



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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COIMBATORE BRANCH (SIRC)

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News Letter

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Chairman's Desk



Esteemed Professional Colleagues,

As we step into the month of April, we are presented with a fresh opportunity to reflect on our accomplishments, recognize the challenges ahead, and reaffirm our commitment to the values and principles that define our profession. The world of finance and accounting continues to evolve at an unprecedented pace. With new regulations, technological advancements, and global economic shifts, our role as Chartered Accountants has never been more critical. We stand at the forefront of shaping the future of business practices, ensuring transparency, promoting ethical conduct, and driving sustainable growth.

During the month of March CPE Study Circle Meetings, CPE One Day Seminars, Refresher Course, Investor Awareness programs were organized by branch which were all well attended by our Members & Students. The International Women's Day Celebrations, Felicitations to recently qualified CAs, Campus Placement program of ICAI & Certificate Course on AI were the other important events held in the month of March. "Vazhi kaatti" - a career counselling program and the Panchabootha Cricket League were the special events of the month. I express my sincere gratitude to all the faculty Members, Council Members, program coordinators, my colleagues for their support and guidance in conducting the events.

For the month of April One day Seminars on GST & Direct Taxes are planned along with CPE Study circle meetings, AI certificate Course & GST Certificate Course. Kindly note, the most unique event of our Branch, the two days RRC at KKID is being held on 6th & 7th June 2025, the detailed program invitation will be shared shortly, please plan and participate in this program.

I am delighted to share with you that our Branch has won the Pancha Bootha Cricket league Trophy in the Cricket League Matches held on 28th & 29th March 2025 at PSG Medical College Ground, Coimbatore. I congratulate the winning team of our Branch and sincerely appreciate the support and cooperation of all the other teams and the Managing Committee members of Erode, Palakkad, Salem and Tirupur branches of SIRC of ICAI.

I wish you all continued success in your endeavors, and I look forward to another year of growth, collaboration, and achievement.

CA. Sathish R.
Chairman

Inside

- Audit Documentation in Bank Branch Audit

CPE Hours Generated Monthwise 2025



**Total CPE Hours
Generated
for the Year 2025**

77

BANK BRANCH AUDIT SEMINAR



STUDY CIRCLE MEETINGS



INTERNATIONAL WOMEN'S DAY CELEBRATIONS





AUDIT DOCUMENTATION IN BANK BRANCH AUDIT

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Introduction

- ❑ Bank branch audits play a vital role in ensuring that financial transactions, statements, and controls are accurate and compliant with RBI regulations. Audit documentation is crucial for recording the audit procedures performed, findings, and conclusions, ensuring that auditors have a strong basis for their reports.

1. Key purposes of audit documentation:

- Supports the auditor's opinion on the financial statements.
- Provides evidence of compliance with RBI Circulars, ICAI Standards on Auditing (SAs), and the Banking Regulation Act, 1949.
- Helps in peer reviews and regulatory inspections.
- Identifies financial irregularities, fraud risks, and control weaknesses.

2. Objectives of Bank Branch Audit

According to ICAI and RBI guidelines, a bank branch audit aims to:

- i) Ensure the true and fair presentation of financial statements.
- ii) Evaluate internal controls to detect fraud and errors.
- iii) Verify loan, advances, and NPA classifications as per IRAC (Income Recognition & Asset Classification) norms.
- iv) Ensure compliance with KYC/AML (Know Your Customer/ Anti-Money Laundering) guidelines.
- v) Review interest computations, provisioning, and revenue leakage.

3. Types of Audit Documentation in Bank Branch Audit

As per the Guidance Note on Audit of Banks issued by ICAI, the three main categories of audit documentation are:

3.1 Working Papers

These include:

- i) Audit Programs & Checklists - To ensure systematic execution of audit procedures.
- ii) Loan Sampling & Verification Notes - Sample-based testing of advances and NPAs.
- iii) Audit Planning Documents - Identifying high-risk areas in the branch.
- iv) Control Testing Documents - Review of internal control effectiveness.

3.2 Supporting Documents

- i) Bank Financial Statements - Balance Sheet, Profit & Loss Account, and relevant schedules.
- ii) Loan & Advances Documentation - Sanction letters, loan agreements, and collateral records.
- iii) Cash Verification Reports - Physical cash verification, ATM reconciliation, and teller balances.
- iv) KYC & AML Compliance Records - Documentation related to customer identity verification and large transactions.

3.3 Summarization Documents

- i) Audit Conclusion & Report - Findings based on audit tests.
- ii) Long Form Audit Report (LFAR) - A detailed report covering advances, deposits, frauds, and operational risks.
- iii) Management Representation Letter (MRL) - Bank's confirmation regarding financial disclosures.

4. Key Components of Bank Branch Audit Documentation

4.1 Pre-Audit Planning & Engagement Formalities

- a) Appointment Letter & NOC from Previous Auditor - To confirm the auditor's appointment.
- b) Audit Engagement Letter - Defines the scope of work and responsibilities.
- c) Branch Profile & Business Assessment - Understanding the branch's size, operations, and risk areas.
- d) Audit Planning & Risk Assessment - Identifying high-risk areas like large advances, cash





transactions, and fraud-prone activities.

4.2 Advances & Loan Portfolio Audit Documentation

- a) Loan Sanctioning & Disbursement Review
 - ☞ Checking compliance with bank credit policies and RBI prudential norms.
 - ☞ Reviewing loan documents, collateral valuation, and mortgage deeds.
- b) Verification of NPA Classification
 - ☞ Ensuring NPAs are classified as Standard, Substandard, Doubtful, or Loss assets as per RBI's IRAC norms.
 - ☞ Checking whether new loans are sanctioned to repay old NPAs (evergreening of loans).
- c) Interest Calculation & Provisioning
 - ☞ Verifying interest accrual and provisioning as per RBI's latest guidelines.
 - ☞ Ensuring that interest reversal is done on NPAs.

4.3 Cash & Treasury Audit Documentation

- a) Cash Balances & ATM Reconciliation Reports
 - ☞ Verifying physical cash at the branch and ATMs.
 - ☞ Ensuring compliance with cash retention limits set by the bank.
- b) High-Value Transactions Review
 - ☞ Identifying cash deposits and withdrawals exceeding ₹10 lakh.
 - ☞ Reviewing large inward/outward remittances to detect possible money laundering.
- c) Foreign Exchange Transactions Audit
 - ☞ Ensuring compliance with FEMA regulations.
 - ☞ Checking the accuracy of forex transactions and exchange rate applications.

4.4 Interest, Expenditure & Profitability Documentation

- a) Interest on Deposits & Advances
 - ☐ Verifying the accuracy of interest credited on savings and fixed deposits.
 - ☐ Checking whether the correct interest rates were applied to loans.
- b) Revenue Leakage Review
 - ☐ Identifying revenue losses due to non-recovery of charges or incorrect application of interest.

4.5 Fraud Risk & Internal Control Audit Documentation

- a) Audit Trail of Transactions
 - ☐ Reviewing high-value journal entries, unauthorized manual postings, and system overrides.
- b) Employee Fraud & Insider Threats
 - ☐ Examining whether employees override internal controls for loan sanctioning or fund transfers.

5. Compliance with RBI & Statutory Guidelines

5.1 KYC & AML Documentation

- ☞ Verifying compliance with RBI's KYC norms for account opening.
- ☞ Ensuring suspicious transactions are reported to the FIU (Financial Intelligence Unit).

5.2 Regulatory Returns Review

- ☞ Checking if all RBI-mandated returns (CRR, SLR, ALM reports, etc.) are properly filed.

5.3 Tax & Statutory Compliance Audit

- ☞ Ensuring TDS on deposits, GST on banking services, and income tax provisions are correctly recorded.

6. Reporting & Final Audit Documentation

6.1 Long Form Audit Report (LFAR)

A detailed report covering:

- ☞ Loan portfolio and NPA analysis.
- ☞ Cash, foreign exchange, and deposit transactions review.
- ☞ Fraud risk assessment and internal control lapses.

6.2 Management Representation Letter (MRL)

- ☞ A written confirmation from branch management on the accuracy of financial disclosures.

6.3 Audit Summary & Opinion

- ☐ The final audit opinion based on findings and compliance status.

7. Conclusion

- ☐ Proper audit documentation in bank branch audits is crucial for regulatory compliance, fraud detection, and financial transparency. A well-maintained audit file helps in:
 - ☞ Strengthening internal control systems.
 - ☞ Enhancing RBI compliance.
 - ☞ Preventing fraud and mismanagement.





FRAUD RISK ASSESSMENT & FORENSIC RED FLAGS

FRAUD RISK ASSESSMENT & FORENSIC RED FLAGS

- ❑ Banks are the custodians of public funds and they carry twin obligations of (i) return of the deposits on demand or on maturity date and (ii) payment of interest on deposits at agreed rates. Adequate liquidity needs to be maintained to meet these commitments.
- ❑ Lending is prone to inherent risks and the banker has to pursue sound lending policies to manage the risks. Principles of sound lending include SAFETY, LIQUIDITY and PROFITABILITY of the advances. Lending risk is to be diversified in such a manner that the portfolio risk is minimized.
- ❑ CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) is a Sec.8 Company with GOI 51% share and balance by select PSBs and the NHB under SARFAESI Act 2002 (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002).
- ❑ FRAUD is defined as any deliberate act, either of omission or commission, during a banking transaction or in bank records, resulting in wrongful gain for any person, with or without monetary loss to the bank.

The following types of security interest required to be registered with CERSAI:

Creation, Modification or Satisfaction of security interest in respect of:

- a) Mortgages by deposit of Title Deeds
- b) Immovable property by mortgage other than deposit of title deeds
- c) Hypothecation of Plant and Machinery, Stocks, Debts including book debts or receivables whether existing or future
- d) Charges on intangible assets, being knowhow, patent, copyright, trade-mark, license, franchise or any other business or commercial right of similar nature;
- e) Charge of any kind on any under-construction residential or commercial building or a part thereof by any agreement or instrument other than by mortgage.

A Charge on a security makes it available as a cover for an advance. Charge may be floating or fixed. It can be created by an act of parties or by operation of Law. The methods that are being adopted by banks for creation of charge include Pledge, Hypothecation, Lien, Set Off, Appropriation, Assignment, and Mortgage.

One of the major reasons for the incidence of the high level of stressed assets across the banks in India is their failure to foresee the budding stress in loans and advances that are likely to end up in default.

Time and again RBI is stressing the need for the identification of early warning signals (EWS) to avoid calamities and catastrophes. To succeed in this, the lenders will have to continuously gather, scan and analyse the information on the borrower and the environment in which he is operating.

The tracking of EWS in loan accounts should not be seen as an additional task but must be integrated with the credit monitoring process in the bank so that it becomes a continuous activity and also acts a trigger for any possible credit impairment in the loan accounts, given the interplay between credit risks and fraud risks.

In respect of large accounts, banks must undertake a detailed study of the Annual Report as a whole and not merely of the financial statements, noting particularly the Board Report and the Managements' Discussion and Analysis Statement as also the details of related party transactions in the notes to accounts.

An illustrative list of some EWS is given for the guidance of banks in Annex II to RBI Master Direction on Frauds dated 01.07.2016 as follows:

- (a) Default in undisputed payment to the statutory bodies as declared in the Annual report
- (b) Bouncing of high-value cheques
2. Frequent changes in the scope of the project to be undertaken by the borrower
3. Foreign Bills remain outstanding with the bank for a long time and the tendency for bills to remain overdue.
4. Delay observed in payment of outstanding dues
5. Frequent invocation of BGs and devolvement of LCs
6. Under-insured or over-insured inventory
7. Dispute on the title of collateral securities
8. Funds come from other banks to liquidate the outstanding loan amount unless in the normal course
9. Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
10. Funding of interest by sanctioning additional facilities.
11. Concealment of certain vital documents like agreement, insurance coverage.
12. Floating front/associate companies by investing borrowed money
13. Frequent requests for general purpose loans / adhoc sanctions
14. High value RTGS payment to unrelated parties
15. Significant increase in working capital borrowing as a percentage of turnover





- 16. Frequent changes in the accounting period and /or policies
- 17. Costing of the project which is wide variance with the standard cost of installation of the project.
- 18. A large number of transactions with inter-connected companies and large outstanding from such companies.
- 19. Significant reduction in the stake of promoter / director or increase in the encumbered shares of promoter / director
- 20. Resignation of the key personnel and frequent changes in the management.

CREDIT MONITORING : MEANING

Credit monitoring can be defined as a continuous supervision process enabling the bank to ensure the quality of loan assets.

This underlines three points viz.

- (i) It is a supervision of loan accounts
- (ii) The supervision is to be on a continuous basis and not one time exercise
- (iii) To ensure quality of assets and the adherence to regulatory IRAC guidelines
- ❑ The purpose is to confirm that the borrowal unit is confirming to the various assumptions made at the time of sanction.
- ❑ The bank prescribes certain covenants at the time of sanction of the loan for the purpose of ensuring that the borrower's financial position stays at certain agreed levels. Some standard covenants applicable to all relationships are submission of stock statements, financial statements at intervals agreed upon and submission of MSOD, QISI, QIS II or Financial Follow-up Report I (FFR-I) and QIS III/FFR2, Fund Flow statements at half yearly intervals, etc.

Credit control and monitoring, often referred as Loan Review Mechanism (LRM),

plays an important role in various aspects in particular to ascertain the end use funds provided, continuance of the business activity as projected, any deterioration in business, etc.

MONITORING GOALS

The main objective of credit monitoring is to minimize, if not, eliminate NPA. It helps the bankers to ensure end use of funds, evaluate borrowal unit's performance vis-à-vis projections, ensure quality of assets and the adherence of regulatory IRAC guideline, etc.

MONITORING PROCESS

- a) Pre-Disbursement: Due Diligence and Legal Compliance Certificate
- b) Disbursement and end use verification
- c) Post Disbursement: (i) Loan Review Mechanism; (ii) Credit Audit; (iii) Analysis of Financial Statements/ Reports; (iv) Periodical monitoring of the actual performance of the borrower; (v) Annual Review of Advances; (vi) Scrutiny of Stock Statements

MONITORING TOOLS

- a) Scrutiny of operations through exception reports
- b) Stock statements
- c) Stock cum factory inspection and visit reports
- d) Audit reports including stock and receivables audit
- e) Quarterly/ Half-yearly statements under various information systems
- f) Annual review/renewal of accounts PERIODICAL SCRUTINY OF EXCEPTION REPORT

Generally, in the current system driven environment in banks, wherever transactions occur in breach of/overriding 'Controls' they get reflected in the 'end of day exception report'. Accordingly all such exception reports should be perused by the designated officials and a post facto authorization for the transactions be accorded.

Warning Signals from Operation of Account

SIGNALS	PROBABLE CAUSE
Low level of operations in the account	Lower level of operations / lesser demand for products / transactions routed through other banks/ strikes and lockouts, etc
Lower Credit Summations	Entire sale proceeds are not routed through the account/ account opened/ operated through other banks
Frequent return of cheques for want of Drawing Power	Liquidity problems
Frequent Return of sales bills/ overdue bills discounted	Low demand for products due to poor quality or more competition/ Govt. policies/ client selection etc.
Overdue in interest/ installment payment/ non-payment of interest	Liquidity problem/ diversion of funds/ wilful default



Overdrawing the limits/cross firing of cheques/issuance of PDCs	Liquidity constraints
Unrelated/unusual debits	Diversion of funds
Unrelated/unusual credits	Borrowing from external sources
Frequent request for excesses/ad- hocs	Liquidity problems
Transfer of funds to accounts unrelated to business	External diversion of funds
Stagnancy in operations	Lesser demand for products/closure of unit, etc.

A fraud risk assessment is a systematic process that identifies, analyzes, and reduces the risk of fraud in an organization. It's a proactive way to prevent, detect, and respond to fraud.

How it's done

Identify risks: Consider internal and external threats, such as corruption, bribery, and cybersecurity breaches

Analyze risks: Evaluate the likelihood and impact of each risk

Prioritize risks: Use a risk matrix to focus resources on the most critical vulnerabilities

Develop controls: Implement internal controls to minimize fraud risks, such as segregation of duties and regular audits

Use technology: Leverage data analytics and fraud detection software to monitor suspicious activity

Benefits: Helps organizations stay ahead of evolving threats, Minimizes financial

losses, and Upholds integrity.

Examples of fraud: Fraudulent financial reporting, misappropriation of assets, bribery, kickbacks, and extortion.

Fraud triangle: The fraud triangle is a hypothesis that people are more likely to commit fraud if they perceive an opportunity, have a financial need, and rationalize their actions.

RED FLAGGING OF ACCOUNTS

RBI has defined, vide Master Direction on Frauds dated 01.07.2016, a RED FLAGGED ACCOUNT (RFA) as one where suspicion of fraudulent activity is thrown up by the presence of one or more early Warning Signals (EWS). These signals in a loan account should immediately put the bank on alert regarding a weakness or wrongdoing which may ultimately turn out to be fraudulent. A bank cannot afford to ignore such EWS but must instead use them as a trigger to launch a detailed investigation into a RFA.

In cases where the bank is the sole lender, the Fraud Management Group (FMG), group of senior management in a committee, will take a call on whether an account in which EWS are observed should be classified as RFA or not. This exercise should be completed as soon as possible and in any case within a month of the EWS being noticed.

In case the account is classified as RFA, the FMG will stipulate the nature and level of further investigations or remedial measures necessary to protect the bank's interest within a stipulated time which cannot exceed six months.

Banks may use external auditors, including forensic experts or an internal team for investigations before taking a final view on the RFA.

At the end of this timeline, which cannot be more than six months, banks should either lift the RFA status or classify the account as a fraud. A report on the RFA accounts should be put up to the Special committee of the Board for monitoring and follow-up of Frauds with the observations / decision of the FMG. The report should list the EWS/irregularities observed in the account and provide a synopsis of the investigations ordered/remedial action proposed by the FMG with their current status.

In case of consortium arrangements, individual banks must conduct their own due diligence before taking any credit exposure and also independently monitor the end-use of funds rather than depend fully on the consortium leader. The initial decision to classify any Standard or NPA account as RFA or Fraud will be at the individual bank level and it would be the responsibility of this bank to report the RFA or Fraud status of the account on the Central Repository of Information on Large Credits (CRILC) platform so that other banks are alerted.

In case it is decided at the individual bank level to classify the account as

Fraud straightaway at this stage itself, the bank shall then report the fraud to RBI within 21 days of detection and also report the case to CBI/Police.

Further, within 15 days of RFA/Fraud classification, the bank which has red flagged the account or detected the fraud would ask the consortium leader or the largest lender under Multiple Banking arrangement (MBA) to convene a meeting of the lenders to discuss the issue.

The meeting of the lenders so requisitioned must be convened within 15 days of such a request being received. In case there is a

broad agreement, the account should be classified as a fraud; else based on the majority rule of agreement amongst banks with at least 60% share in the total lending, the account





should be red flagged by all the banks and subjected to a forensic audit commissioned or initiated by the consortium leader or the largest lender under MBA.

IDENTIFICATION AND REPORTING OF FRAUD

In many instances, the detection of fraud takes an unusually long time. Banks tend to report an account as fraud only when they exhaust the chances of further recovery.

Among other things, delays in reporting frauds also delay the alerting of other banks about the modus operandi through Caution Advice/Central Fraud Registry (CFR) by RBI that may result in similar frauds being perpetrated elsewhere. More importantly, it delays action against the unscrupulous borrowers by the law enforcement agencies which impacts the recoverability aspects to a great degree and also increases the loss arising out of the fraud.

All frauds of Rs.1 L and above are reported to their Boards promptly on their detection. The threshold for EWS and RFA is an exposure of Rs.50 Crore or more at the level of a bank irrespective of the lending arrangement. All accounts beyond 50 Crore classified as RFA or 'Frauds' must also be reported on the CRILC data platform together with the dates on which the accounts were classified as such.

FORENSIC AUDIT: Forensic Audit is conducted to unearth any wrong practices and malfeasance committed by the borrowers and to determine whether or not a fraud has taken place. It is the specialized examination of financial statements/information of borrowal unit for use as evidence in court and covers the whole range of functioning of Borrowal unit covering transactions in liabilities, advances and investments, etc.

Proper documentation is vital in substantiating the findings. The Forensic Auditor will have to examine voluminous records in totality and in a holistic manner as permitted by Law.

Forensic Audit should be conducted in the following circumstances and should be completed within a maximum period of 3 months from the date of assignment of audit.

- i. Red Flagged Accounts (though some banks made it internally mandatory to conduct forensic audit in exposures above a certain limit when the account becomes SMA 2 or Non-Performing Asset), by examining:
 - (a) Utilisation or otherwise of funds for approved purposes
 - (b) Diversion/siphoning of funds, if any, and
 - (c) Whether reasons for failure to service the loans are reasonable / acceptable and whether there is a wilful default or not
- ii. When fraud is declared in a group account/Company by the bank/another bank in a consortium /multiple banking arrangement, the forensic audit of other entities of the group banking with the bank should be conducted within a maximum period of 4 months of such declaration.

- iii. When any adverse information in the public domain regarding misappropriation of unit's assets /alienation of security /fraudulent action is noticed
- iv. When there is a need to check the assets / expenditure on which diverted / siphoned off funds were utilized for, among others, exploring recovery there from of funds lent.
- v. When there is a need to examine the compliance of observations/comments/ qualifications of various Audit Reports viz. Stock and Receivable audit, Credit Audit, etc.
- vi. Quick Mortality account viz. account sanctioned /disbursed, and where repayment has been initiated during the financial year and slipped into NPA category within the first one year of sanction or first disbursement/date of commencement of installments. The RBI has issued guidelines for banks to address quick mortality cases, including examining staff accountability and reporting to the Special Committee of the Board for monitoring and follow-up of Frauds (SCBF).

PRINCIPLES OF NATURL JUSTICE:

Serving natural justice in fraud accounts means ensuring fairness and due process by providing borrowers with the opportunity to be heard and respond to allegations before their accounts are classified as fraudulent, as mandated by RBI and the Supreme Court.

These principles, rooted in fairness and impartiality, are essential for ensuring just and equitable outcomes in legal and administrative proceedings.

Reported fraud cases - for discussion

WILFUL DEFAULTERS: The intentional default is referred to as wilful default. As per RBI

Guideline, a 'wilful default' would be deemed to have occurred if any of the following events is noted:

The Unit has defaulted in meeting its payment/repayment obligations to the lender even when it has the capacity to honour the said obligations.

The unit has defaulted in meeting its payment/repayment obligations to the lender and has not utilized the finance from the lender for the specific purposes for which finance was availed but has diverted the funds for other purposes.

The unit has defaulted in meeting its payment/repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilized for the specific purpose for which finance was availed, nor are the funds available with the unit in the form of other assets.

The unit has defaulted in meeting its payment/repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by it to secure a term loan without the knowledge of the bank/lender.



DIVERSION OF FUNDS: The term 'diversion of funds' should be construed to include any one of the under noted occurrences:

- (a) Utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanction
- (b) Deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned
- (c) Transferring borrowed funds to the subsidiaries /Group companies or other corporates by whatever modalities
- (d) Routing of funds through any bank other than lender

bank or members of consortium without prior permission of the lender

- (e) Investment in other companies by way of acquiring equities/debt instruments without the approval of lenders
- (f) Shortfall in the deployment of funds vis-à-vis the amounts disbursed/drawn and the difference not being accounted for

SIPHONING OF FUNDS: The terms 'siphoning of funds', should be construed to occur if any funds borrowed from banks/FIs are utilized for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender.

CERTIFICATE COURSE ON AI



WEEK-LONG REFRESHER COURSE ON BANK AUDIT



CAMPUS PLACEMENT PROGRAMME MARCH / APRIL 2025



CAREER COUNSELLING PROGRAMME





PANCHA BOOTHA CRICKET LEAGUE

