



**Alignment of Bank Audit Processes with Changing  
Business Models of the Bank**

by  
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CPE Seminar on Bank Audit  
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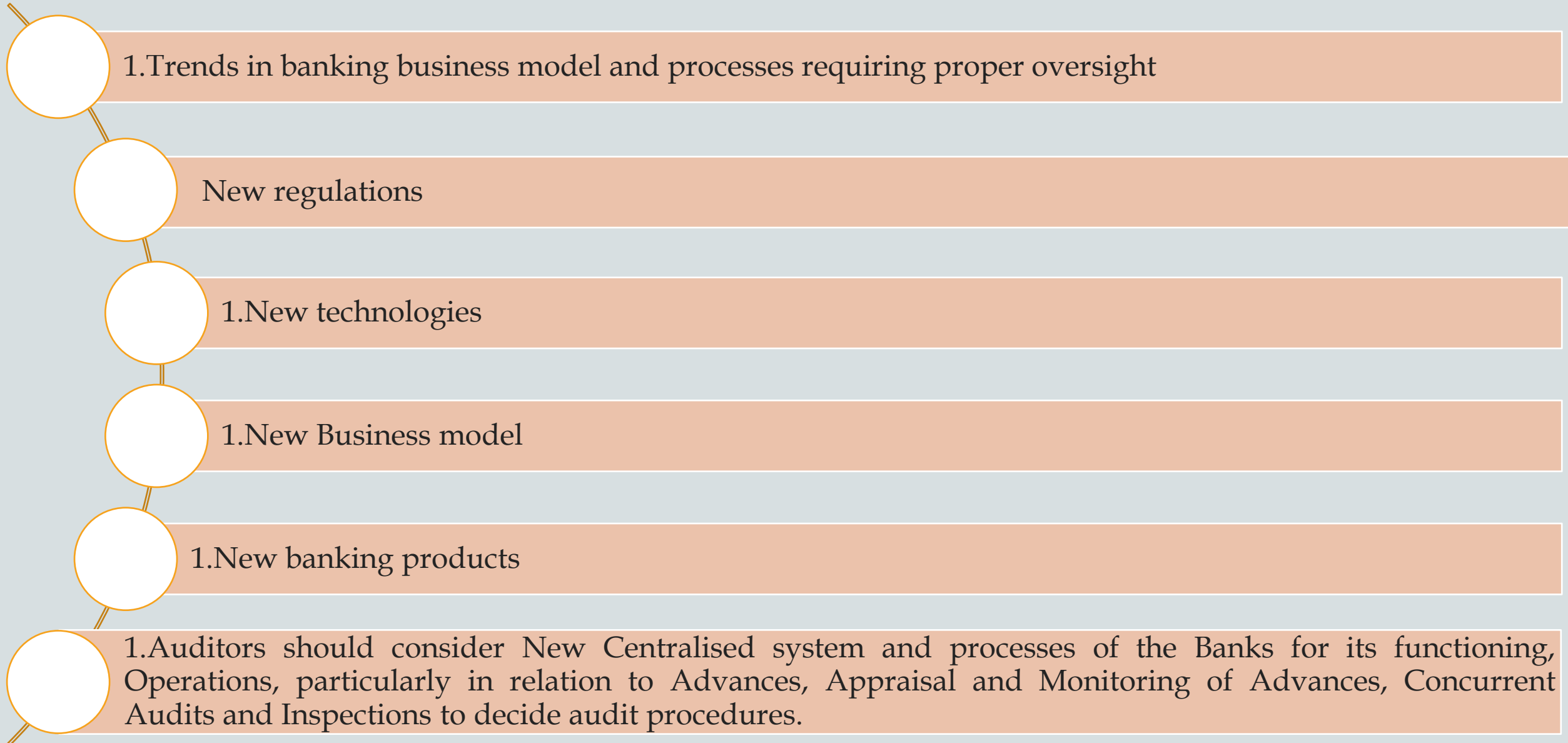
Organized by  
**Ernakulam Branch of SIRC of ICAI**

# FRAMEWORK :

1.	New and emerging focus areas in bank branch audit
2.	Objectives of bank branch audit
3.	Bank branch audit and consolidation of the branch accounts
4.	Audit procedures based on Centralised systems and processes of the Bank
5.	Role of statutory branch auditor
6.	Compliance with IRAC norms and review of procedures related to Advances
7.	Review of large borrower accounts
8.	Review of the process of appraisal and analysis of the quality of advances
9.	Identification of NPAs : Error conditions as per RBI guidelines
10.	Other areas in the BANK branch audit
11.	Best practices for bank Branch audits
12.	Conclusion

# NEW AND EMERGING FOCUS AREAS IN BANK BRANCH AUDIT :

## Adoption of Agile Audit Approach and procedure with focus on:



# OBJECTIVES OF BANK BRANCH AUDIT

1. Compliance with IRACP Norms of RBI applicable to Advances
2. Attestation of the branch Financials and other regulatory certificates

# BANK BRANCH AUDIT AND CONSOLIDATION OF THE BRANCH ACCOUNTS

Conventional/  
Traditional approach

Branch Consolidation

HO Consolidation

Stand Alone Financials of the Bank as a whole

# BRANCH AUDIT AND CONSOLIDATION OF THE BRANCH ACCOUNTS : EMERGING TREND

1. Innovative and Agile approach in the place of outdated and outmoded approach for
  - Branch Audit
  - Consolidation of the Branch Accounts
  - HO Consolidation
  - Stand Alone financials of the Bank as a whole: Compliance with IRACP guidelines
2. Centralised audit of the bank as a whole replacing branch-based audit with physical visit to branches considering centralised systems and processes of the bank for audit procedures.

# CENTRALISED AUDIT

Application of the principles at the Branch Level :Broad strategy and procedure of Centralised audit relies on Centralised system and processes of the bank in respect of :

## 1. Advances

Both Fund Based and Non - Fund Based :

### Various stages/Phases in the Life Cycle of an Advance

•> Canvassing the customer and lead

i.> Collecting the primary data and documents from the Customer

i.> Appraisal of the financial data and loan application including renewal

> Sanction of the loan

i.> Compliance with Sanction conditions

i.> Disbursement of the loan

i.> Credit Monitoring,

i.> Audit and Inspection

i.> Compliance with IRACP norms

i.> Recovery

## 2. Deposits

## 3. Other areas:

> Expenses

1.> Other Income

# ROLE OF STATUTORY BRANCH AUDITOR

1. Greater compliance challenges on IRACP Norms
2. Deep Review of Life cycle of an Advance
3. Adoption of digital Banking providing new products and benefits from
  - i. increased opportunities to grow and
  - ii. reaching out to new customers through digital mode
4. The need for bank audit to be highly
  - i. Organized
  - ii. build repeatable processes and procedures,
  - iii. operate on a more continuous basis
  - iv. efficient auditing techniques using analytical skills to analyse trends and deep thinking
  - v. replacing outdated procedures with modern technology driven analytical audit procedures and methodology
5. Audit methodology and procedures to align with the centralised system and process of the Bank in respect of Key operations and functions

# COMPLIANCE WITH IRACP GUIDELINES AND REVIEW OF PROCEDURES RELATED TO ADVANCES

- a. Branch Auditor to understand and consider thoroughly Centralised system and processes of the Bank with regards to management of advances and other operations
- b. Category based review of advances as specified in RBI guidelines with emphasis on generation of meaningful reports and review of such exceptional reports
  - Cash Credit
  - Overdraft
  - Term Loan
  - Packing Credit
  - Bank Guarantees
  - Letter of Credit
  - Bills

# COMPLIANCE WITH IRACP GUIDELINES AND REVIEW OF PROCEDURES RELATED TO ADVANCES

- c. Review of the reports of system driven NPA Identification
- d. Review of the NPAs identified through manual intervention and analysis of the reports of manually identified NPAs based on reasons for classification of NPAs manually and understanding why not captured through the system
- e. Review of the report of the Advances with Early warning Signals as on 31.03.2023 and the error conditions as per the RBI circulars
- f. Review of the Advances with Red Flag Accounts as per RBI guidelines
- g. Compliance with the guidelines given in the ICAI Guidance Note with regard to IRACP

# REVIEW OF LARGE BORROWER ACCOUNTS

- a. Selection of Specific Advances on sample basis for centralised review of the Appraisal of Advances and identification of NPAs.
- b. Selection of Advances for review to be made based on the category of advances such as
  - Cash Credit
  - Overdraft
  - Term Loan
  - Agricultural Loans
  - Demand Loans

# REVIEW OF LARGE BORROWER ACCOUNTS

- c. Selection of Advances on sample Basis for review based on the nature of the business of the borrowers
- Manufacturing and Industries
  - Healthcare Sector – Hospitals
  - Hospitality – Resorts, Travel
  - NBFCs
  - Real Estates
  - Service Sectors
  - Infrastructure Sector
  - Entertainment
  - Retail
  - Home loan
  - Vehicle loan
  - Gold Loan

# REVIEW OF LARGE BORROWER ACCOUNTS

## d. Selection of Advances for review based on the exposure

Above Rs:100 crores

Above Between Rs. 20 and Rs: 100 crores

Between Rs.5 – Rs.20 crores

Between Rs.1 – Rs.5 crores

Less than Rs.1 crore

## e. Restructured Advances

f. SMA -1

g. SMA -2

## REVIEW OF THE PROCESS OF APPRAISAL AND ANALYSIS OF THE ADVANCES: SUGGESTED LIST OF DOCUMENTS FOR REVIEW:

1. Latest Audited Financials
2. Latest Loan Appraisal Note
3. Latest Loan Sanction Letter
4. Latest Stock and Receivable Audit report
5. Latest Valuation report of collateral securities and immovable properties offered as securities
6. Copies of the statements in respect of active bank accounts for the period from 1-09-2022 to 31-03-2023
7. Latest Concurrent audit report
8. Latest CRILIC Report
9. Latest Drawing Power computation and stock and receivable statement not earlier than 31.12.2022

# IDENTIFICATION OF NPAs

## ERROR CONDITIONS AS PER RBI GUIDELINES

### A. 27 distinct Error criteria for identification of NPA includes :

- (i) Interest and/ or instalment of principal remains overdue for a period of more than 90 days in respect of a term loan
- (ii) Outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days, in respect of a Cash Credit (CC)
- (iii) Where the outstanding balance in the 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, in respect of a Cash Credit (CC)
- (iv) Where the outstanding balance in the account is less than the sanctioned limit/drawing power, but credits are not enough to cover the interest debited during the same period, in respect of a Cash Credit (CC)

# IDENTIFICATION OF NPAs

## ERROR CONDITIONS AS PER RBI GUIDELINES

- B. Cause wise analysis of NPAs**
- C. Identification of NPAs, if any, in the Standard Advances on account of manual recognition of NPAs**
- D. System generated report of NPAs and mapping the business logic with the system logic in sample cases**
- E. Error Conditions for Advances slipping into NPAs as per IRACP guidelines of RBI and review of the system logic to map with the business logic (IRACP Norms) to verify correctness of system generated identification process and analysis of the report with the IRACP Norms**

# OTHER AREAS IN THE BANK BRANCH AUDIT



- IFCoFR for compliance with IRACP regulations of RBI

- Disclosures as per Schedule 18

# BEST PRACTICES FOR BANK BRANCH AUDITS

- a. Keep track of the shifting and evolving regulatory environment
- b. Operational resilience of the Banks with adoption of technology and digitalisation,
- c. New technology driven banking products and services
- d. Demonstrate compliance with new legislation and regulatory guidelines,
- e. Watch for emerging risks and new internal controls or updated existing ones.
- f. focus on risk areas in digital banking.
  - Centralizing audit activities with appropriate
    - audit planning tools
    - solutions for issue tracking and
    - Appropriate templates for reporting and analytics.

# Conclusion:

## Grand Opportunity for Branch Bank Auditors to become more agile:

- a. Avoid becoming Static and Rigid.
- b. Continuously Review every audit process, procedure and activity for substantial improvement and value addition
- c. Move to a more agile audit process where,
  - a. Risks are assessed and
  - b. Controls implemented on a continuous basis
- d. Agile is a journey, not a destination.
- e. An agile approach
  - a. demands a new and creative mindset
  - b. take time to gain mastery and expertise,
  - c. Rewards substantially the practitioner with confidence and competence.
- f. The agile way of thinking to be adopted across all layers of the banking audit process.
- g. Risk is not static; it changes all the time. Plans must evolve with the risks.”
- h. Graduate into an Agile Bank Branch Auditor from a conventional branch auditor.
- i. Prepare and follow the Agile branch audit checklist

Become a Champion in Bank Audit !

THANK YOU FOR YOUR GREAT  
PATIENCE

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