physical verification of cash, unused DD etc and valuable securities. 6. Compliance of instructions issued by bank's circulars and other notifications issued by RBI, significant accounting policies of the bank, Mandatory Accounting Standards/Auditing Standards. 7. Checking of the advances. 8. Loan Accounts (Non Performing). 9. Checking of additions/deduction/transfers and Depreciation of fixed assets, Compliance of Accounting Standard (AS)-6, AS10, AS 26 and AS28 related to fixed assets. 10. Scrutiny of Balance sheet and Profit & Loss Account.

KEYWORDS: *Auditing Standards, Guidance Note, LFAR, Statutory Audit Report, Third Schedule.*

Introduction Audit of Banking Institution

Banks are backbone of Indian economy. In India there are various types of banking institutions like Commercial bank, Regional rural bank, Cooperative banks, EXIM bank etc. As per section 29 of the banking regulation act, 1949 every bank has to prepare balance sheet and profit and loss account every year in the forms set out in the schedule-III of the act. Appointment of auditor of a banking company is to be appointed at AGM (Annual General Meeting) of shareholders. However, the approval of the Reserve Bank of India (RBI) is to be taken before the appointment of auditor. All Standards on Auditing (SA) for the Audit are equally applicable to Bank Audit. Statutory Audit Report and Long Form Audit Report LFAR are two different and separate Audit Reports. The main focus in LFAR is on identification of the lacunae in the internal control system. The provisions of audit of Banking Companies are governed by the Banking Regulation Act, 1949, RBI Guidelines and provisions of the Companies Act, 2013. Every year, AASB (Auditing and Assurance Standards Board) of ICAI issues, "Guidance Note on Audit of Banks" for audits of banks and bank branches. The auditors should ensure that their audit report complies with the requirements of SA 700, "Forming an Opinion and Reporting on Financial Statements", SA 705 and SA 706. Besides the main audit report, the auditors also furnish a Long Form Audit Report (LFAR). All the banks have equipped

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with technology and have switched over to computerized environment. Beyond the scope of the statutory audit and furnishing a report, RBI requires that the banks to obtain, a Long Form Audit Report (LFAR) and also conduct an audit u/s 44AB of Income tax Act, 1961 and issue a Tax Audit Report.

Objectives of the Study

This study is to evaluate the bank branch audit in India. The main objectives of the study can be listed as follows:

- To study the concept of bank branch statutory audit.
- To know the auditors are expected to follow the Standards on Quality Control (SQC) and maintain their working papers.
- To study the current position of bank branch statutory audit in India.
- To study how the related data integrity is maintained / preserved and protected from origin to the very end.
- To study the fraud and risk management through internal control systems.
- To ensure compliance of laid down systems and procedures scrupulously.
- To ensure that books of accounts, records and registers are maintained in accordance with the prescribed systems.
- To suggest regarding the future bank branch statutory audit in India.

Significance of the Study

This paper discusses about the bank branch audit in India under computerized environment. It also strives to describe the audit programme, Statutory Audit Report under the BR Act, 1949, Memorandum of Changes (MOC), Long Form Audit Report (LFAR), Tax Audit Report u/s 44AB of the I. Tax Act, Standards on Auditing (SA) for the conduct of the Audit and Issue of Audit Report.

Guidance Note on Bank Audit issued by ICAI

For bank audits, the statutory auditors are well equipped in terms of knowledge of the banking sector and keep update with the latest developments. The Guidance Note on Bank Audit, 2019 is provides detailed guidance to the bank auditors. Every year, Guidance Note is updated by Auditing and Assurance Standards Board (AASB) of ICAI. The guidance note has been divided in three sections: Section A- Statutory Central Audit, Section B- Foreign Exchange Transactions and Integrated Treasury, Section C- Bank Branch Audit other than Foreign Exchange Transactions.

Review of Literature

- **Joshi, C.A. Arvind (2018)** in his research paper "Bank Branch Audit Planning" explain that Bank branch audit is an exercise to be carried out facing various challenges like limited time, limited resources, unlimited expectations from auditors etc. Considering all these factors, to ensure deadlines and delivering quality audit by paying adequate attention to high risk areas, planning and proper execution thereof plays a very important role.
- **Kothari, CA. Nayan R. (2018)** in his article "Long Form Audit Report – LFAR" examined the various Steps for audit related to Profit and Loss Account & Balance Sheet of bank branch.
- **CA. M.M Khanna, and CA. Sanjay Vasudeva, (2017-18)** in their research work "Bank Branch Audit (2017-18)-Audit programme" explain that additional responsibilities cast on the auditors and the scope of their work getting extended in the areas of reporting on offences involving frauds, fraudulent activities, foul play in banking transactions, require the auditor to specially look into the systems and procedures laid down and the effectiveness of the controls exercised by Management.

Methodology of Research

This is a descriptive research and based on secondary data. The study is basically conceptual in and already published data like news paper, websites and different reports given by the Chartered Accountants regarding bank branch audit.

Bank Branch Audit in India

An audit involves the objective of independent examination of the financial statements. The purpose of branch audit is to express an opinion, and provide a rational assurance as to whether or not the financial statements are presented fairly and there are no material errors/ misstatements and give a

true and fair view. The Auditor is expected to satisfaction at the time of audit under CIS Environment: 1. Reconciliation system and control system exist among Primary & Subsidiary Ledger. 2. Cross verification of different records. 3. Correctness of the data transmitted. 4. Accuracy of the data processed.

The audit Exercise Involve the following:

1.	Pre-Audit Work	<p>Following documents to be collected and reviewed for conducting branch audit:</p> <ul style="list-style-type: none"> • Trial Balance as on 31st March. • Last year's audited P/L , Balance sheet, Auditor's report, observations and rectifications by branch. • Closing circular issued by Bank's head office for conducting branch audit. • Review of Latest available inspection reports of Internal/Concurrent/RBI/Statutory/System Auditors and compliance thereof / LFAR. • Latest RBI master circulars . • Latest branch concurrent audit report /Internal inspection report/ Diligence Report / Credit Audit Report with their compliances. • Review of Ghosh and Jilani committee Recommendations. • Documents related to verification of advances. • Documents related to NPA. • Fixed Assets register as on 31st March and any addition/deletion related documents. Also Depreciation working as on 31st March. • Reconciliation statement of all banks account as on 31st march. • Inter branch reconciliation statement and Provision for net outstanding debit balance for more than 6 month. • Physical cash balance verification.
2.	Areas to be covered	<p>The following areas are to be verify by the branch auditors:</p> <p>Advances, Deposits, Physical verification of cash, security papers, valuable securities etc., Fixed Assets, Sundry Liabilities, Inter Branch Reconciliation, Contingent Liabilities, Expenditure Heads, Income Heads.</p>
3.	Important Features of LFAR	<p>RBI has prescribed the format of LFAR. Format of LFAR is in a Questionnaire Form. These Questions should be answered clearly. Questions are only indicative and not exhaustive. LFAR is not a substitute of Statutory Audit Report nor it is deemed to be a part of the Main Audit Report.</p> <ul style="list-style-type: none"> • Checking of items as per LFAR checklist • Preparation of annexures to LFAR • Preparation of LFAR
4.	Audit of Balance Sheet	<p>Fixed Assets</p> <ul style="list-style-type: none"> • Check that accounting of fixed assets is done in accordance with AS-10. Check Inter-branch transfer memos relating to Fixed Assets and whether they have been correctly classified in the accounts and depreciation correctly provided. <p>Investments</p> <ul style="list-style-type: none"> • Physically verify the Investments held by the branch on behalf of Head Office and issue certificate of physical verification of investments. Check receipt of interest and its subsequent credit to be given to HO. <ul style="list-style-type: none"> ▪ Analysis of entries outstanding in suspense Account, Sundry Debtors, Sundry Creditors ▪ Verification of assets classified as NPA Verification of Upgraded Accounts earlier classified as NPA ▪ Deposits <p>Balance Sheet Finalisation</p> <ul style="list-style-type: none"> • Verify Balance Sheet figures with General ledger • Casting of Balance sheet and cross checking of balance sheet schedules • Srutinize balance sheet
5.	Audit of Profit and Loss Account	<ul style="list-style-type: none"> • Interest and Commission income to be verified on Test Check basis. • Verification of provision of interest on standard , sub-standard, doubtful & loss assets and appropriate accounting treatment thereof. • Checking of proper classification of revenue and expenditure items.

		<ul style="list-style-type: none"> • Verification of provisions for prepaid and outstanding income & expenditure. • Ratio Analysis and comparison with previous year figures • Verification of provision for depreciation on fixed assets • Checking of prior period expenses and income and provisioning thereof • Checking of provisions for ECGC/ DICGC claims <p>Profit and Loss Finalisation</p> <ul style="list-style-type: none"> • Verify Profit and Loss account with Profit and loss Ledgers • Casting of Profit and loss booklets and cross checking with Profit and Loss Account schedules • Profit and Loss Account Scrutiny
6.	Tax Audit u/s 44 AB of Income Tax Act	<ul style="list-style-type: none"> • Preparation of Tax Audit Report in Form No.3CA. • Statement of Particulars in Form No.3CD. • Only few clauses to be answered by the Branch Auditor.
7.	Finalisation of Audit and Auditor's report	<p>Preparation of Draft regarding the following:</p> <ul style="list-style-type: none"> • Audit Report • Tax Audit Report • LFAR & Annexures • Jilani and Ghosh Committee Recommendations • Memorandum of Changes • Submission of Final Report along with Copies of Signed Balance Sheet, Profit & Loss Account and certificates. <p>Preparation and submission of audit report (for nationalized bank) has to be given to central govt. and to be stated in it that balance sheet is full and properly drawn up and true and fair of view presented. There is no window dressing or any other teaming and lading function. Profit and loss shows the true balance of profit and loss that means P&L account should represent the profit or loss in a bank in the correct manner complying with the guidelines.</p>
8.	To verify and issue certificates:	<ul style="list-style-type: none"> • Certificate for risk weighted assets as per the capital adequacy report (BASEL II & III). • Certificate for cash and bank balances. • Certificate for subsidy claim under PMRY or any other scheme of the Central / State Govt. • Certificate for remittance of recovery in claim paid accounts to DICGC. • Certificate of Ghosh and Jilani committee Recommendations.

Conclusion

From the above overview, it is clear that carrying out the bank branch audit is not an easy task. Bank branch audit is an exercise to be carried out facing various challenges. Modern banks are very versatile and dynamic in their activities. Auditors, should examine GST related provisions to them and then provide suitable comments in their Audit report.

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