If you fail to Plan, You plan to fail!
Objective of this presentation

- Beginner’s guide towards developing/sketching an audit approach.
- Do not wish to suggest detailed audit procedures for all items.
Why we need Audit Planning?
Need of Planning?

- Limited Time to complete Bank Audit.
- To pay adequate attention to High Risk/critical areas.
- To increase overall Quality of Audit.
- To avoid completion delays.
- Avoid duplicity of audit procedures.
- To generate robust audit documentation.
Need of Planning?

- Plethora of reports/certificates.
- Evolving technological and regulatory environment at bank.
- Complex and challenging task for Small and Medium Size CA Firms.
- Data is invisible. Access takes time.
- Working paper management risk for Peer Review
- To strike a balance between Quality and Punctuality
Why do we generally fail?
Why do we generally fail?

We spent most of the time of audit to collect information relating to planning.

Derailment of entire audit schedule

Poor Quality of Audit
How do we approach things?
What to do?

a. Risk Focused Planning
b. Systematic management of audit procedures
c. Standardisation in the form of checklist / audit templates.
Dividing your time

- Planning: 25%
- Actual Audit and documentation: 60%
- Findings and reporting: 15%
Where to start?

Staged Approach – Divide your approach in various stages
Suggested Various Stages

- **Stage A: Off Site Planning**
  - A.1 Branch profiling
  - A.2 Preliminary understanding of the accounting and internal controls systems of branch
  - A.3 Carrying out certain analytical review
  - A.3 Timing – Start Date / End Date
  - A.4 Manpower – Formation of team and training
  - A.5 Working paper management
Suggested Various Stages

- **Stage B: Onsite Planning**
  - B.1 Arm your weapons
  - B.2 Using the internal auditor’s work
  - B.3 Applying substantive procedures
  - B.4 Discussion and reporting
Know your Auditee/Branch

- SA-300: Audit Plan
- SA-315: Understanding the entity

- A. Obtain Closing instructions/circular of controlling authorities of bank.
- B. Understand your branch: Collect sketchy profile of your branch.
- C. Collect information on general internal control.
Branch Profiling

- Branch profile should provide key information on:
  - Nature
  - Size
  - Products
  - Bird’s eye view of Operational details
  - Key figures
  - Technological environment of Branch
General Internal Control of Branch

- Collect information on general internal control environment through a questionnaire

- This will give you first hand idea of systems and procedures followed.
Must remember...

- Branch profile and internal control questionnaire should be taken up with branch well before actual on site visit.

- Insist on complete information in writing—Reluctance of branch manager to give you complete information will give you rough idea where the Branch is heading and where you should head.
Preliminary Analytical review

- SA-520: Analytical Procedures

- Identify Risk of Material Misstatement using following Analytical review:
  - Comparisons of Trends
  - Comparisons of Quarter/Year End Figures of Key Business Areas
  - Correlations
Comparison of Trends and ratios

- Deposits
- NPA – Amount
- NPA - % of Total Advances
- Actual Advances
- Increase in Advances
- Operating Profit to Total Income (%)
- Net Profit to total Incomes (%)
- Operating expenses to total Incomes

☞ You may compare on Quarter / Half Year / Yearly Basis
## Correlations

<table>
<thead>
<tr>
<th>Type of Correlation</th>
<th>Revealing Results</th>
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<tbody>
<tr>
<td>Correlation of P&amp;L items with balance sheet items</td>
<td>Accounting errors/inconsistency</td>
</tr>
<tr>
<td>Non-financial events vis-à-vis Financial events/information</td>
<td>Errors of omissions and inconsistencies</td>
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- Obtain branch manager’s written explanation on abnormal/significant variance and examine such explanations.
- Unexplained/Abnormal variances could be indications of possible window dressings etc.
Manpower

- Formation of team with proper combination of personnel
  - One team for Accuracy check
  - Another for compilation of data for descriptive reporting in LFAR
  - Senior to focus on Qualitative and other important aspects

- Always involve everybody in the team right from the beginning in all activities from planning, execution till submission of report.

- Training / re-training of team is very crucial
Are we armed yet to enter the battle field?
Before entering the branch, please make sure about ready availability of following records/information in all respects:

A. All closing statements/returns – along with computation sheets if any.
B. Year end Adjustment entries
C. Pre-closing & Post closing GL Balance reports
D. RoC Charge registration reports
A. Various Special reports generally available through special reporting packages/options in computerised branches:

A. Potential NPA Accounts
B. Over limit reports
C. Out of order accounts
D. Debit balance in savings and current accounts
E. Transaction turnover in advances accounts
Your should be armed with following as you enter the branch

- Branch Profile – Duly filled in by Branch Manager – thoroughly studied and discussed.
- Internal Audit Questionnaire – Duly filled in by Branch.
- A laptop - *Preferably with net connectivity.*
- Sufficient trained /re-orientated Audit Staff.
- Audit Plan specific to branch – Based on Check list and on which audit staff can rely upon.
- Closing circular of bank (*for reference*)
- Latest circulars of RBI (*for reference*)
Your should be armed with following as you enter branch

- Guidance note on Bank Audit (for reference)
- Templates for collection of information/verification of advances:
  - For General Advances (TL/CC)
  - For Home Loan
  - For Loan against FDR/KSC/NSC
Let’s Play..
First things to be asked for:

- All inspection reports / Concurrent audit reports / EDP Audit reports
- Special reports generated by the system such as:
  - Potential NPA accounts (preferably last 3 half-years)
  - Other reports – as discussed in preceding slides
- Creation of Auditor Login - Read only access
- Ask for user manual/job cards – Computerised Branches
First things to be asked for:

- All exception reports for the last couple of days.
- Balance Sheet, PL and Trial Balance
- GL Balancing
- Confirmation of Significant deficiencies persisting at year end.
- Scrolls of Scheme wise Advance Ledger Balancing Report.
- Sub-headwise BAARs, Sundry Assets (SA) and Sundry Liabilities (SL) reports.
Discuss Audit Plan

- Plan a meeting with all important bank officials and discuss your audit plan.
- Helps in allocation of your and bank’s resource.
  - .
Internal inspection reports provide pointers to many deficiencies in bank branch, notably:

- Non-availability of reconciliations/persisting unreconciled differences.
- Deficiencies in security, insurance, renewal documentation.
- Non-compliance of RBI’s IRAC norms

Go through IS Inspection report and look for deficiencies in IT Systems

Required for LFAR purpose also.
Starting Actual Audit

- Get preliminary assurance about the reconciliation/agreement of financial statements balance with underlying record, i.e. GL Balances should match with Subsidiary Ledgers.

- Carry out analysis of variance for income and expenditure – Helps in identifying the accounts to examined in detail
Applying Substantive Procedures

a. **Advances verification** *(samples to be decided - based on proper audit plan – properly documented with reasons)*
   
   a. *Sanctioning/Renewals*
   
   b. *NPA verification*
   
   c. *Documentation, Advance monitoring record*
   
   d. *Recoveries*
   
   e. *Interest verification*
   
   f. *Emphasize on reconciliation for audit documentation*

* Each and every verification to be properly documented in accordance with audit plan.
Applying Substantive Procedures

a. Audit of Deposits
b. Office Accounts
   a. SA
   b. Suspense
   c. SL
   d. BAARs

c. Verification of cash and security items
d. KYC norms – Special emphasize on Savings Account
Applying Substantive Procedures

a. Income and Expenditure items
   a. Scrutinize System generated interest applied/failed reports and action taken thereon.
   b. Normal analytics – Comparisons/Correlation etc.

b. Year end adjustment reports

c. Tax Audit
   a. TDS
   b. Various registers maintained at Branch

d. Misc. Certificates
Assess/review/ document in computerised branches

- IT Structure and Policy
- IT environment (hardware and software including new system/version/upgrade)
- IT controls (access, physical and logical controls, back up system, disaster recovery and business continuity plans, etc.)
- IT Audit Reports and the follow-up thereof.
Give due importance to:

- Review of critical manual applications and the controls thereon.
- Continuous interaction with various process owners / heads / department - Use Soft Skills.
- Mapping of end-to-end processes and controls for closure of financial statement.
- Review of critical operations outsourced to external agency.
- Review of work performed by an expert.
- Review of Annual Financial Inspection.
- Continuous review of latest master circulars displayed on RBI website.
- Comprehensive comparative analysis.
Last but not the least..
Reporting at last

- Give due importance and time to reporting.
- Do not rush into things.
- Take Management representation on all important aspects discussed during the audit – *Single representation can be taken instead of many.*
- Exit interview - Discuss report with Branch Officials.
- Get all important stuff/documents collected be counter signed/initialled by bank officials
- Report sign off.
Suggestive tools/tips

- Use IT audit tools extensively – E.g., Excel
- Use of system generated reports – specially in CBS Branches
- Audit through the system
Lets wind up..
The key in a Bank Branch Audit Planning is...

- Early start (If possible before March 31st)
- Ensuring adherence to the deadlines
- Strong knowledge of banking business and latest circulars of RBI
- Clarity on risks faced by the branch
- Clear focus and vision - What is to be done, how, by whom, when and why?
The key in a Bank Branch Audit Planning is...

- Testing of internal controls
- Effective audit sampling
- Template/Checklist based audit
- Skilful use of MIS reports and Excel
- Strong documentation
- Ensuring compliance with RBI circulars especially regarding NPA identification, classification and provisioning
- Effective discussions with concerned branch officials
The key in a Bank Branch Audit Planning is...

- Detailed balance sheet and Profit and Loss scrutiny
- Written Management discussion letter
- Clear and specific replies to the questions in the LFAR, Certificates and tax audit report
- Main report to have summary of MoCs
- Use of appropriate disclaimers, issuing MOC and qualifications wherever warranted.
To conclude there are three important takeaways for the members who are involved in the statutory audit of banks:

1. Standardise the audit approach and procedures.
2. Reinvent the audit approach and focus more on processes and controls.
3. Build strong documentation process.
Thanks...
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