

Audit Planning & Certification in Bank Branch Audit

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16 March 2025



1. Introduction to Bank Branch Audit

- Bank Branch Audit
- Purpose and Importance
- Regulatory Framework

1. Introduction to Bank Branch Audit

Definition & Meaning:

A **Bank Branch Audit** is an independent examination of the financial statements, transactions, and compliance of a bank branch. It ensures that the branch follows regulatory guidelines, maintains financial accuracy, and safeguards depositor interests.

Why is it Important?

- To ensure the branch complies with **Reserve Bank of India (RBI) regulations**
- To assess the financial health of the branch
- To detect and prevent fraud or misreporting
- To verify the correctness of financial statements

1. Introduction to Bank Branch Audit

Regulatory Framework:

- Banking Regulation Act, 1949
- RBI Circulars & Guidelines
- ICAI Auditing Standards (SAs)
- Companies Act, 2013

2. Key Phases in Bank Branch Audit

- **Planning** – Understanding scope, risk assessment, and materiality
- **Execution** – Verification, documentation, and substantive procedures
- **Reporting & Certification** – Preparing audit report, MOC, LFAR, and certifications

2. Key Phases in Bank Branch Audit

A bank branch audit is divided into three key phases:

A. Planning Phase:

- Understanding the **scope of audit**
- Identifying **risk areas**
- Studying past **audit reports**

B. Execution Phase:

- Verifying financial statements
- Checking **internal controls**
- Conducting **substantive testing**

2. Key Phases in Bank Branch Audit

C. Reporting Phase:

- Preparing the **audit report**
- Filling the **Long Form Audit Report (LFAR)**
- Issuing **certifications & observations**

2. Planning Phase

Good Knowledge and familiarity

- Economy/ Banking industry
 - Baking terminology
 - RBI Circular/ guidelines/ notification
 - ICAI Guidelines
 - Accounting policies, Accounting & Auditing standards
 - Banking circulars/ Manuals
 - Software/ CBS/ Finnacle/ Finnone/ flexcube
 - Knowledge of CAAT/ IT auditing tools
 - Reporting of IFCoFR
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2. Planning Phase

Materiality in planning & performing audit

- True and fair view of the financial statement
 - Stringent timelines
 - Audit plan
 - Knowledge of client
 - SA 320 Set materiality levels
 - SA 315 – Assessing risk
 - Analytical and substantive audit procedure
 - Test checks
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2. Planning Phase

Before Start of Audit

- Appointment letter
 - NOC from previous auditor
 - Issue Engagement letter
 - Inform Branch and Share IRL
 - Audit program
 - LFAR
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2. Planning Phase

Planning at branch

- Staff involve in audit
 - Availability of documents
 - Time Management
 - Observation to be discussed with team and then with Branch Management
 - **Other Documents to be checked**
 - i. Previous audit report, Internal audit report/ concurrent audit report
 - ii. Credit audit/ stock audit
 - iii. RBI inspection report, IS/ IT report
 - iv. Any special report
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2. Planning Phase

Deliverables

- Audit report & MOC
 - Tax audit report
 - LFAR
 - **Certificate**
 - i. Cash
 - ii. Interest subvention
 - iii. Ghosh Jilani etc etc
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2. Planning Phase

Time Management for below

- LFAR
 - Advances & IRAC norms
 - Deposits
 - Balance sheet , P&L review
 - Certificates
 - Verification of documents from CPC
 - MOC/ Audit report
 - MRL
 - UDIN
 - Final discussion/ DSC
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- Audit documentation

3. Audit Planning – Key Considerations

- Understanding the banking environment
 - Reviewing RBI Circulars & ICAI guidelines
 - Identifying High-Risk Areas
 - Studying previous audit reports
 - Assessing internal control systems
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3. Audit Planning – Key Considerations

Definition & Meaning:

Audit planning is the process of designing an audit approach **before starting fieldwork** to ensure efficiency, completeness, and compliance.

Key Considerations:

- **Understanding the banking environment** – Study the branch operations and compliance requirements.
- **Reviewing RBI Circulars & ICAI guidelines** – Keep updated with RBI guidelines.
- **Identifying High-Risk Areas** – Loans, NPAs, fraud risks, etc.
- **Reviewing previous audit reports** – Identify past issues and verify if they are rectified.
- **Assessing internal control systems** – Check if the branch follows risk management policies.

4. Risk-Based Audit Approach

- High-risk transactions (Advances, NPA classifications, large transactions)
- KYC & AML compliance
- Interest Income Recognition
- Asset Classification & Provisioning

4. Risk-Based Audit Approach

Definition & Meaning:

A risk-based audit approach focuses on areas where there is a higher probability of **financial misstatement, fraud, or regulatory non-compliance**.

High-Risk Areas in Bank Audits:

- **Loan & Advances Review** – Ensuring proper documentation & classification.
- **NPA (Non-Performing Assets) Classification** – Checking if NPAs are correctly reported.
- **KYC & AML Compliance** – Verifying if the bank follows Know Your Customer (KYC) and Anti-Money Laundering (AML) norms.
- **Interest Income Recognition** – Ensuring correct calculation of interest.
- **Provisioning for Bad Loans** – Verifying that the bank is keeping enough reserves for loan losses.

5. Audit Procedures & Documentation

- **Loan & Advances Review** – Checking security, classification, provisioning
- **Cash & Investments** – Physical verification, reconciliation
- **Deposits & Interest Calculation** – Verification of interest application
- **Compliance Review** – Adherence to KYC, AML, RBI norms

5. Audit Procedures & Documentation

Definition & Meaning:

Audit procedures are **specific steps** performed by the auditor to collect audit evidence and verify financial data.

Key Areas to Cover:

- **Loans & Advances Verification** – Reviewing borrower files, security, and repayment status.
- **Cash & Investments Verification** – Ensuring physical verification of cash and securities.
- **Deposits & Interest Calculation** – Checking whether deposit interest is correctly applied.
- **Compliance Review** – Ensuring that the bank follows RBI norms, taxation laws, etc.

5. Audit Procedures & Documentation

Importance of Documentation:

- ▶ As per **ICAI SA 230 (Audit Documentation)**, every audit procedure must be recorded as evidence for future reference.

6. LFAR (Long Form Audit Report) – Key Aspects

- **Advances & NPAs** – Classification, security, provisions
- **Fraud Risk & Internal Controls** – Reporting of deficiencies
- **Asset-Liability Mismatch** – Liquidity position
- **Housekeeping & Other Matters** – Unusual transactions, reporting errors

6. LFAR (Long Form Audit Report) – Key Aspects

Definition & Meaning:

The **LFAR** is a **detailed questionnaire** prescribed by the **RBI** that helps auditors report on key risk areas.

Key Sections of LFAR:

1. **Advances & NPAs** – Are loans classified correctly? Is proper provisioning done?
2. **Fraud Risk & Internal Controls** – Any deficiencies in control mechanisms?
3. **Asset-Liability Mismatch** – Does the branch have liquidity issues?
4. **Housekeeping & Other Matters** – Any irregularities in transactions or accounting records?

7. Memorandum of Changes (MOC)

- What is MOC?
- When is it required?
- How to prepare & submit MOC?
- Common errors & rectifications

7. Memorandum of Changes (MOC)

Definition & Meaning:

The **MOC (Memorandum of Changes)** is a document issued by the auditor when errors or misstatements are found in the branch's financials that require correction.

When is MOC Required?

- **Misclassification of Advances** – If a standard loan is wrongly classified as a sub-standard loan.
- **Incorrect Interest Calculation** – If interest is under-reported or over-reported.
- **Under-Provisioning of NPAs** – If the bank has not set aside enough funds for NPAs.

7. Memorandum of Changes (MOC)

How to Prepare MOC?

1. Identify **errors or misstatements**
2. Discuss with **branch management**
3. Issue **MOC** for corrections

8. Certificates to be Issued in Bank Branch Audit

- NPA & Asset Classification Certificate
- Tax Audit & TDS Compliance Certificate
- Cash Verification Certificate
- Interest Rate Compliance Certificate
- Other Regulatory Certificates (RBI Compliance, AML, etc.)

8. Certificates to be Issued in Bank Branch Audit

Definition & Meaning:

As part of the bank branch audit, auditors need to certify certain transactions or financial aspects.

Key Certificates Required:

1. **NPA & Asset Classification Certificate** – Ensuring correct classification of NPAs.
2. **Tax Audit & TDS Compliance Certificate** – Tax Audit report under Section 44AB of the Income tax Act (if required by the bank)
3. **Cash Verification Certificate** – Certifying physical verification of cash.
4. **Interest Rate Compliance Certificate** – Checking if bank charges correct interest.
5. **Other Regulatory Certificates** – RBI compliance, AML/KYC compliance, etc.

8. Certificates to be Issued in Bank Branch Audit

6. Branch Auditors report
7. Memorandum of Changes if any
8. Certified / Attested financial statements including Schedules
9. Long Form Audit Report
10. Certificates as per CD provided by the bank / instructions of the bank

9. Common Issues & Challenges in Bank Audits

- Non-cooperation from bank staff
- Incomplete or missing records
- Frequent RBI policy updates
- High volume of transactions

9. Common Issues & Challenges in Bank Audits

Definition & Meaning:

Auditors often face **practical difficulties** while performing bank audits.

Major Challenges:

- **Non-cooperation from bank staff** – Staff may be uncooperative due to work pressure.
- **Incomplete or missing records** – Key records may not be available.
- **Frequent RBI policy updates** – Keeping up with regulatory changes.
- **High volume of transactions** – Processing thousands of transactions can be overwhelming.

9. Common Issues & Challenges in Bank Audits

Solution:

- **Proper audit planning**
- **Effective communication with bank staff**
- **Use of technology & audit tools**

10. Conclusion & Best Practices

- Proper planning & risk assessment
- Effective communication with bank officials
- Strong documentation & evidence collection

10. Conclusion & Best Practices

Definition & Meaning:

To ensure a **successful and efficient** bank branch audit, auditors should follow best practices.

Key Takeaways:

- ✓ **Proper planning & risk assessment** – Helps in focusing on high-risk areas.
- ✓ **Effective communication with bank officials** – Ensures cooperation from bank staff.
- ✓ **Strong documentation & evidence collection** – Fulfills ICAI auditing standards.
- ✓ **Adhering to RBI & ICAI guidelines** – Ensures compliance with regulatory norms

Thank You