

BOMBAY CHARTERED ACCOUNTANTS' SOCIETY



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Seminar on Bank Branch Audit From Articles' Perspective

Guided by:
CA Rishikesh Joshi

Presented by:
Sanskruiti Nalegaonkar
Atharva Joshi

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AGENDA

- Introduction and Foundation
- Planning and Preparation for Audit (IRL, Regulatory Framework)
- Financial Statements of a Bank
- Key Concepts and Essential Terminologies
- Core Audit Areas (Advances, IRAC, NPA, Deposits, GL and PL)
- LFAR and Compliance Reporting
- Audit Finalization and Closure
- Key Takeaways and Q & A

INTRODUCTION and FOUNDATION

Structure of a Bank



INTRODUCTION and FOUNDATION

SBA and SCA: Reporting and Audit Structure

Aspect	Statutory Central Auditor	Statutory Branch Auditor
Scope of Work	They audit entire banks' financial statements at a consolidated level. They focus on bank's overall financial position and accuracy.	They audit individual branches of the Bank, which includes examination of financial statements such as GL, PL, Returns, Certificates, LFAR, etc. at the branch level.
Reporting Authority	Board of Directors / Audit Committee / RBI	Statutory Central Auditor

PLANNING AND PREPARATION

Understand the Banking Environment – Learn about the branch’s operations, loan portfolio, customer base, and regulatory requirements.

Obtain and Review Key Documents – Last year’s audited financial statements (including audit reports, returns, certificates and LFAR), Advances Dump (aka Loan Balancing File), Bank’s Closing Circular, RBI circulars, Concurrent / Internal Audit Reports etc.

Identify High-Risk Areas – Focus on NPAs, large advances, cash transactions, fraud indicators and regulatory non-compliance

Communicate with Branch Management – Issue Initial Requirement List

Initial Requirement List

- All Returns (Summary + Granular)
- Balancing Report, Profit and Loss and Balance Sheet
- Previous period signed copies of All Returns, Profit and Loss, and Balance Sheet and observations communicated by auditors
- CC, OD and Loan Balancing File
- System-generated NPA report (Opening and Closing)
- Details of any frauds reported/noticed
- List of all advances with appropriate details
- List of alerts generated by the Early Warning System
- Exception Reports, if any
- Details of new accounts opened with their KYC documents
- List of New Loan sanctions made during the period
- Latest Internal / Concurrent Audit Report
- Last year Long Form Audit Report (LFAR)

Financial Statements of a Bank

Balance Sheet

THE THIRD SCHEDULE

(See section 29)

¹[FORM A

FORM OF BALANCE SHEET

Balance Sheet of _____ (here enter name of the Banking Company)

Balance Sheet as on 31st March _____ (Year)

(000's omitted)

Capital and Liabilities	Schedule	As on 31-3- ____ (current year)	As on 31-3- ____ (previous year)
Capital	1	_____	_____
Reserves and surplus	2	_____	_____
Deposits	3	_____	_____
Borrowings	4	_____	_____
Other liabilities and provisions	5	_____	_____
TOTAL:		_____	_____

ASSETS

Cash and Balances with Reserve Bank of India 6

Balances with Banks and money at call and short notice 7

Investments 8

Advances 9

Fixed Assets 10

Other Assets 11 _____

TOTAL:

Contingent liabilities 12 _____

Bill for collection _____

Financial Statements of a Bank

Profit and Loss Account

FORM B			
(000's omitted)			
FORM OR PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED ON 31ST MARCH (YEAR)			
	Schedule No.	Year ended 31-3_	Year ended 31-3_
		(current year)	(previous year)
I. INCOME	13		
Interest earned	14		
Other Income			
TOTAL :		_____	_____
II. EXPENDITURE	15		
Interest expended	16		
Operating expenses			
Provisions and contingencies			
TOTAL :		_____	_____
III. PROFIT/LOSS			
Net Profit/Loss (-) for the year			
Profit/Loss (-) brought forward			
TOTAL :		_____	_____
IV. APPROPRIATIONS			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to Government/proposed dividend			
Balance carried over to balance sheet			
TOTAL :		_____	_____

Financial Statements Regulatory Framework – Banking Regulation Act, 1949 and Accounting Principles Generally Accepting in India

Regulatory Framework

Audit Area	Relevant Regulations
Loan classification and NPAs Income recognition	RBI IRAC Norms
Capital adequacy	RBI Basel Guidelines (Basel III Capital Regulations)
Fraud detection and reporting	RBI Fraud Reporting Circular
KYC and AML compliance	RBI KYC and AML Circulars, PMLA Act
Long Form Audit Report (LFAR)	RBI LFAR Guidelines (2020)
Listed Banks	SEBI (Securities and Exchange Board of India)
Foreign Transactions	FEMA (Foreign Exchange Management Act)

How find and Apply Regulations

RBI Website
(www.rbi.org.in)

- Go to "Notifications" or "Master Circulars" section for updated banking guidelines.
- Search for "IRAC Norms", "LFAR Circular", or "NPA Classification" for specific audit areas.

ICAI Website
(www.icaai.org)

- Check "Announcements" for recent updates related to bank audits.
- Refer to "Auditing Standards" for guidelines on audit procedures.

Bank's Internal Circulars
and Manuals

- Obtain the bank's policy documents, SOPs, and circulars from the branch.
- Verify if the bank's policies align with RBI norms.

Finance Ministry and
SEBI Websites

- For regulatory updates impacting banks.

Practical Guidance Books
on Bank Audits

- ICAI's "Guidance Note on Bank Audits" contains summarized versions of RBI and SEBI regulations.



[Home](#)

Notifications

Master Directions

Master Circulars


Draft Notifications/ Guidelines

Index to RBI Circulars


Circulars Withdrawn

NOTIFICATIONS


Feb 28, 2025

Reporting and Accounting of Central Government transactions for March 2025  390 kb

Feb 27, 2025

Implementation of Section 51A of UAPA, 1967: Updates to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Amendments in 01 Entry  246 kb

Feb 25, 2025


Exposures of Scheduled Commercial Banks (SCBs) to Non-Banking Financial Companies (NBFCs) – Review of Risk Weights  417 kb

Review of Risk Weights on Microfinance Loans  416 kb


Feb 24, 2025


Review and rationalization of prudential norms - UCBs  501 kb

Feb 21, 2025


Reserve Bank of India (Forward Contracts in Government Securities) Directions, 2025  362 kb

Feb 17, 2025

Reserve Bank of India (Prudential Regulations on Basel III Capital Framework, Exposure Norms, Significant Investments, Classification, Valuation and Operation of Investment Portfolio Norms and Resource Raising Norms for All India Financial Institutions) Directions, 2023 - Amendment  471 kb

Government securities transactions between a Primary Member (PM) of NDS-OM and its own Gilt Account Holder (GAH) or between two GAHs of the same PM  252 kb

Feb 13, 2025

Export-Import Bank of India's GOI-supported Line of Credit of USD 120 mn to the Government of the Socialist Republic of Vietnam (GO-VNM) for procurement of High-Speed Guard Boats in the Borrower's Country  229 kb

- 2025
- 2024
- 2023
- 2022
- 2021
- 2020
- 2019
- 2018
- 2017
- 2016
- Archives

Key Terminologies

Overdue: A loan payment not made by the due date.

Non-Performing Asset (NPA): A loan classified as NPA if overdue for more than 90 days.

Special Mention Accounts (SMA): Early warning signals for stress in accounts before they turn into NPAs.

Days Past Due (DPD): The number of days a loan payment remains overdue.

Key Terminologies

Drawing Power (DP): The limit up to which a borrower can withdraw funds under a cash credit/overdraft facility, based on available security.

Out of Order: A loan account (especially CC/OD) is classified as NPA if the outstanding remains over the limit for 90 days.

Security : Mortgage / Hypothecation / Pledge (To cover the risk of non – payment by borrower to Bank)

Moratorium: A temporary suspension of loan repayment obligations.

Memorandum of Changes (MOC): Adjustments proposed by auditors in financial statements during audits.

Case study

Question:

In the case of a Cash Credit (CC) facility, if the account remains continuously overdrawn beyond the sanctioned limit but does not exceed the drawing power (DP) for a period of 91 days, would it be classified as a Non-Performing Asset (NPA)?

Case study

Answer:

A **Cash Credit (CC) account** is classified as a **Non-Performing Asset (NPA)** if it is deemed ‘out of order.’

This occurs when any of the following conditions are met:

- a. The account remains continuously overdrawn for more than **90 days** beyond the **sanctioned limit or the drawing power (whichever is lower)**.
- b. Even if the account has **sufficient drawing power (DP)**, it will still be classified as NPA if the outstanding exceeds the **sanctioned limit** for more than **90 days**.

Case study

Question:

In the case of a **Cash Credit (CC) or Overdraft (OD) facility**, if an account remains within the sanctioned limit but the **total credits in the account during the quarter (Jan-Mar 2025) are less than the interest debited during the same period**, would the account be classified as **NPA** as per regulatory guidelines?

Case study

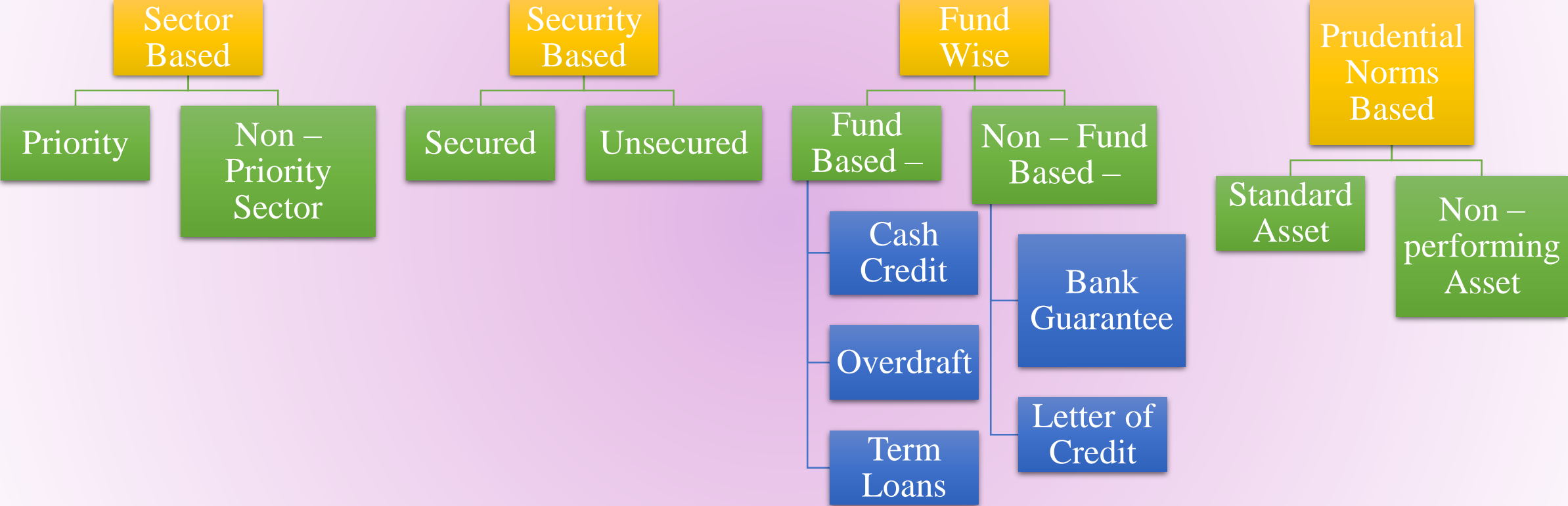
Answer:

- I. The account would be classified as a **Non-Performing Asset (NPA)** as it is considered **‘out of order.’**
- I. An account is deemed **‘out of order’** if the **total credits during the quarter are insufficient** to cover the **interest debited** during the same period.
- I. Since the **credits in the account (Jan-Mar 2025) are less than the interest debited**, it meets the criteria for **NPA classification**.

CORE AUDIT AREAS: ADVANCES

Schedule 9 Advances		<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
Guidance Note on Audit of Banks (Revised 2024)			
A.	(i) Bills purchased and discounted		
	(ii) Cash credits, overdrafts and loans repayable on demand		
	(iii) Term loans		
	Total	_____	_____
B.	(i) Secured by tangible assets		
	(ii) Covered by bank/Government guarantees		
	(iii) Unsecured		
	Total	_____	_____
C.	<i>I. Advances in India</i>		
	(i) Priority sectors		
	(ii) Public sector		
	(iii) Banks		
	(iv) Others		
	Total	_____	_____
	<i>II. Advances outside India</i>		
	(i) Due from banks		
	(ii) Due from others		
	(a) Bills purchased and discounted		
	(b) Syndicated loans		
	(c) Others		
	Total	_____	_____
	Grand Total (C.I. & C.II)	_____	_____

Classification of Advances



Core Audit Areas (Advances, IRAC, NPA, Deposits, GL and PL)

Advances:-

- Major activity of Bank
- Largest part of asset side
- Major source on revenue
- One of the most important areas covered by SBAs in Bank Branch Audits

Core Audit Areas (Advances, IRAC, NPA, Deposits, GL and PL)

Advances (condt.) :- Audit Approach and Procedures

Verify completeness by comparing list of advances with amount appearing in the GL.

Examine all large advances, other advances on a sampling basis

Overall Advances :- Listing of Top/ Large Exposure Accounts, SMA Accounts, Restructured Accounts, Quick Mortality Cases, Upgraded and Degraded Accounts

New Advances :- Relevant KYC details, Disbursement of the loan vis-à-vis Sanctioned Terms, Type of Facility , Security Details, Interest Rates, Validity of Sanction Letter and so on

Existing Advances :- Operations in the Account, Asset Classification, Interest rate, IRAC Provisions

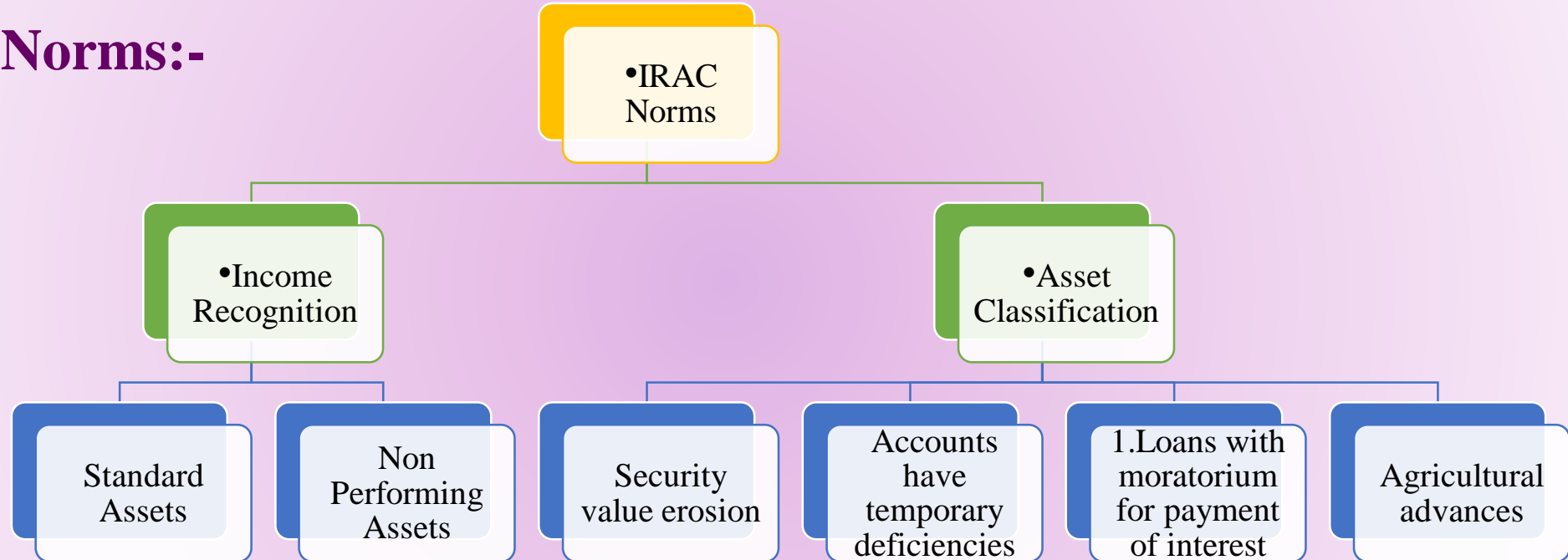
Sample Advances :- Loan terms as per System and Sanction letter, Interest rates, Recovery in accounts, and so on



Sample
Workpaper

Core Audit Areas (Advances, IRAC, NPA, Deposits, GL and PL) Contd.

IRAC Norms:-



Case study

Question:

If a borrower has multiple outstanding facilities, including **Cash Credit, Housing Loan, and Personal Loan**, and there are **four overdue EMIs in the Personal Loan account**, should the **Cash Credit and Housing Loan accounts** also be classified as **NPA** ?

Case study

Answer:

- I. As per regulatory guidelines on **NPA classification**, if a borrower has multiple credit facilities and **any one facility becomes NPA**, all other facilities of the borrower with the same lender must also be classified as **NPA**. This is known as the "**borrower-wise NPA classification**."

- II. In this case, since **four EMIs are overdue in the Personal Loan account**, the account qualifies as **NPA**.

Core Audit Areas (Advances, IRAC, NPA, Deposits, GL and PL) Contd.

Non-Performing Assets (NPA):-

Provisioning Norms For NPAs

Assets Classification	Period as NPA	Provision
Standard	-	<ul style="list-style-type: none"> • Agriculture and SME : 0.25 % • Commercial Real Estate(CRE): 1 % • Commercial Real Estate-Residential Housing Sector(CRE-RH): 0.75 % • Housing laon: 2 % after 1 year : 0.40 % • All other : 0.40 %
Substandard (Secured Loan)	Up to 1 Year	15 %
Substandard (Unsecured Loan)	Up to 1 Year	25 % 20 % (Infrastructure Loan)
Doubtful 1	2nd year	25 % (Secured Loan) 100 % (Unsecured Laon)
Doubtful 2	3rd & 4th year	40 % (Secured Loan) 100 % (Unsecured Laon)
Doubtful 3	5th year onword	100 %



What should bank do when an account turns NPA?

- **Reversal of income :-** Entire interest accrued and credited to income account in the past periods, should be reversed
- **In respect of NPAs,** fees, commission, charges should cease to apply in current period and should be reversed for past periods
- **Interest Application :-** Banks should reverse the interest already charged and continue to record such accrued interest in a Memorandum account in their books at backend.

Illustrations at a glance

- **Case 1 (out of order):-** A business owner, Mr. Raj, has an overdraft facility of ₹10 lakh with XYZ Bank. He frequently withdraws money for working capital and repays as per his cash flow. Due to financial difficulties, Mr. Raj stops depositing enough funds to cover interest payments or reduce the outstanding balance. What are the NPA provisions in this case?
- **Answer :-** Since Mr. Raj is depositing funds, but those funds are not enough to cover the Interest portion charged in his account, his account will turn NPA
- **Case 2 (EMI):-** Rahul buys a house on loan but loses his job and stops EMI payments. What will now bank do?
- **Answer :-** If EMIs are over due for a period of more than 90 days, Rahul's account will be marked as NPA
- **Case 3 (Bills):-** On 25th September, Mohan discounts a bill drawn by him on Krish, through a nationalized bank. On date on maturity, the bill gets dishonored. Whom shall the bank declare NPA? (Mohan or Krish)
- **Answer :-** When the bill is not honoured on its maturity, bank will treat it as NPA and bank will held Mohan liable and will mark all accounts of Mohan as NPA

Core Audit Areas (Advances, IRAC, NPA, Deposits, GL and PL) Contd.

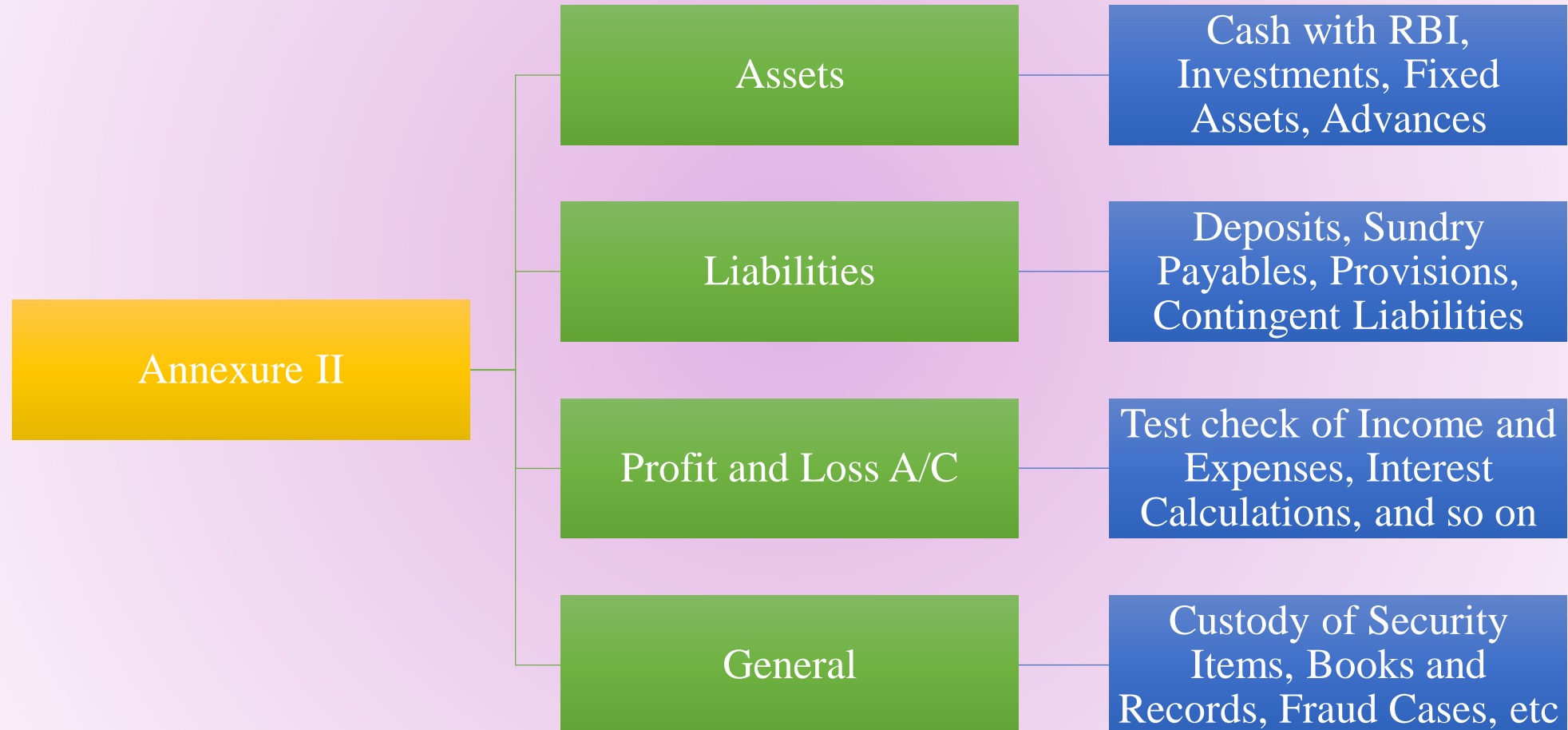
Other Core Audit Areas includes:-

- Deposits
- Provisions
- Cash and Bank Balance
- Fixed Assets
- Current Assets
- Contingent Liabilities

Long Form Audit Report (LFAR)

1. **RBI Circular :-** As per Circular DOS.CO.PPG./SEC.01/11.01.005/2020-21 dated September 05, 2020
2. **Annexures :-** RBI requires LFAR to be filled by both SCAs (Annexure I) and SBAs (Annexure II) in prescribed formats
3. **Commenting on various risks :-** To identify and assess gaps and vulnerable areas, to provide an independent opinion on the same to the Board of the bank
4. **Consider at Planning Stage :-** It serves as a vital tool and checkpoint for auditors and their team members to conduct the Branch Audit
5. **Large Advances :-** Outstanding amount of which is in excess of 10 percent of the outstanding aggregate balance of fund-based and non-fund-based advances of the branch or Rs.10 crores, whichever is less.
6. **Questionnaire :-** A detailed checklist prepared by Auditor to comment upon
7. **Documentation of Supporting :-** To support the views expressed in the Report

Annexure II of LFAR



LFAR: Advances

- The critical comments based on the review of the above Large Advances and of other advances on test check basis should be given in respective paragraphs as given in LFAR.
- List of Accounts examined for audit to be given.
- **Other details to be given in LFAR:**
 - Credit Appraisal
 - Sanctioning / Disbursement
 - Documentation
 - Review/ Monitoring/ supervision

Credit Appraisal

- Compliance of the Instructions of Controlling authority regarding processing, renewal, enhancement etc.
- Quick mortality cases where the facility became NPA within 12 months from the date of sanction.
- Applicable ROI is correctly fed in the CBS.
- In case of floating / MCLR linked ROI whether the same are reviewed periodically.
- Credit Rating from RBI Accredited Agency is fed into the CBS.

Sanctioning / Disbursement

- Credit facility is sanctioned beyond delegated authority
- If such case is observed then whether the same is reported to Higher authorities
- The disbursement is made without complying with the terms of sanction
- The loans are granted to Companies for buy back of shares

Documentation

- The credit facilities are disbursed without execution of necessary documents
- Non registration of Charge / non obtaining of guarantees for credit facilities
- In case of credit facilities granted against TDRs whether lien is marked on the same.

Review/ Monitoring/ supervision

- Procedure laid down by the Bank for periodic review of advances including Acknowledgement of Debt/ Balance confirmation is followed by the Branch. Details of pending accounts to be given age wise
- Scrutiny of stock and book debt statement, other financial data is done by the Branch
- DP is properly calculated by the branch
- Latest Audited financial statements are obtained for the accounts reviewed/ renewed
- Inspection of securities is carried out by the Branch
- Diminution in the value of security is observed in case of securities charged to the Bank

Is Long Form Audit Report a Substitute to SBA's Independent Audit Report?



Returns and Certificates

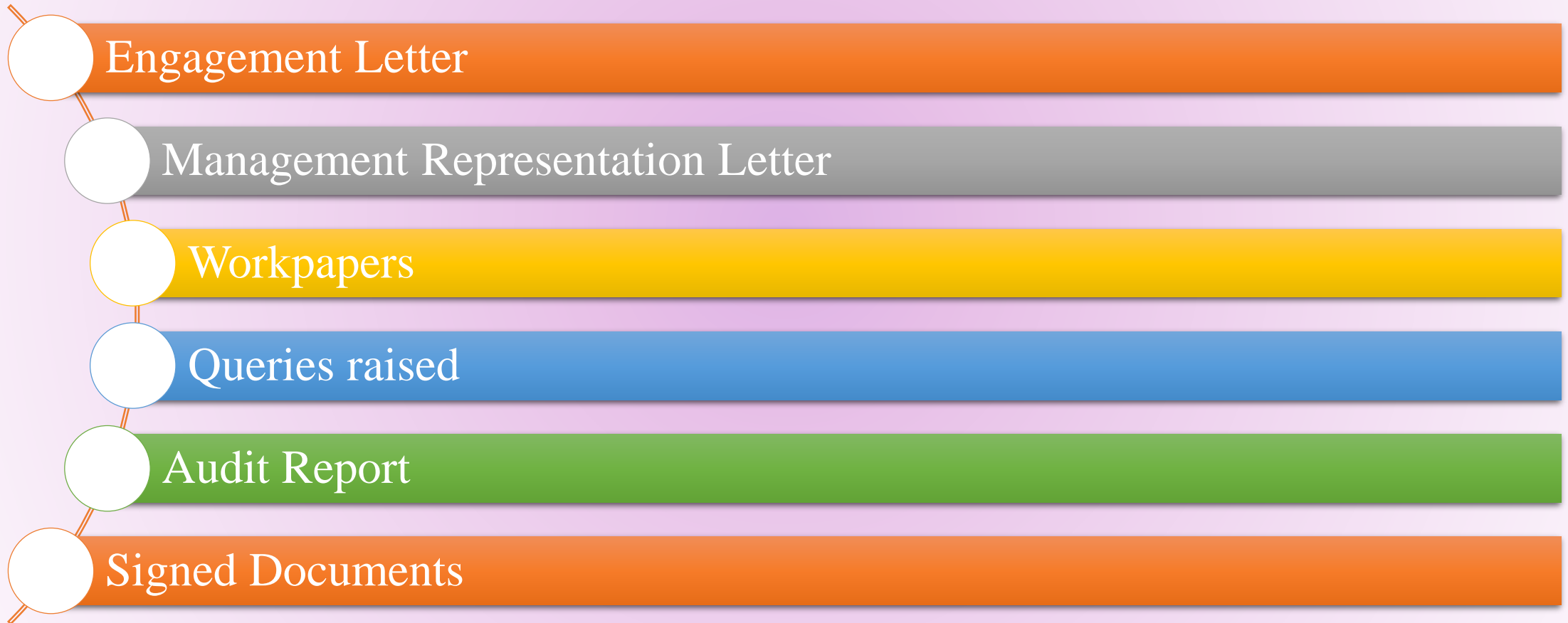
Illustrative list of Returns:-

1. GL
2. Summary of Advances
3. Fixed Asset
4. Claims Against Bank not Acknowledged as Debts

Illustrative list of Certificates:-

1. Market Mechanism
2. Risk Weighted Asset
3. Unhedged Foreign Currency Exposure
4. Advances Restructured

Closing and Documentation



Key takeaways

1. **Overview of Bank Branch Audit** – Key focus areas like NPA classification, IRAC norms, and LFAR.
2. **NPA and Compliance Checks** – Understanding asset classification, provisioning, and regulatory requirements.
3. **LFAR and Reporting** – Importance of key observations, certifications, and documentation.
4. **Effective Audit Execution** – Planning, risk assessment, and best practices for a smooth audit.

THANK
YOU!
