

# HOUSEKEEPING AND SENSITIVE ACCOUNTS

The statutory audit of the bank is a time bound exercise. It involves lot of planning and execution as per the schedule, which is predetermined, considering the deadlines that are fixed. The expectations from the auditors are increasing day by day. Therefore, the time available with the auditors needs to be utilised in a very efficient manner. This article discusses certain aspects, which are relevant in audit from the point of view of housekeeping at the branch and scrutiny of Sensitive Accounts.

— Abhay V. Kamat

**T**he Bank plays a very important role in functioning of organised financial sector of the economy. A well-organised and efficient banking system is a prerequisite for economic growth of the country. The banking system is developing not only geographically but also operationally. It is no more an institution, which used to collect deposits to lend money. Anti-money laundering measures guidelines, submission of different returns of information about excess cash withdrawal, obtaining PAN for certain high value transactions, TDS on interest on Bank deposits and submission of returns and now, Banking Cash transaction Tax, etc. reveal that the Government is thinking of using banking system to streamline and strengthen the economy.

The volume of operations and the geographical spread of banks are increasing in India. The country has witnessed the use and abuse of the banking system. Therefore, the Auditing Function gained importance to protect the banking system from abusing the same. The responsibility of the auditor is

increasing from time to time considering the expectations of the people from the Audit.

## Housekeeping

Chambers Twentieth Century Dictionary states that 'housekeeping' means keeping or management of a house or of domestic affairs.

The system at the branch is designed to have smooth banking operations in a controlled environment. These smooth operations are ensured if the housekeeping at the branch is proper. Good housekeeping system has to be maintained by the branch management and the auditor has to get himself satisfied about the same. It gives a good comfort level. The housekeeping at the branch could be from different areas such as...

- ❶ Levels of managements along with their authorities and responsibilities.
- ❷ Human resources and management of human resources.
- ❸ Discipline and customer services.
- ❹ Compliance with central office guidelines and other statutory authorities.
- ❺ Maintenance and upkeep of assets.



- ❻ Security system.
- ❼ Quality and safety of records maintained.
- ❽ MIS and filing of returns to central office or to Reserve Bank of India.
- ❾ Reconciliation of accounts.

The above could be an illustrative list. In short, it starts from the name board of the branch and goes up to the quality of annual audited returns submitted by the branch.

The auditor has to examine the following aspects in housekeeping of the branch and satisfy himself about the quality of housekeeping and its weak links. This will help him to understand the internal control at the branch. Accordingly the audit programme could be designed.

## A. Operational Manuals

The bank prepares operational manuals for different functions, for e.g. Deposit Manual, Advances Manual,

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and Foreign Exchange Transactions Manual, etc. These manuals give ideas about how the branch should operate for the given function. Apart from such manuals, the branch gets circulars and guidelines from its central office about any changes— additions alterations, amendments to the matters stated in the manual. The branch should follow these manuals and the guidelines or circulars. The branch auditor should get himself acquainted with the banking system in use and find out whether the same is as expected by the control office.

### B. Organisation Chart

The organisation chart at the branch explains the manpower with its authorities and responsibilities. The officials at the branch should function within their authorities. The duties should be discharged as per the job profile of a person. There should be proper channels of communication. The auditor should obtain an organization chart specifying the authorities and responsibilities of the officials/employees at the branch. He should study the organisation chart and ascertain whether the employees are functioning within the parameters of their authorities and responsibilities. Whether the duties are discharged properly or not. While executing the functions whether there is a case of jumping of authority? In such case an explanation may be demanded.

Similarly the system of rotation of the job at the branch needs to be seen. A leave record of the staff could be seen to see the behaviour of absenteeism. In case of computerised environment the employee ID in different areas could be studied. The branch should have effective use of concept of maker-checker at the branch.

### C. Employee Relationship

The employees at the branch are the members of the team and the Branch Manager is the captain of the team. Therefore, the teamwork is most important. The role of a captain is vital in having smooth employee relationship and high morale. During the course of the stay at the branch the auditor should keep eyes and ears open to sense the employee relations and teamwork at the branch. Good teamwork and high employee morale will lead to zero pendency as far as work is concerned. The branch manager should ensure that the work at the branch is completed in timely manner and there is no backlog of work.

### D. Discipline and Customer Service

Nothing succeeded without discipline. The branch personnel should follow proper discipline to ensure proper conduct of the business. The norms of customer service need to be followed to ensure the growth in the business in the bank. The auditor should see the punctuality of the staff, the work behaviour of the employee and the behaviour with the customer. The auditor should take a note of unusual behaviour and think about its impact on the operations at the branch.

### E. Maintenance and upkeep of Assets

Usually the advances given are considered as assets in the balance sheet of the branch. There are specific guidelines about classification of assets and provisioning norms. Apart from the same, the branch is also having fixed assets, such as dead stock, furniture, equipments, etc. These assets need to be maintained properly. Usually the insurance for such assets is

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taken at head offices level. The expenditure on maintenance of such assets also needs to be authorised by the head office.

Similarly, the branch should maintain proper record by way of fixed asset register, depreciation calculation, etc. The depreciation should be calculated as per the rates specified. The method of charging depreciation should be in accordance with the accounting policy of the bank.

### F. Security System

Effective security system in the branch will ensure stoppages of possible loss. The bank handles not only cash but also the securities of the customer, which are pledged with it. Hence responsibility of such items gains more importance. Thus, there should be proper security system. The exit doors should not be kept open during the banking hours. There should be proper armed guard and license of the gun should be renewed timely. The cartridge of the gun should be replaced after the expiry. The fire drill should be done at least once in a year. The alarm system should be well tested at appropriate periodicity. An attention to these aspects will ensure proper security system.

### G. Quality and safety of Records maintained

The Books and other records should be kept in good condition. There should be a system of timely retrieval of records wherever the same is required. The custody of the record should be maintained properly. There should be a proper control over the issue and stock of Fixed Deposit receipts, Demand Drafts, Traveller's cheques, etc. In case of computerised environment the auditor should verify whether the hard copies of the accounts have been printed regularly. The auditor should check whether there exists a proper security system that ensures stoppage from unauthorised use of the system.

### H. MIS and Control Returns

Management Information System (MIS) returns and returns prescribed by the Head Office for statutory and other requirements should be filed as per the schedule prescribed. These returns have to be scrutinised and explanation for the unusual items should be asked for. A comparative analysis of returns for different periods should be made in order to get proper insight of the operations at the branch.

### Reconciliation

The word 'reconciliation' is the buzzword in the banking industry. The inter-branch entries are routed through Head Office account. The Head Office passes necessary entry at their end under the intimation to respective branches. These intimations need to be responded by the

branches immediately. Therefore, the time element in receipt of intimation and passing of entry or giving response to such entry should be minimum. The pending entries will reduce substantially in such situation. The auditor should verify the entries in Head Office Accountant keeping in mind the following aspects: -

- Whether daily extracts are prepared according to the prescribed instructions and are being dispatched promptly?
- Whether office distinctive number is being stamped on daily extracts/interbranch remittance?
- Review of pending correspondence and the manner of its disposal needs to be reviewed thoroughly.
- The HO closing balance as per daily extract and as per balance sheet at the end of accounting period should be tallied.
- The adjustment of high value entries (Rs. 2,00,000 and above) should be done within thirty days.
- Abnormal entries should be reported.

### Sensitive Accounts

In the books of the branch there are certain accounts, which need to be seen properly. These accounts are so sensitive that they can create havoc if they are ignored. Precisely these accounts need to be monitored with great care. They are fraud prone accounts. The sensitive accounts normally include: -

- Suspense Account
- Sundry deposit Account
- Current Deposit Miscellaneous Account
- Demand draft payable Account
- Pay slip payable Account
- Clearing Adjustment Account

The Auditor should review the system of operation of sensitive account—Passing of entry into such accounts and squaring of entries in the same accounts, the authority under which such entries are passed, etc. Similarly, a process of reconciliation and reasons for entries remaining pending in the reconciliation need to be reviewed.

The Auditor needs to look into the following aspects while scrutinising sensitive accounts.

- The outstanding in sundry deposits and suspense account should be taken down monthly and checked by the Manager.
- All debits in the suspense account should be passed by the Manager himself or by any other authorized person.
- There should be a proper register for such entries, which are passed and squared off.
- The records such as vouchers, supporting should be maintained.
- The auditor should take a list of outstanding entries and review them whether there exists any long outstanding entry.
- The auditor should also verify whether there exists any unusual entry in these accounts. An explanation for such entries should be asked and verified

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with the records at the branch.

- The clearing adjustment account is reconciled up to date and balancing as per ledger is tallied with the balance as per general ledger/statement received.
- The old entries in clearing suspense account, which are unreconciled need to be reviewed, and reasons for pendency should be understood. A follow up action of the branch should also be reviewed.
- The pending entries in drafts payable and pay slip payable should be scrutinised with a stress on reasons for pendency and follow up done by the bank.
- The entries in the stale drafts and pay orders should be transferred to inoperative ledger.

- The branches where the advices are in default on persistent basis should be reported.

The entries in such sensitive accounts have to be seen for entire audit period. The auditor should not restrict himself to the pending entries. In fact, the adjustment entries passed in last two months in such sensitive accounts need to be seen with more care.

### Conclusion

The Bank Audit is a vast area. The Institute of Chartered Accountants of India has issued Guidance Note on Audit of Banks. In addition, there are number of seminars conducted. Apart from the sources of knowledge made available, the auditor has to understand the purpose of audit, conduct the audit



with logical thinking and application of knowledge. The report has to be drafted in such a manner that it should stand on the test of contents, clarity and utility. To my mind the best test of audit is - 'Whether the report had added any value to the branch in smoothening the operations?' If the answer is 'Yes', I think we have done our job! ■

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