

Undertaking Bank Branch Audit in CBS Environment



Auditors perform the Statutory Bank Branch Audit under tremendous time constraints. The Banking has changed. Audit objectives are same while Audit approach has to be changed to suit the environment. It is necessary that this Environment is understood beforehand. Accuracy of Computer Output depends upon the authenticity of Inputs. If Input is not correct, Output cannot be Authentic. Mere verification of source document file is not adequate. Information has to be collated with the actual values set in the System. In a nutshell, you need to verify the Master Parameters which were fed to system while creating that Customer's account. Also one needs to make best use of reports available in the System. Sceptical approach in the audit Process should comprise both compliance testing and substantive testing. Ascertain existence of control process to supplement your opinion. Read on to know more...



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Environment

So far, we have travelled miles away from a totally manual way of accounting at Bank Branches up to CBS. This has since been stabilised to a large extent.

Yet CBS is not to be interpreted in a restricted sense of modified version of ABB. In substance,

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technically it represents Centralised Online Real time Banking- CORE, in which a centrally shared data base is used for all applications and transactions. Since it is also based on the concept of daily Anniversary, it facilitates daily interest charge/Income at the shadow and generates the Financial statements which accounts for Interest Income and expenses up to date which otherwise are actually applied and posted to personal account at a predetermined time interval.

Though we call a particular location assigned to us as a Branch, practically it is only a delivery channel, popularly known as SOL- Service outlet. In fact, every customer is a customer of a bank and not of branch. Thus in a way, CBS is a customer-centric web-based computer system.

CBS of Public Sector Banks operates through various modes. In case of certain banks using FINACLE, there is a single Data base application while in case of system implemented by TCS- BANC 24, there is presence of both Central data base as well as Branch server. Our members may be aware that in such cases we find accounts as BGL – Branch General Ledger & CGL- Corporate General Ledger.

The question is often raised, as to why we CAs are supposed to know all this. We need to appreciate that in each phase of the mechanisation the thrust audit areas have changed. In manual regime, most the staff was deployed in checking arithmetical accuracy. This focus got diminished in subsequent stages of mechanisation. Now in CBS, we cannot keep the same focus that we kept in pre-CBS environment. During this journey, the audit objectives remain the same and revolve around IRAC compliance and asset classification. Nevertheless, the Audit methodologies have to be changed and kept at par with the environment in which you are auditing.

The author has intentionally kept other areas such as ALM, Treasury Function, STR [Anti Money Laundering reporting etc.] outside this article as they are intended for Central Auditors.

Legal Aspects

Since observance of SA is imperative, members are requested to refer the SA-

“Identifying and assessing the risk of material misstatement through understanding the entity and its environment.” If you as a member performing attest function fail to understand the entity and the environment which generates output and this

results in a material misstatement, you cannot blame anybody except yourself.

Myths

- Computerised output is always Correct.
- CAs need high level of technical awareness.
- You need to reply only on those reports which are made available by Branch.
- Books are always balanced.

Audit Approach

Those Misconceptions have no relevance. Use of Computer Assisted Audit Techniques –CAAT is neither permissible nor viable. Also, we are not technically too proficient in Auditing with the Computer. The only approach in this situation is to understand the Environment and then apply “Auditing Around the Computer”.

Using the same approach, namely “Auditing Around the Computer” for CBS Environment, let us see some areas on which we are to report in various Branch reports. Reference may be made to LFAR in which there is a specific Point:

Levels and Extent of Computerisation: [LFAR]

In many cases, the answer written is fully computerised/100% Computerised. If it is so, then probably no Bank would have appointed CA firms for conducting Revenue Audit and to find out revenue leakages. The Audit itself should commence with this aspect rather than writing LFAR at the end of Audit conclusion. Hence, start the audit itself with the discussion with Branch people about the levels of computerisation, the areas taken care of by CBS and data centre and the areas where manual intervention is required.

Interest subvention calculations even today in many of the Banks are not taken care of by CBS System. Instead, the data is converted in Excel and calculations of differential interest are made on Excel. Unless and until the formula or the logic is set properly, the report may give incorrect output. Now our responsibility is first to ensure that all account eligible for Interest subvention are copied from CBS to Excel, the correct formula is used and if it is so, you can safely rely on output.

Bank Guarantee commission may not be forming part of CBS. Debiting borrowers account with charges for Inspection, stock audit, Godown visit would be manual in most of the cases. Rental

Income of lockers may be an area which may not be automated in CBS. Processing fees on new sanction/renewal of limits, etc. may be an area where manual calculations are made and entered into System. There are certain standing instructions which fail to get executed due to several reasons. In that case, manual intervention is a must. Report of all such failed SI is available in exceptional transactions report.

In a nutshell, it is advisable before you write that level of computerisation as 100%, have a look at the areas which are not supported by CBS.

Books and Records: LFAR

Generally, a very less attention is given on reporting on this area, as mostly we are reviewing what appears on the Computer Screen. Ledger accounts of NPA cases, in which the interest is not applied at all, may or may not be available to you and or may not be voluntarily shown to you. [Called as Dummy Ledger/Shadow Ledger, etc.]. In Finacle, even this ledger is also available for review. Members are expected to have test check of some of the cases.

Registers and records of Numbered Stationery Item [FD Receipt/Term Deposit receipts/DD/Pay Order/Cheque Books] forms an Important asset in CBS environment. The misuse of blank stationery is dangerous. Due verification needs to be done for such records.

Every branch has also to generate certain daily reports such as Daily Supplementary/Day Book, exceptional report, etc. Auditors are expected to have test check [At least for a period of one week ending 31st March]. You may find certain entries by which in respect of certain Underutilised Cash Credit Accounts, huge sums are debited to CC accounts and credited to current account. This increases numbers to the advantage of the bank. Now there may be a scope for auditors to write his opinion about a question in LFAR "Is there any window dressing".

Customer ID

CBS is a customer-centric web-based system. Sec 194 A of Income-tax Act treats a Customer ID as one single unit for the purposes of TDS. That is why there has to be Unique Customer ID for all accounts of that customer. Also, Asset classification has to be Borrower-wise and not facility-wise. It is imperative that ALL accounts pertaining to that Customer are mapped under the same Unique Customer ID. Auditors are expected to have test check of new accounts opened during the year and ensure that

Proper Unique Customer ID is created and if this Customer is an existing customer, even new accounts are also mapped under the same ID.

Interface between Modules

Some banks have Introduced Fixed Asset Management System FAMS software. Auditors are expected to ascertain the level of interface between this Software and Books of accounts. In fact, even the balancing of the results of FAMS and general ledger balances in Balance Sheet are expected to match.

There can be a similar situation for Bank Guarantee module if installed in CBS. Ascertain level of interface between BG Module and CBS. You may come across some instances in which BG issued have been recorded only in CBS as Contra Item, but not appearing in BG Module reports. It is only when those two systems are checked by auditors, he is in a best position to certify BG outstanding, BG expired and not cancelled. Even balancing of outstanding BGs and as per books of accounts will have to be ensured.

Computer Output

The whole authenticity of the output depends upon the quality of the Input. It is guided by a simple Principle "Garbage In-Garbage out". For the authenticity of any output, unless and until all the basic inputs are authentic, the process has no meaning. The items are called as account parameters. In a nutshell, if the account Master is created perfect, then auditors' reliance on the system output must be of a very high level. Auditors are urged to check major CC/Term loan accounts with respect to the Master creation and cross verify with reference to the Borrowers documentation file. One example of cash credit account is quoted below:

Sr. No.	PARTICULARS	
	Name of the borrower	
	Constitution	
	Address	
	PAN	
	GST TIN;	
	Sanction Limit of Working capital	INR
	Out of above Funded limit	INR
	Non Funded Limit	INR
	Inter se change whether allowed	Y/N
	Margin on stock	%
	Margin against Book debts	%

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Sr. No.	PARTICULARS
Stock statement frequency	Number of days
Grace days for stock statement after which DP is not to be computed	Number of days
DP Mode	Derived/ Enabled: Ideally it should be in derived mode. Else it will take sanctioned limit as DP.
Credit rating [Internal]	
Interest rate whether linked to above	Y/N
Interest rate whether linked to Base rate/ MC Rate	Y/N
Security Code	
Sector Code	

In case of term deposits, following parameters would be relevant for checking:

PAN CARD	Y/N
Form 60/61	Y/N
Auto renewal flag on	Y/N

In case of old accounts migrated to CBS in many cases since this flag was silent, it has resulted in Overdue term deposits.

In case of term loan, the important parameter would be:

Moratorium Period	Months
Repayment chart/ Instalment flow	
Gender of borrower	M/F. Especially relevant where in respect of certain Loans say Housing Loan a concessional rate of interest is applied.

If moratorium period is wrongly set as 12 months as against 1 month, probably no one will even understand that this account has slipped. As such, audit only with reference to Paper files would be of no use but should also be around the Computer with specific reference to Input Master verification.

Exceptional Transactions Report

This of course is main audit area. Whenever any transaction is beyond a set path, the System flashes a console message and if the same is bypassed

this transaction gets reported in Exceptional transactions report/warning report. Generation and verification of this report is a MANDATORY Process before executing End-of-day EOD activity and handing over to data centre. Generally, it comprises the following points on daily basis:

- Debits to INCOME Accounts [This is highly fraud prone area]
- Limit expired [Of great use in identifying slipped accounts]
- Balance exceeds limit [Frequent TODs can be located]
- Insurance renewal overdue [Deserves comment in Post disbursement reporting]
- Balance exceeds Security Value [To ascertain unsecured portion]
- Change of Master data [This is highly fraud prone area]
- Stock statement not received
- Dormant account activated [This will facilitate Auditors to ensure KYC Compliances].

Detailed scrutiny of this report for a sizeable number of days and especially last week of March will give enough Inputs to the Auditor to comment and will give him evidence necessary to enable him to form his opinion.

Office Account

Generally, this comprises impersonal accounts. They are highly sensitive in nature. It generally comprises, sundry advances, sundry deposits, suspense accounts, parked accounts, other receivables/payables, payment on behalf of other Branches POB, clearing suspense, payment against pension orders PPO, etc. In every CBS system, a detailed report showing the age-wise break-up of the same is available. This report should be extensively used by auditors.

In Finacle System, there is an account called as PROXY. Whenever certain charges are to be debited to a customer's account and if the account balance does not permit this, the said amount is debited to Proxy account and Income account is credited. Whenever the balance permits the debit entry to customer's account, The Proxy account is reversed and the customer's account is debited. Ideally as at the balance sheet date, this account should become Zero. If it continues to show some debit balance, it indicates that to that extent the Income is overstated.

Reports at Your Finger Tips

Some useful menus/Control keys in FINACLE which are of great help to the Auditors are quoted below:

MENU	UTILITY
ACLI	Account ledger enquiry. You can view the account.
CTR E	You can view the second effect of that transaction.
CTR D	Page down.
F3	Back to original.
ACM	Account master maintenance.
ACLHM	Account limits History maintenance. Verify the same with sanction records.
LTL	Limit tree look up. This is a report on limits utilisation. Identify Accounts eligible for levy of Commitment charges.
ACTI	Account Turnover Enquiry.
ATOR	Account turnover Report. This is most relevant for Cash credit accounts. Generate a report for specific period. It is expected generally that credit summations for the year should be at least 3- 4 times of sanctioned limit. You can ascertain the accounts with Low turnover to get an idea of slipped accounts.
AINTRPT	Interest report for the particular account.
SRM	Security Register Maintenance.
ALM	Account Lien maintenance.
GI	Guarantee Enquiry. Check whether BG are classified properly as Financial BG Or Performance BG.
ACINT	Report on Interest calculation. Have a test check of interest calculations.
ACTODM	Account TOD maintenance. Gives an idea as to accounts where Frequent TOD s are given.
DCQRY	Report on LC.
DCREG	Documentary credit register.
BRCR	Balancing of cheques sent for collection. Ensure that No entry is pending for more than 3 months.
ACLPCA	Customer account Printing menu.
ACL POA	Office Account Printing. This is a very Sensitive area and needs attention.



MENU	UTILITY
BCREPORT	Bankers cheques issued and outstanding report.
IOT	Enquiry on transactions: Especially Accounts Like Sundry assets, Suspense etc. This is a very Sensitive area and needs attention.
LAOPP	Loan Overdue Position Inquiry. Generates reports of Potential NPS. Those accounts might have become actual NPAs. If they are not so, ascertain that the recovery is genuine. They might have been accommodated by a debit parked to Clearing Suspense account. It must be kept in mind that in CTS regime this account has to be adjusted in a time bound manner as there is tight schedule set for all banks to confirm the fate of the Instrument.
POVDPC	Party wise Overdue pacing credits.
EXCRPT	Exceptional transaction Report: It is of immense Importance.

In respect of CBS implemented by TCS, The menu is very easy and explained in brief as below:

BGL> Enquire> Account No> Transaction Enquiry>Search by Client> Search by CIF> Search by name

Exceptional transactions report

Age wise analysis Report

Conclusion

We CAs are Banking Domain experts. Technology is an enabler. Instead of running away from it, we need to make best use of it. ■