

# CONCURRENT AUDIT

Presentation By,

CA PARUCHURI LAKSHMANA RAO

B.COM, FCA, DISA(ICAI), CISA(ISACA), DIRM(ICAI), CRISC(ISACA)

# AREA OF AUDIT

1. Cash
2. ATM Machine and Cash Collection Machines
3. Deposits & Transactions processing
4. Suspicious Transactions & AML Issues
5. Operations and High Risk Transactions
6. Housekeeping
7. Clearing
8. Regulatory Requirement
9. Revenue Audit
10. Discussion on Audit Trails / Exception reports relating to high risk operational transactions



# SECTION - 1: CASH

# CASH

- Cash Handling
- Cash Transactions (Receipts & Payments)
- Cash Security Issues
- Reporting requirements
- Dealing with Currency Chest
- Dealing with Cash Replenishment Agencies
- Handling of Mutilated and Forged Notes

# CASH HANDLING

- Cash Handling is an important aspect under Cash Management in any Bank Branch.
- It includes
  - Cash Opening
  - Cash sorting & bundling
  - Cash Closing



# CASH HANDLING

## Cash Opening:

- Only adequate amount should be withdrawn for Cash counters
- Excessive withdrawal must be avoided. (Security Aspect)
- Proper Security Arrangements at the time of withdrawal / deposit of cash to Vault
- Timely updation of Cash Vault Book on each Transaction.
- Effective Joint Custody must be followed.
- Timely Accounting of Cash entries in CBS

# CASH HANDLING

## Cash Sorting & Bundling:

- Cash is required to be sorted in:
  1. Issuable currency
  2. Non Issuable Currency:
    - (a) Forged / Counterfeit Notes
    - (b) Mutilated Notes

# CASH HANDLING

## Clean Note Policy-

RBI issued a public interest directive U/s 35A of Banking Regulation Act to all banks instructing them

- Not to staple bank notes
- To tender soiled notes to the Reserve bank in unstapled condition
- To use bands instead of staple pins
- To issue only clean notes to members of public
- All branches should provide the above facilities to members of public without any discrimination on all working days
- To open **select** currency chest branches on Sunday to provide exchange facility to members of public all over the country



# CASH HANDLING

## Cash Closing:

- Counting of Cash before closing.
- Passing of entries in CBS (Transfer of Teller Balance to Vault Balance)
- Making entry in Cash Vault Book
- Cash verification by Cash Senior Officer.
- Storage of all the cash packets / bundles in Vault under dual custody.
- Under no circumstances cash can be stored outside the Vault.
- Sealing (if applicable) of Vault Doors.

# CASH TRANSACTIONS

- While dealing with cash, Bank receives and make payment of cash from customers and from other Branches.
- Bank also provides facility of Exchange of Notes, conversion of higher denomination of notes with lower denomination value notes / coins.
- Major types of Transactions are:
  - 1.Cash Receipt
  - 2.Cash Payment

# CASH TRANSACTIONS

## Cash Receipt:

- Cash acceptance along with Pay-in-Slip.
- Important Fields: Account Number, Name of Account Holder, Denomination.
- It is advisable to obtain signature of Depositor on Pay- in-Slip as well as for any changes / corrections in Denomination.
- Adherence to PAN Guidelines (Cash Deposit of Rs. 50,000 and above)
- Adherence to AML Guidelines (Cash Deposit of Rs. 10,00,000 and above)
- Obtaining information on source of deposit of funds.
- Identification of Counterfeit Notes and Mutilated Notes.



# CASH TRANSACTIONS

## Cash Receipt [Cont...]:

- Segregation of Non-issuable notes.
- Entry in CBS
- Affixation of Cash Receipt Stamp on Pay-in-Slip
- Good Practices:

Some banks have a policy to affix Cash Receipt Stamp thrice on a pay-in-slip, i.e. One on Customer's Counterfoil, one on Bank's counterfoil and one in the middle of Customer and Bank's counterfoil. It will facilitate the bank to identify the correct depositor in case of any dispute with respect to Cash Receipt Transaction by placing both the counterfoils side-by-side.

## **Cash Payment:**

- Cash Payment can be through cheque or withdrawal slips.
- In case of cash payment through cheque it should be ensured that
- Cheque is not Stale or Post Dated
- All the details in cheque are duly filled up
- The Cheque is not crossed Account payee.
- The amount in words and the amount in figures are tallying.
- The amount in words is called the legal amount and the amount in words is called courtesy amount as per CTS 2010 guidelines of RBI.
- Alteration on cheque (Valid if authenticated only for Date alteration)
- Instrument is not mutilated.
- Payment only after entry posted in CBS.
- Obtaining signature of payee at the reverse side of cheque.



# CASH TRANSACTIONS

## Cash Payment [Cont...]:

- Limits on payment of cash in case of Third Party Cheques in Non- Base Branch(Specific guidelines).
- Adherence to AML Guidelines (Payment in excess of Rs. 10 Lacs)
- If the payment is through withdrawal slip, proper authorization of competent authorized official is required.
- Identity of the customer should be established before allowing withdrawal through withdrawal slip.



# CASH TRANSACTIONS

## *Cash Payment [Cont...]:*

- Good Practices:
- Writing of denominations of notes tendered
- Verification and Preservation of Identity Proof of person withdrawing the amount (if not the customer)
- Contacting customer in case of large withdrawals
- Verification of instruments in UV Lamp

# CASH - SECURITY ISSUES

- Cash is a sensitive area and hence its security is always important for any bank.
- **BAIT MONEY or DECOY MONEY**
- Only adequate cash balance should be kept with cashier during the entire operation period. Excess cash should be deposited back in Vault.
- Security Guard should be present at all the times of the day.
- Under no circumstances Security Guard be entrusted with any other work like interacting with Customers.
- CCTV should be installed and should cover all the operational desks. There should be adequate backup facility.
- Arms with Security Guard must be Licensed one and should be in working condition

# CASH - REPORTING

- Certain exceptional incidents while handling cash requires separate reporting to Head Office / RBI such as :
  - Cash Excess / Shortage
  - Cash Balance exceeds Cash Retention Limits [CRL]
  - Report on Cash Transactions exceeding Rs. 10 Lacs
  - Burglary
- Each bank is having a policy to conduct surprise verification of cash by employee not working in Cash Department. A Return for the same is also required to be filed by the verifying official



# CASH - REPORTING

## Handling of Cash Shortages:

- Cash Shortages are required to be reported to H.O. on immediate basis.
- Any cash Shortage at the end of the day in excess of Rs.10,000 reported by Cashier or of Rs. 5,000 detected by Management / Auditor / Inspecting Official and not reported on the date of occurrence is required to be reported as Fraud. Fraud returns should be submitted in prescribed form.

## Handling of Cash Excess:

- Cash Excesses are required to be reported to HO on immediate basis.
- Excess cash should be parked in designated account only. Under no circumstances, excess cash to be withdrawn by Cashier.

# CASH - REPORTING

## *Return for Holding Cash in excess of CRL*

- Each Branch of a Bank is assigned a Cash Retention Limit. Branches need to maintain the cash within the prescribed Cash Retention Limit.
- At the time of ascertaining Insurance Coverage CRL forms an important role.
- In case of holding of cash in excess of CRL, branches are required to file a return with HO along-with reasons for holding cash balances in excess of CRL.
- Continuous incidents of holding of Cash in excess of CRL should be reported



# CASH - REPORTING

## Report on Cash Transactions exceeding Rs. 10Lacs:

- Under AML Guidelines, each bank is required to report information on Cash transactions exceeding Rs. 10 Lacs under CTR Form to RBI on monthly basis.
- Generally Head Office collects the information from Branch and report the same to RBI.
- Information gathered from Customer should be correctly included in the return.
- The return should include all the transactions and should be submitted on timely basis.
- Auditor should verify the contents of the return along with the CBS Transaction List.



# CASH - REPORTING

## **Burglary:**

- Event of Burglary should be immediately reported to HO as well as to local police station.
- Loss estimation / computation should be prepared.

## **Reporting of Cash & Bank Balances with RBI:**

- On daily basis the Link Branch is required to upload the information on Cash and Bank Balances with RBI.
- Link branch need to communicate with Currency Chest for Balance available.

# DEALINGS WITH CURRENCY CHESTS

## Currency chest transactions by a Branch:

- Minimum amount of deposit into / withdrawal from currency chests Rs.1,00,000 and there after in multiples of Rs.50,000.
- The currency chests should report all the transactions to the link office on the same day latest by 9 pm . The link office should report the consolidate position to the Issue office on next working day.

# **DEALINGS WITH CASH REPLENISHMENT AGENCIES**



# DEALINGS WITH CASH REPLENISHMENT AGENCIES

- Cash Replenishment Agencies (CRA) facilitates banks in maintaining ATM Infrastructure along with cash replenishment activity.
- Bank will enter into an agreement with CRA for Cash Replenishment and other ATM Related Activities.
- Mode and Method of Authorization and Identification of CRA Officials will be mentioned in Agreement.
- It is important for bank officials to verify availability of Authorization for the CRA employee visiting branch to collect cash for ATM replenishment

**Cont ...**

# DEALINGS WITH CASH REPLENISHMENT AGENCIES

- Compliance with Security aspects as per agreed terms need to be verified.
- Branch handing over the cash will account the amount paid to separate account opened for CRA in CBS. On receipt of confirmation / replenishment report from each ATM, the amount will be transferred to ATM Account in CBS.
- If There are provisions for surprise verification of Cash both at CRA's Vault and at ATM. Compliance with the said agreement clauses need to be verified.
- Balance Reconciliation for balance at vault and balance as per Bank's Book should be carried out.

**Cont ...**



# DEALINGS WITH CASH REPLENISHMENT AGENCIES

## Charges:

- Charges to be paid to CRA is based on No. of Replenishment s
- Moreover, there are separate charges for each Service Calls attended.
- Amount paid / payable should be verified with Agreement.
- Activity carried out should be crosschecked with the documents. (viz. Journal Roll from ATM for list of Activity carried out)



# HANDLING MUTILATED AND FORGED NOTES

## Soiled / Mutilated Notes:

- A 'soiled note' means a note which has become dirty due to normal wear and tear and also includes a two piece note pasted together wherein both the pieces presented belong to the same note and form the entire note with no essential feature missing.
- Any note with slogans and message of a political nature written across it ceases to be a legal tender and the claim on such a note will be rejected under Rule 6(3) (iii) of Reserve Bank of India (Note Refund) Rules, 2009.
- Bank has to adjudicate value of soiled notes as per Reserve Bank of India (Note Refund) Rules, 2009

# HANDLING MUTILATED AND FORGED NOTES

## Soiled / Mutilated Notes:

- Acceptance of Soiled Notes by Banks:
- Once accepted, the Note should be stamped with "Pay"/"Paid"/"Reject" Stamp along with the details of Bank and Branch.
- Banks also prescribe maintenance of register for handling of such cases.
- The full value paid notes have to be remitted by all branches to the chest branches with which they have been linked and therefrom to the Issue Offices concerned.
- Half Value / Reject Notes should be kept at Branch. As and when called for it should be remitted to RBI for final Adjudication.
- If Bank is not in a position to adjudicate the Notes across the counter, it should be sent to Currency Chest. However, tenderer should receive the value within reasonable time i.e. a Fortnight



# HANDLING MUTILATED AND FORGED NOTES

## Counterfeit / Forged Notes:

### On Detection:

- Banks have authority to impound counterfeit notes.
- On receipt of suspected counterfeit notes, it should be verified as per Security features. If found to be counterfeit should be stamped "COUNTERFEIT NOTE". Stamp size 5 CM x 5 CM.
- Under no circumstances the note should be handed over back to the customer / depositor or destroyed by Branch Officials.
- For such notes, there will not be any requirement to issue acknowledgement to the tenderer. Notice to this effect should be displayed prominently at the offices / branches for the information of the public.



# CONCURRENT AUDIT

## Counterfeit / Forged Notes:

- For cases of detection of counterfeit notes up to 4 pieces in single transaction, a consolidated report should be sent to the police authorities along with suspect counterfeit notes at the end of the month.
- For cases of detection of counterfeit notes of 5 or more pieces in a single transaction the counterfeit notes should be forwarded to the local police authorities for investigation for filing FIR.
- Banks are responsible for fake notes dispensed by their respective ATM machines. If a customer gets 4 or more fake notes from ATM in a single transaction FIR must be filed.

# CONCURRENT AUDIT

## Counterfeit / Forged Notes:

- Each bank should designate Nodal Bank officer, district wise and notify the same to the Concerned Regional Office of RBI and police authorities. Through this Nodal officer the cases to be filed with police authorities.
- A copy of the monthly consolidated report/FIR shall be sent to the Forged Note Vigilance Cell constituted at the Head office of the Bank.
- Data on counterfeit notes detected by all the branches of the bank shall be reported on monthly basis to RBI by 7th of next month. A nil report may be sent in case no counterfeit notes has been detected during the month.



# CONCURRENT AUDIT

## Counterfeit / Forged Notes:

- The counterfeit notes received back from the police authorities/courts may be carefully preserved in the safe custody. These notes should be subjected to verification on a half yearly basis on 31st March and on 30th September by the Officer in charge of the branch.
- They should be preserved for a period of 3 years from the date of receipt from police authorities. There after they may be sent to RBI with full details for reimbursement. RBI will reimburse up to 25% of the nominal value of the counterfeit notes of Rs.100 and above.



# **SECTION - 2: ATM AND CASH COLLECTION MACHINES**

# ATM & CASH COLLECTION MACHINES

- Understanding ATM Mechanism
- Auditing of Cash in ATM & Cash collection Machines
- Reconciliation of Cash with Switch Balance
- Ancillary aspect of ATM Audit
- Cash Collection Machines







# ATM AUDIT

## Cash holding Cassettes

- Cash is replenished in designated cassettes.
- The ATM is pre-programmed for Cash Denomination in each cassette.
- In case of discrepancy like wrong denomination replenishment / wrong cassette, ATM will dispense wrong amount to the customers.

## Purge Bin

- Any excess cash retracted by ATM Machines / cash for Dispenser Test from Cassettes will be stored under Purge Bin.

## Journal Printer

- It prints all the Transactions carried out by the ATM Machine whether for customer or for Maintenance. It is a log of activity carried out in ATM.



# ATM - CASH VERIFICATION PROCESS

## Steps:

- On opening of ATM machine, it will be set on supervisory /non transaction or maintenance mode depending on type (make) of machine.
- Obtain Cash denomination counter slip printed from the ATM machine.
- Verify cassette wise balances as per Counter with Physical Cash. Cassettes should be removed and verified one by one only.
- Notes in Purge / Divert bin are also to be counted. Once the counting is completed it will be reloaded in cassettes.
- Compute the total amount available by multiplying the Denomination with Number of Notes available.



# ATM - RECONCILIATION OF CASH

## Steps:

- Maintain the counter slips as working paper
- Reconcile the physical balance of cash with counter slip generated by ATM.
- Ascertain the amount of physical cash by multiplying the denominations.
- Total amount should agree with ATM Account Balance as per GL Account in CBS.
- In case of verification of ATM at the time of EOD, the Balance will also agree with Switch Balance. Ex: of Switches, National Financial Switch NFS, Cash Tree, BANCS, Cash net Mitr etc.

# ATM - ANCILLARY ASPECTS

- Availability and Display of RBI License for ATM
- Based on the past experience and peak / off-peak days, each ATM is assigned Cash Retention Limit. Replenishment should be within the prescribed limit only.
- It is preferable to carry out ATM Audit on Surprise basis.
- Under no circumstances, cash can be stored outside Cassette.
- Dual Custody of ATM Keys / Password must be maintained.
- Operation of ATM should be strictly by minimum two officials.



# ATM - ANCILLARY ASPECTS

- Journal Rolls printed by ATM Machines should be verified and preserved.
- Insurance policy should be verified. Compliance with the Terms & Conditions of Insurance Policy should be verified.
- Swallowed / Retained Cards should be verified and cross checked with Journal Roll.
- Denomination counters "Pre" and "Post" replenishment should be verified with cash remittance amount.
- Cash Envelopes deposited in ATM should be reconciled with Journal Roll.
- ATM Machine Area should be properly maintained.



# CASH COLLECTION / DEPOSIT MACHINE

- Cash Deposit Machine is self-service terminal that enables customers to deposit cash without any manual intervention of the branch officer.
- Customer can enter the Account Number or can use the Debit Card for Account Number authorization.
- On completion of Authorization Cash will be deposited by the Customer.
- The system displays the denomination wise details and on acceptance system will provide a deposit receipt to the customer.

# CASH COLLECTION / DEPOSIT MACHINE

- Audit process for Audit of Cash Collection Machine is more or less same as that of ATM Machine.
- Denomination wise counter slip should be generated from Machine and Cash Balance should be verified physically.
- Each / Set of Cash Collection Machines will be connected with CBS and a separate account (like Cash Teller) will be opened in CBS.
- Physical Balance, Denomination counter Balance and Balance as per CBS should be tallied

# **SECTION - 3: DEPOSITS AND TRANSACTIONS PROCESSING**



# CONCURRENT AUDIT

## DEPOSITS

- The minimum maturity period of deposit can be 7 days . Normally the maximum period would be restricted to 10 years and in some banks 20 years. In case of minor deposits or deposits as per court direction can be for longer period.
- In case of deposit in joint names all original names cannot be deleted and at least one of them should continue to be the deposit holder. All account holders should make a written request.
- Over due interest – In case the customer approaches bank with in 14 days of maturity of deposit, banks can allow overdue interest if deposit renewed from date of maturity (fully or partly) till some future date, at the rate operative on the date of maturity of such over due deposit.

# CONCURRENT AUDIT

## DEPOSITS

- In case the customer approaches bank after 14 days of maturity, the deposit can be renewed from that date and overdue interest be paid separately at rate decided by the bank concerned.
- Banks can pay differential rate of interest depending on the quantum of the deposit .
- Banks can pay higher interest for deposits above Rs. 1 crore. Banks can pay higher interest to deposits made by senior citizens(60 years or above).  
(TTD calls quotations for making deposits from banks.)
- Payment of interest on term deposit maturing on Sunday/holiday/non business working day interest on the contracted rate will be paid from the date of maturity and the date of payment of the deposit.



# CONCURRENT AUDIT

## DEPOSITS

- In case of premature withdrawal of deposits banks can pay the same rate of interest or 1% less than the interest rate payable for the period deposit remained with the bank.
- w.e.f. from 1.4.2013 banks can refuse premature withdrawal of all term deposit accounts including accounts of individuals in respect of bulk deposit of Rs.1 Crore and above.
- In case of death of depositor, no penalty is to be recovered
- Renewal of Deposit frozen by banks on Instruction of the Government Officials the banks can renew the deposits on the request letter from the depositor. In case the depositor does not exercise his option choosing the renewal the banks may renew the same for a term equal to the original term and the same should be informed to the Government officials.



# CONCURRENT AUDIT

## DEPOSITS

- Gosh committee recommended to obtain photograph for opening of deposit accounts including fixed, recurring, cumulative deposits etc., and from all persons authorized to operate SB and current accounts.
- This provision applies to all categories of depositors whether resident or non-resident.
- Only one set of photos to be obtained from the depositor for different deposits in his name.
- Banks can pay additional interest not exceeding 1% p.a over and above the stipulated rate of interest to Bank's staff and their associations.

# CONCURRENT AUDIT

- Interest on Saving Bank Account on Daily product basis w.e.f April 01, 2010. Savings bank deposit interest rate have been deregulated, effective from October 25, 2011. Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts have been deregulated effective from December 16, 2011.

## Joint Accounts

- Accounts can be opened by all of them joining together. Accounts can be closed when all of them sign the authority to close the account
- Accounts can be operated jointly by all of them or survivor, by either or survivor, by former or survivor, latter or survivor and by one or more of them.



# CONCURRENT AUDIT

## EITHER OR SURVIVOR:

- The signatures of both the depositors need not be obtained for payment of the amount of the fixed deposits on maturity.
- The signatures of both the depositors to be obtained if the deposit is to be paid before maturity.
- If one of the depositors expire before the maturity, payment can be made to the survivor on maturity and in case of premature payment the concurrence of the legal heirs of the deceased joint holder is necessary.



## Former or Survivor:

- The former alone can operate/withdraw the matured amount when both the depositors are alive.
- The signature of both the depositors to be obtained for payment before maturity.
- If former expires the survivor can receive the payment on maturity
- Premature with drawl would require consent of both the parties if both are alive and that of surviving depositor and the legal heirs of the deceased depositor, in case of death of one of the depositor
- Nomination in joint accounts can be made, changed or cancelled by them jointly
- Circular dated 16<sup>th</sup> August 2012 reiterates that if there is a joint mandate on the deposit application from the joint depositors, banks can allow premature with drawl of the deposit by the surviving joint depositor on the death of the other depositor

# CONCURRENT AUDIT

## Unclaimed deposits/ inoperative and Dormant Accounts

- In operative accounts (not been operated for a period of 2 years) segregated from regular accounts and maintained in separate ledger/s.
- Banks should make an annual review of accounts in which there are no operations for more than one year. The banks may approach the customer to ascertain reasons.
- If fixed deposit receipt matures and proceeds are unpaid the amount left unclaimed with the bank will attract savings bank rate of interest.
- In-operative (10 years and over) – unclaimed deposits should be transferred to in-operative account on 1st day of December each year and reported to RBI on 31st of December .
- The banks are to display the list of unclaimed deposits/inoperative accounts for 10 years or more on their websites.



# CONCURRENT AUDIT

## *WIRE TRANSFER*

- A transaction carried out on behalf of an originator person through a bank by electronic means.
- The originator and the beneficiary may be the same person.
- Cross border wire transfers – where the originator and the beneficiary bank or institution located at different countries. It must contain the name and address of the originator and his account number or a unique reference number of the originator.
- Domestic transfers-All domestic transfers of Rs. 50,000 and above must include all the details of the originator.
- If a bank has reason to believe that a customer is intentionally structuring wire transfers below Rs.50,000 to avoid report or monitoring the bank must insist on complete identification details of the customer. If he does not co-operate, efforts should be made to establish his identity and Suspicious Transaction Report (STR) to be made to FIU-IND.
- The ordering and Intermediary Bank to submit full details to the beneficiary bank about the originator and they have to keep the records for at least ten years.



# CONCURRENT AUDIT

## *REAL TIME GROSS SETTLEMENT (RTGS)*

- In India RTGS was implemented with effect from March 26,2004
- Gross settlement means the transaction is settled on one to one basis without bunching.
- The beneficiary branches are expected to credit the beneficiary's account within thirty minutes of receiving the funds transfer message
- RBI sends acknowledgment to the remitting bank stating that money has been credited to the account of receiving bank. Based on this the remitting bank advise the customer that money has been delivered to the receiving bank.
- If the funds cannot be credited for any reason to beneficiary account the same to be returned within one hour of receipt or before the end of RTGS business day which ever is earlier to the remitting bank.
- Customer timings 9 hours to 16.30 hours on normal days and up to 14.00 hours on Saturday
- Size of transaction Rs. 2 lac or above.

19/07/2014

# CONCURRENT AUDIT

## *NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)*

- In India NEFT was implemented from November, 2005.
- NEFT works on batch based system and works on net settlement
- NEFT operating hours are from 8 a.m. to 7 p.m. on week days and from 8 a.m. to 1 p.m. on Saturday.
- There would be 12 hourly settlements on week days and 6 hourly settlement on Saturday.
- The beneficiary can expect to get credit for the first ten batches on week days (i.e., transactions from 8 am to 5 pm) and the first five batches on Saturdays (i.e., transactions from 8 am to 12 noon) on the same day. For transactions settled in the last two batches on week days (i.e., transactions settled in the 6pm and 7 pm batches) and the last batch on Saturdays (i.e., transactions handled in the 1 pm batch) beneficiaries can expect to get credit either on the same day or on the next working day morning (depending on the type of facility enjoyed by the beneficiary with his bank).



# CONCURRENT AUDIT

## *NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)*

- If it is not possible to afford credit to the account of the beneficiary for whatever reason, destination banks are required to return the transaction (to the originating branch) within two hours of completion of the batch in which the transaction was processed.
- NEFT can be used to transfer funds from or to NRE and NRO accounts in the country subject to the adherence of the provisions of the Foreign Exchange Management Act, 2000 (FEMA) and Wire Transfer Guidelines.

# CONCURRENT AUDIT

## NOMINATION

- The Nominee is treated as a trustee for legal heirs and he is not the owner
- The payment is to be made to nominee and no one else, except as per court order.
- The bank on payment to nominee is fully discharged from its liability.
- Nomination can be changed any number of times
- If the title of account is changed due to addition/deletion etc. the nomination is cancelled automatically
- On death of the account holder, if nominee does not turn up for 6 months, the bank has to contact the nominee. This information is to be given within 3 months in locker and safe deposit accounts.
- As per RBI master circular dated Nov 03, 2008 on customer service, banks have been advised to introduce the practice of recording on the face of the pass books/FDR's the position regarding availment of nomination facility with the legend "Nomination Registered". They should also indicate the name of the nominee in the pass books/statement of accounts/FDR's in case the customer is agreeable to the same.

19/07/2014



# CONCURRENT AUDIT

## NOMINATION

- Nomination is available for accounts only in **individual capacity** including for non-resident deposits such as FCNR, NRE, NRO.
- The deposit accounts can be single name accounts, joint accounts or proprietorship accounts
- In joint accounts nominations is to be made by all depositors jointly
- In minor's account nomination can be made by Guardian
- For pension accounts separate nomination to be made
- Nomination can be made any time during which the deposit is maintained with the bank
- Nominations continues on Renewal of term deposit
- Nominee can be an **INDIVIDUAL** only
- In case of nomination is given in favor of a minor the person who is to act on behalf of the minor also to be mentioned.

# CONCURRENT AUDIT

## Lockers

- The relationship between the bank and the hirer of the locker is that of a lessor and lessee. The banker has no responsibility or liability in respect of the contents of the locker.
- According to the fresh guidelines issued by RBI on lockers on April 17, 2007  
Linking of allotment of lockers to placement of fixed deposits is a restrictive practice and banks are to refrain from such restrictive practices.
- Banks may obtain a Fixed deposit to cover 3 years rent and the charges for breaking open the locker from new customers and should not insist on such fixed deposit from the existing Locker hirers.
- Branches to maintain a wait list for allotment of lockers.
- Banks should carry out customer due diligence for at least to the level prescribed for customers classified as medium risk.



# CONCURRENT AUDIT

## Lockers

- Where the lockers have remained un-operated for more than three years for medium risk category or one year for a higher risk category, banks should immediately contact the locker hirer and advise him to operate the locker or surrender it, even if the locker hirer is paying the rent regularly.
- Loss of key : to break open the locker the presence of locker hirer, two witnesses and branch official is must.
- A locker on hire can be given to minor and an illiterate person
- In case the locker remained open after the operations conducted by the customer the Bank should prepare list of articles in the presence of 2 independent witness and customer be informed.
- Commissioner of income tax can authorise entry and search into any locker.

# **AUDIT ISSUES**

## **DEPOSITS**

- Opening of Deposits (Parameters viz. DOB for Sr. Citizen, PAN, Auto Renewal, Periodicity of Interest payment)
- Rate of Interest
- High Value Deposits
- Value Dating of Deposits
- Pre-mature withdrawal of Regular Deposits and High Value (Special Rate) Deposits
- Overdue Deposits (Payment of Interest)
- Marking of Lien
- Freeze of Deposits – parameters were set accordingly.



## **DEPOSITS - REVENUE LEAKAGE**

- Collection of Charges for Services provided
- Erroneous updation of FD Rates (Leading to Revenue Leakage)
- Premature Closure of Special Rate FDs
- Incorrect Value Dating
- Non recovery of Penal Interest
- Non recovery of Cheque Return Charges

# CONCURRENT AUDIT

## AUDIT OF LOCKERS

- Verification of lockers documents and locker operations.
- Physical verification of locker keys
- Audit of locker documents
- Stamp duty affixed on locker documents
- Process of re-allotment of surrendered lockers
- Process of surrender of lockers
- Process of break open of lockers
- Recovery of overdue locker rent
- Process of permission of locker operations
- Linking of FDR as security for locker/ wait list/ operation of locker/ due diligence/ un-operated lockers/ nomination/ other issues



# **TRANSACTION PROCESSING**

## ➤ **Transactions in Dormant / Inactive Accounts**

1. Lifting of Dormancy Flag availability of authorization
2. Close scrutiny of transactions after lifting of Dormancy Flag

## ➤ **Transaction Processing Authorization**

1. Transaction Processing Authorization as per authorization matrix

## ➤ **Value Dating of Transaction**

1. Correctness in Date
2. Value Date at both the legs of Transactions involving effects to Operative Account

## ➤ **Issue of DD / PO, Processing of RTGS / NEFT**

1. Availability of Request from Customer
2. Updation of correct details in CBS as requested by the customer
3. Collection of Charges

# **TRANSACTION PROCESSING**

## ➤ Processing of Customer Master / Account Master details

1.Addition / Deletion of name | Change of Name & Signature

2.Addition / Change / Cancellation of nomination

## ➤ Modification in Mode of Operations

## ➤ Change of Address and Contact Details Updation

## ➤ Senior Citizen status code modification

## ➤ Linking of FD to saving A/c of the customer

## ➤ Change in status from Minor to Major | Form 15 G / H

## ➤ Nomination Updation

## ➤ Setting up Standing Instruction, ECS /Auto Debit Mandate

## Auditor's Primary Checks

1.Availability of Customer Requests

2.Availability of Requisite Documents

3.Verification and Confirmation of

Customer's Signature on Request



# **TRANSACTION PROCESSING**

## ➤ **Account Related Customers' Requests**

1. Processing of Stop Payment Request
2. Duplicate Statement Printing
3. Issuance of Account Balance Certificate
4. Signature verification Certificate
5. Debit Card Issue / Re- issue Request
6. Linking of Cards request
7. Hot-Listing & De Hot-Listing of ATM / Debit Cards
8. Cheque Book Issue Request
9. Account Closure / Transfer Requests

## ➤ **Auditor's Primary Checks**

1. Availability of Customer Requests
2. Availability of Requisite Documents
3. Verification and Confirmation of Customer's Signature on Request
4. Collection of Charges

# **SECTION - 4: SUSPICIOUS TRANSACTIONS & AML ISSUES**



# SUSPICIOUS TRANSACTIONS & AML ISSUES

## ➤ What is Money Laundering?

- Money Laundering is the process by which illegal funds and assets are converted into legitimate funds and assets.
- Money generated from illegitimate source is converted into that derived from legitimate source . Dirty money appearing clean.

## ➤ Stages of Money Laundering

- Placement: Illegal funds or assets are first brought into the financial system.
- Layering: Use of multiple accounts, banks, intermediaries, corporations, trusts, countries to disguise the origin.
- Integration: Laundered funds are made available as apparently legitimate funds.

# SUSPICIOUS TRANSACTIONS & AML ISSUES

## RISKS

- Reputation risk
- Operation risk
- Need to provide for Operations Risk under BASEL Norms. Better Compliance can reduce the amount to be provided under Operation Risk.
- Legal / Compliance risk
- Legal / Compliance issues if AML Guidelines are not adhered to. E.g. Impact of Cobra post Expose - Penalty by RBI



# SUSPICIOUS TRANSACTIONS & AML ISSUES

## REASON FOR SUSPICION

- False Identification documents
- Accounts opened with the names very close to other established business entities or reputed persons.
- Multiple Accounts for same customer either as 1st Holder, Joint Holder, authorised signatory or as introducer
- Unexplained transfers between multiple accounts with no rationale.
- Heavy Volume / Turnover of Transactions and maintenance of low closing balance

## **MAINTENANCE OF RECORDS FOR TRANSACTIONS PRESCRIBED U/R 3 OF PML RULES, 2005**

- Cash transactions of above Rs.10 lacs or its equivalent in Foreign Currency
- Series of cash transactions connected to each other, of below Rs.10 lacs or its equivalent in foreign currency with in a month and the aggregate value of such transactions exceeds Rs. 10 lacs.
- All transactions of receipts including Foreign Currency by Non- profit organizations of value above Rs.10 Lacs
- All cash transactions where counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transaction
- All suspicious transactions in cash or otherwise.
- Banks should preserve the records for at least 5 years and documents to be preserved for 10 years



# SUSPICIOUS TRANSACTIONS & AML ISSUES

## **INFORMATION TO BE PRESERVED AS PER AML GUIDELINES**

Banks are required to maintain all necessary information in respect of transactions referred to in Rule 3 to permit reconstruction of individual transaction, including the following information:

- The nature of the transactions;
- The amount of the transaction and the currency in which it was denominated;
- The date on which the transaction was conducted; and
- The parties to the transaction

# SUSPICIOUS TRANSACTIONS & AML ISSUES

## REPORTING

- Cash Transactions [CTR] Cash Transactions Report (CTR) Large cash transactions of above Rs.10 lakhs within 15 days of close of each month.
- Counterfeit Currency Report (CCR) within 7 days of detection

## SUSPICIOUS TRANSACTION [STR] within 7 days of confirmation of suspicion

- It includes all the transactions i.e. other than cash also.
- Triggers:
- Transactions for Funding of Terrorist Activity (Funding to persons closely related to Terrorist Activities)
- Unusual / unjustified / do not commensurate with the nature of business / activity carried on.
- Transactions of unusual pattern with no apparent economic or visible lawful purpose.



# SUSPICIOUS TRANSACTIONS & AML ISSUES

## AML GENERAL GUIDELINES:

### ➤ Misusing Customer's Confidential Data:

Banks should not divulge Customer information collected at the time of Account Opening.

It should not be used for cross selling or any other like purposes.

### ➤ Remittance by Debit to Customers' A/c:

Remittance by way of DD / PO / TT / TC exceeding Rs.50,000 should be by debit to customers Account only.

### ' Non Payment of Stale Cheque:

With effect from April 1, 2012, banks should not make payment of cheque / drafts / pay orders / banker's cheque bearing that date or any subsequent date, if they are presented beyond the period of three months from the date of such instrument.

### ➤ Compliance with FCRA Provisions

# **SECTION - 5: OPERATIONAL & HIGH RISK TRANSACTIONS**



# OPERATIONS AND HIGH RISK TRANSACTIONS

- Bank Branch processes various types of Transactions in a day. However, certain transactions are being greater degree of Risk require in-depth verification / close scrutiny.
- Following is the list of few transactions where in Concurrent Auditor must carry out close scrutiny.
- **TRANSACTIONS FRAUGHT WITH OPERATIONS RISK**
  - Processing of Debit Transactions for Account where Scanned Signature is not available in CBS
  - Lifting of Dormancy Flag without proper authorization
  - Incorrect Value Dating

# OPERATIONS AND HIGH RISK TRANSACTIONS

## TRANSACTIONS FRAUGHT WITH CREDIT RISK

- Granting of Intra Day TOD without proper Approval
- Purchase of Cheque without ascertaining credit-worthiness of client.

## TRANSACTIONS FRAUGHT WITH REGULATORY RISK

- Issuance of DD / PO in cash for more than Rs. 50,000 (The limit also includes charges collected)
- Repayment of FD in Cash for more than Rs. 20,000.
- Non obtaining PAN for Cash Deposit of Rs. 50,000 and above
- Non obtaining reasons for withdrawal / source of deposit for cash transaction above Rs. 10 Lacs.
- Credit to NRE Accounts - Adherence to FEMA Guidelines
- Credit to FCRA Accounts - Adherence to FCRA Provisions



# **SECTION – 6: HOUSEKEEPING, GENERAL BANKING OPERATIONS AND PARA BANKING ACTIVITIES**

# HOUSEKEEPING

## **MAINTENANCE OF IMPORTANT DOCUMENTS**

- Register Maintenance
- Voucher Maintenance
- Storage, Retrieval and Filing System



# HOUSEKEEPING - MAINTENANCE OF IMPORTANT DOCUMENTS

- Branch License
- Registration Certificates
- Lease Deeds
- Service Contracts
- Employee's Specimen Signature
- Important Instructions
- Legal Notices
- Indemnities

# HOUSEKEEPING - REGISTER MAINTENANCE

- Register to be maintained as per Banks' policy (to name few)
- Cash Book
- Vault Register
- Key Register
- Locker Access Register
- Cheque Return Register
- Cheque Book / Debit Card Issue Register
- Inward / Outward Mail Register



# HOUSEKEEPING

## **VOUCHER MAINTENANCE**

- Preparation of Vouchers
- Passing & Authorization

## **STORAGE, RETRIEVAL AND FILING SYSTEM**

- Safety of Documents
- Storage Arrangements

# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## **DELIVERABLES**

- Cheque Book, Debit Card, Pins
- Handling of Deliverables
- Destruction Policy
- Reconciliation and Physical Verification of Deliverables



# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## AUDITOR'S PRIMARY CHECKS

- Physical Verification of Deliverables
- Verification of existence of Separate Custody of Cards & Pins
- Verification of Periodic Reconciliation carried out by Branch officials
- Identity verification before handing over deliverables.
- Maintenance of Registers & prescribed documents

# OPERATIONS & PARA BANKING ACTIVITIES

## INVENTORIES

- Double Lock Inventories, Inventory at Employee Location  
Cancelled Inventory & Reprinted Inventory

## AUDITOR'S PRIMARY CHECKS

- Surprise Physical Verification by Auditor
- Verification of maintenance of Inventory
- Verification of Periodic Reconciliations by Bank Officials



# OPERATIONS & PARA BANKING ACTIVITIES

## KEYS

- Handling of Keys and Maintenance of Key Register

## AUDITOR'S PRIMARY CHECKS

- Record keeping, custody of Keys & movement of Keys
- Authorization and Confirmation on Movement of Keys Physical verification of Keys with custodians

## ACCOUNT KITS & CARD KITS

- Safe Keeping
- Issuance Process
- Reconciliation

# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## OFFICE ACCOUNT ENTRIES TO SUSPENSE ACCOUNT

- Monitoring
- Reversal

## AUDITOR'S PRIMARY CHECKS

- Age-wise analysis of entries
- Adherence to Time period for Reversal of entries
- Parking of Entries: Verification of wrong parking of entries like Cash Shortage, Temporary Overdraft through Inter-branch Accounts.



# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## **FIXED ASSETS**

- Reconciliation
- Physical Verification

## **FEES COLLECTION**

- Correctness of Report Code & Account for Recording Transaction

# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## ***LOCKERS***

- Locker opening
- Locker Access & Register Maintenance
- Name Addition
- Dormant Lockers
- Locker Break-open

## ***DEMAT OPERATIONS***

- DEMAT Desk manned by NCFM Certified Holder
- DEMAT Transaction processing
- Defacing of Share Certificates



# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## **SALE OF GOLD COINS**

- Safe Keeping
- Sales Process and Record Maintenance
- Reconciliation

## **FRANKING ACTIVITY**

- Adherence of Guidelines of Sale of Stamp Paper through Franking Machine
- Generation and Maintenance of Report for Franking cases
- Signing the Franking Impression by authorized official
- Obtaining and persevering details for Franking

## **TAX COLLECTION ACTIVITY**

- Tax Collection Activity and compliance with RBI guidelines
- Adherence to Timelines for Remittance of Tax Collected

# OTHER AREAS - GENERAL BANKING OPERATIONS & PARA BANKING ACTIVITIES

## INLAND TRADE TRANSACTIONS

- Inland LC Issuance Transactions
- Inland LC Advising Transactions
- Inland Bills - Inward and Outward Bills Transactions
- Inland Bills under Collection, Under LC Transactions
- Inland Bill Discounting
- Inland Bank Guarantee [BG] Issuance Transactions

## HANDLING OF DECEASED CLAIM CASES

- Savings, Fixed Deposit Accounts
- Lockers



# SECTION - 7: CLEARING

## **INWARD CLEARING:**

- Cheque Collection from Clearing House
- Batch Balancing and Opening of Zones in CBS
- Uploading of Cheque details in CBS
- Generation of Validation Reports
- To find out cheques could not be debited to the accounts due to various exceptions
- Technical Scrutiny & Forged Instrument Checking

- (a) Validity of date
- (b) Existence of Payee name
- (c) Tally of amount in words and figures .
- (d) Existence of drawer's signature
- (e) confirmation of other bank, if the Cheques are mutilated
- (f) Amount of the cheque and the encoded amount
- (g) Cheque payable location
- (h) Authorization for material alternations



# CLEARING

## OUTWARD CLEARING: PROCESS:

- Receipt of cheques from Depositors
- Entry (Lodgment) of cheques in system
- Scrutiny of cheques
  - Crossing of Instrument
  - Torn or Mutilated?
  - Deposit in Closed Account?
  - Credit of Local Funds in NRE / FCRA Account
- Encoding of Cheques and Preparation of Batches
- Presentation of Cheques in Clearing House
- Reports received from Clearing House
- Marking Return and Release of Zone

# CONCURRENT AUDIT

## *Audit of clearing account/transactions:*

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



# CONCURRENT AUDIT

## *Audit of clearing account/transactions:*

- Verify cheque returned/bills returned and look into reason of return of those instruments.
- Control over tax collections and remittances.
- Audit of Government Business like PF/Pension etc.
- Review of system Audit (Computer audit) reports and checking of sharing of passwords.
- Audit of transactions relating to anywhere banking facility provided to account holder in CBS.
- Checking of Demat operations.
- Checking of credit cards operations.

# GENERAL BANKING- OPERATIONS AND HOUSEKEEPING

## MATTERS THAT ARE TO BE CONSIDERED IN CASE OF COMPUTER AUDIT:

- Verification of Exception/Error reports
- Active users and privileges assigned to them.
- Maker-Checker concept .
- Cases of Multiple customer Ids generated for a single customer.
- Passwords and other access controls.
- Data Back up procedures
- Disaster Recovery and Business continuity plan



# **SECTION - 8: REGULATORY REQUIREMENT**

# STATUTORY COMPLIANCES

- AML & General Banking
- Taxation
- Forex



# STATUTORY COMPLIANCES-AML & GENERAL BANKING

- Fraud Reporting
- CTR (Cash Transaction Report) - Monthly Basis with in 15 days
- STR (Suspicious Transaction Report) - within 7 days of arriving conclusion that transaction falls within the purview of suspicious transactions
- Reporting of Daily Cash Position to RBI (Applicable to Link Branch Only)
- RBI Audit Report Compliance
- Display of Notices

# CONCURRENT AUDIT

## GENERAL BANKING-INCOME TAX/SERVICE TAX/OTHER TAX RELATED ISSUES

### TAX DEDUCTION AT SOURCE

- Interest paid/credited or likely to be paid/credited to the customer or interest payable account or suspense account on all fixed deposit /time deposit accounts excluding Recurring deposit in a branch exceeds Rs. 10,000 TDS to be made.
- NRE,FCNR,NRNR accounts are exempt from TDS.
- NRO accounts TDS to be made at 30%+3% education cess. Interest earned in current financial year is fully repatriable (after deducting tax). Funds in NRO account can be repatriated up to USD one million per financial year for all bonafide purposes. DTAA benefit can be claimed by NRO by providing self declaration in the prescribed format, self attested PAN card copy, Form 10F and tax residency certificate for the current year.



# CONCURRENT AUDIT

## GENERAL BANKING-INCOME TAX/SERVICE TAX/OTHER TAX RELATED ISSUES

### TAX DEDUCTION AT SOURCE

- JOINT Accounts – in the absence of any information to the contrary, aggregate the interest of a joint account with the interest on deposit in the individual account who has higher interest income.
- Minor accounts the TDS is to be made in the name of parents/guardians.
- TDS at Lower Rates - If a depositor submits certificate from the Income tax Officer for deducting tax at a lower rate or for not deducting tax, then the bank will act accordingly.

# CONCURRENT AUDIT

## TAX DEDUCTION AT SOURCE

Where deduction is not to be made—

- Where the interest does not exceed Rs.10,000/
- Where interest is credited or paid to any banking company, a company or cooperative society engaged in banking business, public financial institutions, LIC, UTI.
- In case of individual who is resident in India can furnish 15G and form 15H for senior Citizens. Declaration will remain valid for one financial year. Copy of form 15G/15H to be delivered to the Income tax office on or before the 7th day of the succeeding month.
- Payment to Contractors 194C- where the amount paid to the contractor exceeds Rs. 30,000 in a single payment or Rs.75,000 in the aggregate during the financial year.



# CONCURRENT AUDIT

## TAX DEDUCTION AT SOURCE

- Rent Section 194I– If the rent paid/ credited during the financial year exceeds Rs.1,80,000 TDS at the rate of 10% is to be made. No deduction of tax for payment of rent made to Government.
- Payment for Professional or Technical Services (Section 194J)– Where the bank is paying to a resident sum exceeding Rs.30,000 in a Financial year by way of professional services or fee for technical services TDS at the rate of 10% is to be made.(Gold Appraisers, Auditors, Lawyers etc.)
- Where the customer is having no PAN or given Invalid PAN Tax deducted at source to be made at 20%.

# CONCURRENT AUDIT

## SERVICE TAX

- Service tax is payable on a number of banking services such as processing charges, commission of different service charges. The tax is payable on all services except the services in negative list.
- Service tax is to be paid at 12.36%.
- Service tax to be paid on monthly basis. It is to be deposited 5th (6th in case of electronic payments– where the tax payable is more than 1,00,000 ) by the end of next month.
- Half yearly Return on Form ST3 is to be filed online by 25th of next month after the close of Half year.



# CONCURRENT AUDIT

## Penalties– Income tax & Service Tax

- Payment of FDR of RS.20,000 or more in cash Penalty equal to sum of payment (271E of IT Act)
- Failure to furnish Annual Information Return: penalty of Rs.100 for each day during the failure continues (271FA of IT Act)
- Non deductions of TDS on interest on deposits the bank shall be assessee in default in respect of that amount, pay from date TDS was deductible to actual date of deduction @1%. For delayed deposit of TDS up to date of actual date of deposit @1.5% p.m.
- Imprisonment for failure to deduct tax U/s 276(B): 3 months to 7 years. Penalty equal to amount of tax not deducted.

# CONCURRENT AUDIT

## Penalties– Income tax & Service Tax

- Delay in filing TDS return (section 234E)- Late fee w. e. f. 1.7.2012 Rs. 200 per day max=TDS amount
- Non compliance of provision of PAN Rs.10,000
- Delay in deposit of service tax - Interest 18%pa+penalty @200 per day or 2% per month of tax liability, whichever higher. Maximum it could be up to amount of service tax.
- Delay in filing service tax return – late fee up to Rs.20000 (delay up to 15days- Rs.500. Delay >15d to 30d – Rs.1000- >30d- Rs.1000 plus Rs.100 per day.)



# CONCURRENT AUDIT

## CASH CEILINGS FOR IMPORTANT TRANSACTIONS

- Payment of FDR including interest for in cash less than Rs.20,000
- Issue of Demand drafts and TTs/MTs - less than Rs.50,000
- Issue of foreign currency in cash – up to Rs. 50,000
- Maintenance of records of large cash transactions– Rs.10 lac and above
- Payment of interest in cash – less than Rs.10,000.
- PAN/GIR quoting for term deposit –above Rs.50,000
- PAN quoting for deposit of cash with a banking company- Rs.50,000 or above.

# **SECTION - 9: REVENUE AUDIT**



# REVENUE AUDIT

- Revenue audit is the audit of items / transactions affecting income & expenditure of banks.
- Intent of such audit is to arrest the revenue leakage areas and plugging the loopholes in system.
- To carry out Revenue Audit effectively, the auditor must acquaint himself with Internal Circulars and Changes effected.
- System parameters / fields which affect the Interest Computation should be thoroughly verified.

# REVENUE AUDIT

## **IMPORTANT AUDIT AREAS:**

- Interest Application (Debit & Credit)
- Account Master Level Parameters (which affects the Interest)
- Non recovery of Penal Interest
- Non recovery of Proposal Processing, Review Charges
- Non recovery of Inspection, Commitment, Documentation, Mortgage, Modification charges
- Non recovery of LC / BG Commission.
- Non recovery of Lead Bank Charges
- Excess payment of Interest on FD, Savings Account
- Wrong value dating resulting into leakage of revenue
- Non recovery of Service Charges



# REVENUE AUDIT

## **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)
- 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 are identical.
- Account Open and Interest Demand Dates are identical.
- Interest Table Code "Zero" is selected
- Interest Demand Date is Past Date
- Interest Demand Frequency is Blank.

**SECTION - 10:  
AUDIT TRAILS /  
EXCEPTION REPORTS RELATING  
TO  
HIGH RISK TRANSACTIONS**



# AUDIT TRAILS / EXCEPTION REPORTS

## AUDIT TRAILS

- Each transaction processed in CBS System will have a log / trail upto the Transaction Origination point.
- Under CBS Environment, it is important that list of transactions with Audit Trail should be verified for its correctness.
- Many of the Banks have started providing Audit Trails / Enabled CBS to generate information for Exceptional / High Risk Transactions
- Such information helps Auditor to improve the Quality of Audit and extending coverage of Audit.

# AUDIT TRAILS / EXCEPTION REPORTS

## EXCEPTION REPORT

- Based on the nature and complexity, certain set of Transactions are identified in CBS as Exceptional Transactions.
- At the time of processing such transactions, user is prompted for exception / caution. If the transaction is to be processed further, the exception is required to be surpassed.
- Officer having sufficient powers can authorize such types of transactions. However, system will pick the said transaction will report it in Exception Report.
- Exception Report will be available after EOD process for the branch is completed.



# AUDIT TRAILS / EXCEPTION REPORTS

## EXCEPTION REPORT

- Exception Report contains various types of transactions. Few of the following types of exception requires auditors' close scrutiny.
- Balance exceeded Account Limit
- Manual debits to Income Account
- Value Dated Transactions
- Manual entry for Standing Instruction Failure cases
- Instrument passed against Clearing

# AUDIT TRAILS / EXCEPTION REPORTS

## AUDIT TRAILS FOR HIGH RISK TRANSACTIONS

- Auditors should request Audit Trails for High Risk Transactions (if not available). Few of such types are as follows.
- Irregularity Report (containing list of cases where Balance is in excess of limits set-up)
- Accounts with Interest Code is set as "0"
- Accounts with Interest Collection Flag is set as "No"
- Changes in Interest Rates during the Audit Period
- Changes in Account Limits (DP / SL) in CBS during the Audit Period
- List of Accounts where TOD was granted during the Audit Period



# AUDIT TRAILS FOR HIGH RISK TRANSACTIONS

- Manual Debit to Income Account □ Manual Credit to Income Account
- Issuance of DD / PO against Cash in excess of Rs. 50,000
- Repayment of FDR against cash in excess of Rs. 20,000
- Cases where in PAN was not obtained / available with Bank for Cash Deposits in excess of Rs. 50,000
- Cases wherein Debit Transactions were processed before upload of Scanned signature
- Cases wherein Dormancy Flag is lifted
- New Accounts opened under each category
- List of Bank Guarantee Issued, Invoked
- List of LCs Issued, devolved
- List of cases for Credits to NRE Account ,List of cases for Credits to FCRA Account

# AUDIT TRAILS / EXCEPTION REPORTS

## AUDIT TRAILS FOR HIGH RISK TRANSACTIONS (CONT...)

- List of Outward & Inward Remittance transactions
- List of Packing Credit Accounts opened
- List of cases where DD / FD is printed more than once
- List of Overdue Bills
- List of cases wherein TDS Exemption is marked at Account Level
- List of cases wherein TDS Exemption is marked at CUST Master Level
- List of FD Value Dated during the period
- List of Bills of Entries received during the period



# THANK YOU

By,

**CA Paruchuri Lakshmana Rao**

**B.COM, FCA, DISA(ICAI), CISA(ISACA), DIRM(ICAI), CRISC(ISACA)**