


GOOD MORNING!!



BASICS OF BANKING

DEFINITIONS AND TERMINOLOGIES

Banking is defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to conduct economic activities such as making profit or simply covering operating expenses



HISTORY OF BANKING IN INDIA

- The Bank of Hindustan was the First Bank to be established in India in 1770.
- Presidency Banks
 - .Bank of Bengal : 1809 (prev. Bank of Calcutta 1806)
 - ..Bank of Bombay : 1840
 - ...Bank of Madras : 1843

In 1921 these 3 Presidency Banks were Merged to form Imperial Bank of India. It was a private entity.

In 1955 Imperial Bank was Nationalised and Renamed as State Bank of India

On the recommendation of A.D. Gorewala Committee

TYPES OF BANKS

- RESERVE BANK OF INDIA
- NATIONALISED BANKS
- REGIONAL RURAL BANKS
- CO-OPERATIVE BANKS
- FOREIGN BANKS
- PRIVATE BANKS
- SMALL FINANCE BANKS
- PAYMENT BANKS

RESERVE BANK OF INDIA

SUPPORTING SUBSIDIARIES

- **1. National Housing Bank (NHB)**
- **2. Bhartiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL)**
- **3. Deposit Insurance and Credit Guarantee Corporation (DICGC)**

DICGC

- **Established 15th July, 1978**
- **Covers and insures amounts in savings, current, F.D., R.D. accounts of banking customers**
- **Also covers and insures credits / loans given by banks to government sponsored loans**

RATIOS IN BANKING

- CRR – Cash Reserve Ratio
 - The amount of funds that the bank has to keep with RBI.
 - If the percentage of CRR increases, then the amount at the disposal of bank reduces; and vice versa.
- SLR – Statutory Liquidity Ratio
 - It is the amount that any bank has to keep in the form of 'Gold' or 'Govt. Bonds' to maintain the liquidity to deal with any distress.




- **Repo Rate**

Commercial banks borrow funds from RBI if they have any shortage. This borrowing carries specific rate of interest. If this rate increases, it becomes expensive to borrow money from RBI; and vice versa.


- **Reverse Repo Rate**

It is the exact opposite of Repo Rate, i.e., it is the rate at which RBI borrows money from banks when it feels there is too much money floating in the banking system, to stabilize the economy and catch hold of inflation.




COMMON BANKING TERMINOLOGIES

- **KYC – Know Your Customer**
- **EMI – Equated Monthly Instalments**
- **PLR – Prime Lending Rate**
- **CBS – Core Banking Solution**
- **ATM – Automated Teller Machine**
- **IFSC – Indian Financial System Code**

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- **BG – Bank Guarantee**
 - **LC – Letter of Credit**
 - **NPA – Non Performing Assets**
 - **IRAC – Income Recognition and Asset Classification**
 - **CASA – Current A/c – Saving A/c**
 - **ALM – Asset Liability Management**
 - **MORATORIUM – A legal authorization to Debtors to postpone payment**

- **RTGS – Real Time Gross Settlement**
- **NEFT – National Electronic Fund Transfer**
- **IMPS – Immediate Payment Service**
- **ECS – Electronic Clearing Service**
- **NECS – National Electronic Clearing Service**
- **UTR no. – Unique Transaction Reference no.**
- **UPI – United Payment Interface**
- **SWIFT – Society for Worldwide Inter Bank Financial Telecommunication**

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- **CGTMSE – Credit Guarantee Fund Trust for Micro & Small Enterprises**
 - **CIBIL – Credit Information Bureau of India Ltd.**
 - **MUDRA – Micro Units Development & Reference Agency**
 - **LFAR – Long Form Audit Report**
 - **MOC – Memorandum of Changes**

CLASSIFICATION OF ASSETS

- Standard Assets (Provisions vary between 0.25% to 1%)
- Sub Standard Assets
(NPA – Day 1 to 12 months) (Provision 15%)
- Doubtful Assets - 3 categories :
 - a) Doubtful upto 1 year (D1) :
25% for secured / 100% for unsecured
 - b) Doubtful 1 to 3 years (D2) :
40% for secured / 100% for unsecured
 - c) More than 3 years (D3) :
100% for both, secured and unsecured
- Loss Assets (Provision – 100%)



JUST BEFORE START OF
BANK AUDIT...


BANK AUDIT...

To whom are we responsible as an auditor?

- **Our own ETHICS**
- **Professional Ethics**
- **RBI / GOI**
- **Head Office / Central Office of the Bank**
- **Bank Branch under Audit**
- **Shareholders of the Bank**
- **Depositors of the Bank**
- **Public sentiments at large and above all**
- **Our own CA Fraternity**

Preparations for Bank Audit



- **Revise your knowledge of Banking Business, Definitions, Terminologies.**
- **Refer the Appointment Letter and understand PURPOSE, SCOPE & OBJECTIVES of that Audit, and TIME FRAME to complete it.**

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- **Different purposes for different Audits**
 1. **Concurrent Audit**
 2. **Revenue Audit**
 3. **Internal Audit**
 4. **Statutory Audit**
 5. **Stock Audit**
 - **Decide the team and hold TEAM DISCUSSIONS for detailing / program, scope & objectives and planning, allocation of work to complete the Audit in the given time frame.**

- Refer latest ICAI Guidance Notes on Audit of Banks issued by the AASB, i.e., Auditing & Assurance Standard Board
- Refer allied / related laws to carry out effective audits
 1. Bombay Stamp Act
 2. Contract Act
 3. Negotiable Instruments Act
 4. Local body rules for checking Property documents & Mortgages
- Prepare standardized format for queries of Loan & Advances / Documents to be checked.

- Try to visit the branch before 31st March and get the circulars of central office / latest RBI circulars / details of NPAs emailed by the Branch Manager / Large Borrowers
- Accounting & Procedures / Policies of Bank, Types of Accounts in Bank, Work culture, Basic procedures, Processes, Key staff members and their authorities & responsibilities.
- Go through the software & CBS system in the Bank & Internal Control Effectiveness

- Obtain copies of previous Audit Reports - Statutory, Revenue, Concurrent, Stock, Internal, RBI Inspection
- List of Big Advances / Loans / Borrowers
- Read the Audit Formats / LFAR and others carefully & understand the purpose and materiality of the points
- Sampling percentage & planning should be done as per the size of various Loans & Advances

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- Classification of Advances list should be referred
 - Previous year's P&L and Balance Sheet of the Branch should be referred and compared with current Balance Sheet and P&L and abnormal changes should be noted for further queries.
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THANK YOU!!

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