



Bank Branch  
Integrated Audits  
leveraged on CBS

CA.R Vittal Raj

10-03-2017 ICAI - R VITTAL RAJ 1

The slide features a blue header with a digital circuit pattern. Below the header is a red box containing the title. To the left of the red box is a blue network diagram, and to the right is a 3D pie chart. The footer is a blue bar with the date, author, and slide number.

## Two key perspectives in Branch Audit

- Achieving Branch 'Balance Sheet' Audit Objectives using CBS
- Auditing internal Controls relevant to Branch Audit

## Purpose of this session

- Integrated Audit Approach – a fundamental necessity
- Evaluation of IT Controls relevant to Branch Financial Audit and NOT IS Audit!
- How to understand impact of IT on Branch Audit Assertions
- How to plan and test key aspects in Branch Audit
- How to use IT effectively in Branch Balance Sheet Audit, LFAR etc.

10-03-2017

ICAI - R VITTAL RAJ

1

## Key Circulars – relevant to IT Controls

- Cybersecurity Framework – June 2, 2016
- ATM Security & Risk Mitigation for Card Present Txns – May 26, 2016
- Internet Banking Facility – Co-operative Banks – Nov 05, 2015
- **LFAR for non-audit branches by Concurrent Auditors – June 4, 2015**
- Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Credit Card Accounts -20 Dec. 2013
- Risk Management and Inter-bank Dealings – July 2013
- Master Circular on Risk Management and Inter- Bank Dealings Master Circular No. 5 – 1 Jul 2013
- Security and Risk Mitigation Measures for Electronic Payment Transactions - 28 Feb 2013
- Security Incident Reporting Platform – Feb 2014
- Frauds – Classification and Reporting – 4 Jan 2014
- RTGS, Internet/Mobile Banking Volume increases geometrically – RTGS to be replaced with NG-RTGS, Cheque Truncation Introduced
- White Label ATMs – NBI s can issue ATM Cards - Feb 2012

10-03-2017

ICAI - R VITTAL RAJ

1

## Key Circulars – relevant to IT Controls

- **Working Group on information security, electronic banking, technology risk management and cyber frauds – Report & Recommendations – Jan 2011**
- Other aspects from RBI Notifications
  - Increased Security for Card Not Present Transactions
  - SMS, Velocity Checks, Validations, Beneficiary controls
  - Credit/Debit Cards with EMC & PIN
  - Mandatory PCI-DSS & PA-DSS Certification
  - Enhanced Interbank Mobile Payment Service (IMPS)
  - Real Time Fraud Monitoring & Transaction pattern Monitoring
  - Perpetual Systems Audit for Co-operative Banks
  - Quarterly Reporting on ATM Declines to Board
  - Fraud Reporting Requirements Changed
  - Fraud Reporting
- PASA Compliance to the fore!

10/03/2017

ICAI - R VITTAL RAJ

3

## Audit Risk – CBS Environment

*What every auditor trusts but not generally verified!*

- Systems take care of:
  - computational accuracy
  - Correct application of stamp interest/ rates etc.
  - No unauthorised transactions to be put through
  - No unauthorised transactions can occur
  - Data backup is never needed
  - System controls as per bank's policies and regulatory provisions
  - IRAC Classification & Provisioning are applied automatically as per norms

**Trust but verify!**

10/03/2017

ICAI - R VITTAL RAJ

3

## Session Outline

- CBS Branch Audit Planning Considerations
- Transaction Audit Aspects
- Achieving LFAR Objectives
- Other Branch Audit Aspects
- Auditing key IT controls in CBS Environment

10-03-2017 ICAI - R VITTAL RAJ 7

## Session Outline

- CBS Branch Audit Planning Considerations
- Transaction Audit Aspects
- Achieving LFAR Objectives
- Other Branch Audit Aspects
- Auditing key IT controls in CBS Environment

10-03-2017 ICAI - R VITTAL RAJ 8

## Branch Audit Deliverables

- External Audit of Financial Statements (Balance Sheet Audit)
- Key Deliverables:
  - Branch Auditor's Report
  - Audited Returns
  - Memorandum of Changes (MOC)
  - Long Form Audit Report (LFAR)
  - Certificates
  - Tax Audit Report (TAR)

10-03-2017

ICAI - R VITTAL RAJ

9

## Auditor's Assertions

- **Management Responsibility**
- Management of the Branch is responsible for the preparation of these Financial Statements that give true and fair view of the financial position and financial performance of the Branch in accordance with the Banking Regulation Act, complying with Reserve Bank of India Guidelines from time to time. **This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.**
- **Auditors' Responsibility:**
- Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. **Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.**

10-03-2017

ICAI - R VITTAL RAJ

10

## Auditor's Assertions

- *Auditors' Responsibility:*
- **An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error.**
- *In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit .....*

10-03-2017

ICAI - R VITTAL RAJ

11

## Key Audit Objectives

- Integrity of figures in Financial Statements, Returns, Certificates
- Compliance with Regulations – Companies Act 2013 affecting Banking Companies
- Correctness of IRAC Classifications & Provisioning
- Inadequacies in internal/ systems control (esp. w.r.t. branch powers, frauds, returns etc.) – LFAR
- Exceptional Events – Demonitization, Digital Banking Channels
- Any Fraud Indicators

10-03-2017

ICAI - R VITTAL RAJ

12

## Some Audit Challenges !

- Time Constraint
- Determining Right source of information
- Gaining the confidence to navigate through the CBS
- Tracing audit trail
- Getting required information .....and on time
- Challenges in getting data for analysis

13

## First Steps with your CBS Audit



10-03-2017

ICAI - R VITTAL RAJ

14

## Understanding the Technology behind CBS



March 10, 2017

15

### Why Branch auditors need understand Banking Technology ?

- Banking (-) IT/Mobiles = Non-Existent Today!
- Banking (-) Appropriate IT Controls = High Risk of Frauds & Errors
- Branch Audit (-) Considerations for IT Controls = High Audit Risk
- ICFR significantly automated! If not considered = Professional Negligence!
- Branch Audit in consideration of IT controls = Efficient Branch Audit

10-03-2017

ICAI - R VITTAL RAJ

16

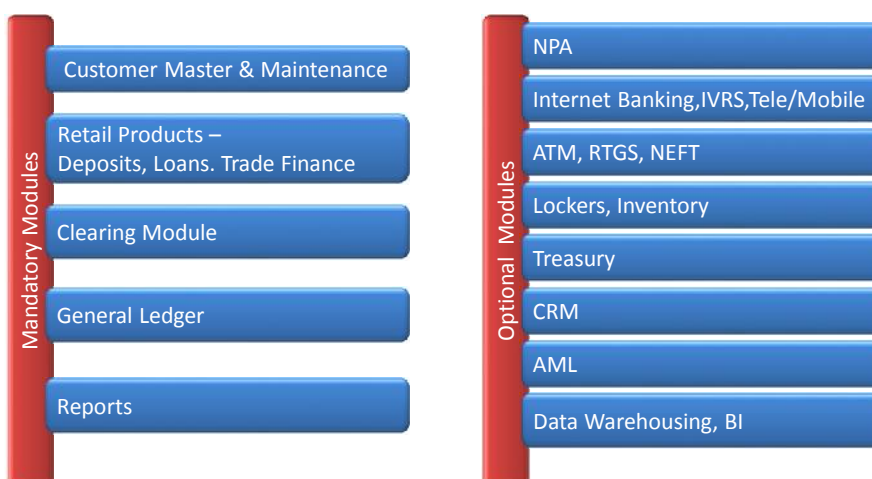


*Why do we need to understand Technology?*  
**Risk Assessment & Audit Planning**

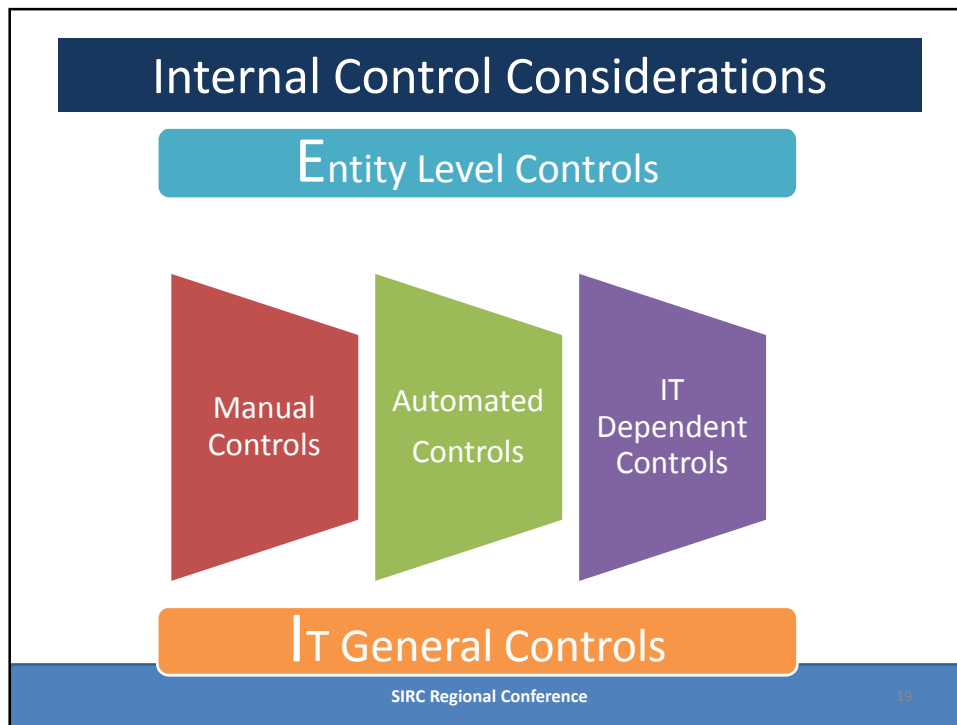
- SA 315 – Identifying and Assessing the **Risk of Material Mis-statement** through understanding the Entity and its Environment”, impact on:
  - Auditors procedures for obtaining sufficient understanding of the accounting & internal control systems
  - Evaluation of inherent risks and control risk to assess audit risk
  - Design and perform tests appropriate to meet audit objective

March 10, 2017

17



18



## Re-counting Audit Objectives

- Assurance on integrity of financial assertions
- Assurance on efficacy of internal (systems) controls
- Assurance over compliance with regulations and accounting standards

## *What gets ignored !*

- Criticality of Banking Processes from FR perspective not considered adequately
- Ineffective Transaction Authorisation Controls checking
- Improper Access Controls to sensitive capabilities
- Improper Segregation of duties in Applications and Systems
- Inappropriate understanding/testing of Monitoring and Supervisory controls
- Missed out/ Inadequate - Inadequate Internal Controls relevant to Financial Reporting
  - Governance Controls
  - Application Controls
  - IT General Controls

21

## Risk Based Audit Approach-Planning

- **Preliminary Assessment**
  - Identifying Risk context:
    - Branch Auditor's Report in context of Branch business
- Define and Document **Scope** & Audit Objectives
- Define **Audit Universe** and IT Dependencies
- Assessing Audit Risk
- Selecting and designing Audit Procedures
  - Transaction Audit Procedures
  - Procedures to test LFAR controls (ICFR/IFC)
  - General Controls & Fraud Audit
- Analysis & Interpretation of Findings
- Extend Tests where necessary
- Form Opinion

22

## Branch Audit Planning Considerations

- **Scope & Objectives Considerations**
  - Locations, Applications, Internet/Mobile Banking, Clearing & Settlement Systems, Outsourced functions
- **Audit Procedure Design considerations**
  - Effectiveness of the internal control procedures
  - Nature, timing and extent of procedures
  - Specific Areas - activities warranting special focus based on the materiality and criticality
- **Resource & Time Planning**

23

## Preliminary Assessment/Survey

- **Understanding the Audit Universe**
  - Profiling Branch Business & Automation
  - Profile the Branch business and materiality and inherent risks
  - Trend Analysis - Compare growth/reduction in volumes under various heads
  - Benchmark with Branch Banking Trends
  - Understanding Financial Assertions and underlying levels of automation
- **Understanding the Control Environment**
  - Gain Understanding of Automation levels and maturity – Extent of Automation
  - Key RBI & Bank's Internal Directives & Circulars
  - Previous Year Audited Accounts
  - Prev. Yr. Auditors & LFAR Report
  - Concurrent/Internal/Inspection/Branch Audit Report/Migration Certificates/IS Audit Report, if any
  - CBS Orientation/**Systems Mapping**
- **List of Current Year Branch Returns including Non-audit Returns**

10-03-2017

ICAI - R VITTAL RAJ

24

## Preliminary Survey Considerations

- Opening Meeting
  - Who should be present?
  - Changes in Accounting Systems/IT landscape since last audit
  - Problems & Issues during last year impacting FA
  - Global System Issues – nature and impact, IT Control – CPPD/CPC etc.
  - Special Issues – ATM, RTGS, Chq. Truncation etc.
  - Frauds and Modus in Branch as well as Region & Bank as a whole
  - Customer Complaints etc.
  - Minutes
- Branch Walkthrough – Process Walkthrough

25

## CBS Automation Efficiencies & Risks

- Borrower profile and term sheet controls automation
- Automated Computations – Interest, Fees, Charges, Margin, NPA & Provisioning
- Fully/Partially Automated Work Flows, transaction limits & Chart of Accounts
- Transactions integration from multiple Delivery Channels
- Transactions hitting in real time vs. EOD data commits!
- Opportunities of manual interventions/bypasses in CBS controls
- Control through Alerts, Escalations, Views, Reports

10-03-2017

ICAI - R VITTAL RAJ

26

## Map the Assertions to Systems

- T
  - a
  - T
  - G
  - E
  - M
  - LFAR Assurances
- **Mapping GL Heads**
    - Advances
    - Deposits
    - Contingent Liabilities
    - Contra Heads
    - Fixed Assets
    - Profit & Loss Account
      - Income – Interest Earned
      - Other Income – Commissions & Others
      - Expenditure – Interest Expended
      - Other Operating Expenditure
  - Schedules & Returns relating to
    - underlying
    - books of account
    - branch
    - use
    - EFT, ATM etc.
    - used
    - exceptional methods
- 50% migrated – which heads migrated during the year with date of migration – Note these areas for migration audit review

March 10, 2017

27

## Mapping considerations for audit planning!

- List down
  - Heads of Accounts affected by other than CBS
  - Heads of Accounts with external interfaces
  - Heads of Accounts requiring reconciliations with sub systems
  - Areas involving significant manual intervention
  - Heads of Accounts migrated during the year
  - Areas with issues arising from previous year audit/current year internal audits
  - Fraud affected/Customer complaints affected heads
- Plan your testing accordingly, based on materiality

March 10, 2017

28

## Audit techniques – leveraging on the CBS

- What are the CBS features that you can use for your audit – Where to find these ?
- Key Command Lines/Menu Options eg. Audit Module
- Standing Data & Parameters & How parameter configuration is controlled
- Learn about all kinds of Reports & How to extract reports for your purpose
- How to filter report columns relevant to your audit logic
- How to use Excel for auditing
  - Import & Extract Files, Apply Delimiters, Perform Sort, Compare, Data Custom Filters, VLOOKUP, De-Dup, Count & CountIF, PIVOTs, Benford's Law

10-03-2017

ICAI - R VITTAL RAJ

29

## Audit Methods and Techniques

- Interviews & Observation
- Sampling
  - Advance Portfolio Sampling
  - Income Leakage
  - Major GL Heads
  - Manual Debits in Interest/Income Accounts
- Review of Reports – Standard & Exception
  - Menu Option
- Adhoc/Supplementary Reports
  - Menu Option – AIS
- Excel or CAATs
  - Using PRN/TXT report files
  - Protocol on Use of Audit Tools!
- SQLs where necessary

10-03-2017

ICAI - R VITTAL RAJ

30

## Session Outline

CBS Branch Audit Planning Considerations

Transaction Audit Aspects

Achieving LFAR Objectives

Other Branch Audit Aspects

Auditing key IT controls in CBS Environment

10-03-2017

ICAI - R VITTAL RAJ

31

## Branch Transaction Audit under CBS

- Audit of transactions
- Audit of CBS functional Parameter/ Configurations
- Identifying standing data and how they affect transactions

10-03-2017

ICAI - R VITTAL RAJ

32



## Audit considerations - CBS affected Heads

- For Heads of Account with significantly automated process within CBS
  - Identify Key Parameters
  - Identify variants and categorise
  - For each variant, perform detailed walkthrough of
    - One sample new customer account/new transaction during the year
    - One sample account carried forward from previous year
    - Study all aspects relating to the category – c to g! Note parameters

10-03-2017

ICAI - R VITTAL RAJ

23

## Audit of CBS Parameters

- **Parameters Audit**
  - Txn within Branch powers:
    - User Rights Verification
    - Maker-Checker Configuration
  - In agreement with Books of Account
    - GL Linkages, Suspense/Parking Configuration
    - Rounding Off Parameters
  - Income
    - Interest Rate Parameters
    - Global Product Parameters
    - Method of Computation of Interest
    - Account Level Parameters
    - Service Charges Configuration
    - Penal Interest Method and Triggers
  - Expenses
    - Transaction Parameters
    - Deposit Products Interest Configuration
    - Automated Entries – Interest on HO Balance etc.

24

## Transaction Analysis vs. Voucher Audit

- Define your audit objective and then select appropriate procedure
- Identify if required reports are readily available from the CBS
- If not extract base reports in .XLSX/.CSV/.TXT formats
- Import to Excel with delimiters – You are ready for performing required analysis
- Use Excel functions to achieve your audit objective
- May require multiple iterations
- Extract analysis reports and retain for work papers

10-03-2017

ICAI - R VITTAL RAJ

35

## Applying Simple Analytics

- Advances Profiling
- Audit of NPA and Provisioning
- Auditing revenue from Advance categories
- Auditing internal controls in Advances (LFAR controls)

10-03-2017

ICAI - R VITTAL RAJ

36

## Advances & CBS

- Appraisal Controls & Exception Analysis – Flow Analysis
- Account Profile data
- Parameters
  - Global
  - Branch Level
  - Account Level
- NPA Computation
  - DC Driven – CBS. If not, raise observation in LFAR
- IRAC Classification
  - DC Driven – CBS. If not, raise observation in LFAR
- Provisioning
  - Manual Security Valuation, Provisioning apparently automated!

10-03-2017

ICAI - R VITTAL RAJ

37

## Profiling Advances

- Analyse Advances Profile
  - Category, Sector, Priority
  - Count
  - Value – Sanction, Disbursement, O/s. Balance
  - Category wise break up
  - Borrower Groups
  - Subsidy Accounts
  - ROI
  - Trend Analysis
  - NPA %age & Change
  - CIBIL Rating

10-03-2017

ICAI - R VITTAL RAJ

38

## Using CBS Reports in your Audit

- Use of Regular Reports, Exception Reports and Analytical Reviews
- Look for Systems Generated as well as Manual Records
- Transaction Review on terminal – Read/View only. Request Letter. Request for Exception Reports.
- Review History of integrity Impacts due to IT on Business/IT Risks without impact
- Review of Logs, Trails and Reports
  - Daily Reports
  - Transaction/Operational Logs
  - Internal Exception Reports
  - Audit Trails

10-03-2017

ICAI - R VITTAL RAJ

39

## Advances Audit – Using Reports

- Term Loans
  - Cash Credit and Overdraft
  - Demand Loans
  - Bills Purchased and Discounted
  - Restructured/Rescheduled accounts
  - Agricultural Advances
- Key Parameters
    - Interest Rate – Fixed/Floating, Account Level
    - Category & Scheme Selection
    - Agri Season Selection
    - Borrower Group/Consortium
    - Moratorium Input
    - Advance Scheduling as per Terms
    - Security – Primary/Collateral
    - Margin & Linkages eg. Lien
    - Charges Configuration/Penal Interest
    - Computation of DP
    - NPA Ascertainment
    - Lien Marking
    - Date of NPA
    - Repayment through Account Transfers
    - Security Value Shortfall
    - Security Valuation Date
    - Provisioning Configuration

10-03-2017

ICAI - R VITTAL RAJ

40

## Auditing Advances (LFAR internal controls)

- Credit Appraisal
  - Compliance with procedures, Flow Analysis & Exceptions
- Sanction/Disbursement
  - Beyond delegated authority
  - Disbursement without complying with terms & conditions
- Documentation
  - Completeness, deficiencies
  - Lien marking
- Supervision
  - AOD, Renewal
  - Stock/Book Debt statements, Audited Accounts, Inspection,
  - Deficiencies in Security, Inspection, Insurance
  - Date of NPA
  - Asset Classification
- Must Analyse
  - Significant Variation in Gross ratio/trend
  - Single Credits in Accounts
  - Short Review/ Renewal Pending
  - DP, Security Value
  - Expense Re-imbursement - Inspection/Legal/Insurance

10-03-2017

ICAI - R VITTAL RAJ

41

## Session Outline

CBS Branch Audit Planning Considerations

Transaction Audit Aspects

Achieving LFAR Objectives

Other Branch Audit Aspects

Auditing key IT controls in CBS Environment

10-03-2017

ICAI - R VITTAL RAJ

42

## LFAR – Requirements other than advances

### Internal Controls Assurance

#### I. Assets

- Cash, Bank Balances , Investments
- Advances
- Other Assets – Stationery, Suspense/Sundry Assets

#### II. Liabilities

- Deposits
- Other Liabilities
- Contingent Liabilities

#### III. P & L Items

#### IV. General Items

- Books & Records
- Reconciliations – GL/Subsidiary
- Inter Branch
- Audit & Inspection
- Frauds
- Miscellaneous

10-03-2017

ICAI - R VITTAL RAJ

41

## LFAR Aspects using Data Analysis

1. Cash
    - ATM Cash Verification
    - in excess of Limits
    - Trend Analysis
  2. Advances
    - Credit Appraisal – Compliance with Procedures – Exception Reports
    - Beyond Delegated Authority – Exception Reports (User ID & Date)
    - Non compliance with Terms of Sanction – Account Master & Change History
    - Documentation – List of Documents (Account Wise), Lien Marking List
    - Review Monitoring/ Supervision Eg.
      - Stock Statements/QIS/Insurance etc. – Exception Reports
      - Advances > Rs. 10 lacs – Listing
      - Use Exception Reports
  3. Other Internal Controls
    - Balancing Books – Reports
    - Operational & IT Controls
    - PL Items – Verification of application
    - Controls over Outsourcing
    - Add In Programs
- Inter Branch/Inter Office, NOSTRO – Old Entries
  - Suspense/Sundry Deposits
    - View/Report – age wise

10-03-2017

ICAI - R VITTAL RAJ

41

## Clearing and Deposits

- Clearing
  - Suspense Accounts
  - Clearing Exceptions – Returns, Errors
  - Clearing
    - Exception and Cheque Returned reports
    - Cases in which Schedule modifications allowed
    - IBD Cheque Numbers
  - ECS
    - Outstanding entries follow up
  - CRA - Reconciliation of Cash covers and Audit Rolls
  - Short/Excess Claims in Office Claims – O/s Entries
  - Bank Reconciliations
  - OCC Dishonour
  - TOD due to Clearing Report

10-03-2017

ICAI - R VITTAL RAJ

45

## Reconciliations

- Reconciliations – Payments, Clearing/  
Settlements
  - Subsidiary-GL Balancing?
  - RTGS/SWIFT/CTS-NACH
  - ATM Switch Suspense/ATM Cash Suspense
  - IMPS, Wallet Systems
  - Clearing Suspense
  - All suspense and Parking Accounts
  - Inter Branch- Unmatched SOL Ids
  - ECS Batch

10-03-2017

ICAI - R VITTAL RAJ

46

## CBS Exception Reports

- ◆ Authorization and limit reports
- ◆ In-operative/dormant account transaction reports
- ◆ Transactions entered & authorised by same person
- ◆ Change in GL Link Parameter Codes
  - GL Codes List with codes other than those in Reporting Statement – Pointing Parameters for Nominal Accounts
- ◆ Manual debits to interest paid account
- ◆ Direct GL entry exception reports
- ◆ Exceptional SL txns.
- ◆ Exceptional Parameter Changes
  - EOD (End of Day) Exception Reports

10-03-2017

ICAI - R VITTAL RAJ

47

## Other CBS Exception Reports (Mandatory EOD Reports)

- Daily Transactions
  - Daily supplementaries
  - ◆ Balancing and progressive reports
  - ◆ New Account Transaction Report
  - ◆ DDs printed report
  - ◆ Cheques Issued Report
  - ◆ Inter Branch/Bank debit reports
- ◆ Other Reports
  - ◆ Master data status reports
  - ◆ Dead Stock
  - ◆ FCNR Operations Report
  - ◆ Minors date Report
  - ◆ Stop Payment & SI Report

10-03-2017

ICAI - R VITTAL RAJ

48



## LFAR Revenue Items

- Revenue
- Income
  - Interest Rate/Charges – Audit Risks in Computing Environment
  - Verification of Parameter Files
  - Penal Interest Application
  - Service Charges
  - Expense Re-imburement
  - Special considerations – Branch/Extension Counter
  - Direct GL Entries in Income Accounts/Parameters
  - Audit Trail - History
- Expenditure
  - Interest Rate/Charges on Deposits
  - Back-dated Renewal – Interest w.r.t. entry date/value date

10-03-2017

ICAI - R VITTAL RAJ

49

## Tracking Income Leakage

- Income Leakage
  - Parameter Rate Variations – Customer/Account Level
  - Product Category based Interest Application
  - Value Dating in Deposits
  - Interest Collection Flag
  - Charges & Event Triggers – Chq. Book, DD, Inter-bank Transfers, Bill Payments, Ch. Ret., Stop Payment, SI, PO/DD/OCC Return
  - Debit Card Operations Charges
  - NRE/NRO Txns.
  - Penal Interest Application eg.
    - Submission of Stock Statements – DP Violation
    - Margin Violation
    - QIS
  - EMI Interest Application
  - Processing & Commitment Charges Application

10-03-2017

ICAI - R VITTAL RAJ

50

## Session Outline

CBS Branch Audit Planning Considerations

Transaction Audit Aspects

Achieving LFAR Objectives

Other Branch Audit Aspects

Auditing key IT controls in CBS Environment

10-03-2017

ICAI - R VITTAL RAJ

51

## Deposits & Borrowings

- Inter Bank Liabilities
  - Reconciliation
- Demand Deposits
  - SB
  - Demand/Term Deposits
  - Margin Monies
  - Special Schemes
- Inoperative & Dormant Accounts
- Parameters
  - Interest & effective Date
  - KYC & AML
  - SI
  - Lien Marking
- External A/c. Confirmations
- Duplicate Certificate Issues

10-03-2017

ICAI - R VITTAL RAJ

52

## Other Liabilities & Provisions

- Bills Payable
  - DD/MT/TC
  - Inventory
  - Secret Code controls
  - Unresponded Entries
- Inter Office Adjustments
  - Method of Reconciliation & Unreconciled items
- Other Liabilities
  - Interest Accrued
  - Collections in Suit-Filed Accounts
  - Provision for Frauds & Claims received
  - Provision for Gratuity & other staff benefits

10-03-2017

ICAI - R VITTAL RAJ

23

## Contingent Liabilities

- Claims against the bank not acknowledged as debts
- Liability – Forward Exchange Contracts
- Guarantees
- Acceptances, Endorsements & Obligations
- Bills for Collection
- Special Issues
  - Outside CBS but involve revenue
  - Crystallisation of Liability – How Accounted
  - Frauds

10-03-2017

ICAI - R VITTAL RAJ

24

## Audit Risk Special Considerations

- Multi/Alternate channel Suspense/Recon
  - ATM
  - Credit/Debit/Smart Cards
  - Voice Banking
  - Internet Banking
  - Mobile Banking
- Multi segment branches – Inter segment transactions
- Special business branch risk considerations
- Auditing Treasury Operations and systems
- Auditing Derivatives Operations & systems
- Service Branches/ZO/RO
- H.O Audit considerations

10-03-2017

ICAI - R VITTAL RAJ

55

## Certificates & Tax Audit



10-03-2017

ICAI - R VITTAL RAJ

56

## Tax Audit and Others

- Tax Audit
  - Books of Account Examined ?
  - Cash Payments
  - TDS
  - Bad debts
  - Term Deposits paid in Cash
- Service Tax Issues
- Income to Asset Analysis
- Periodic Analysis of P & L items

10-03-2017

ICAI - R VITTAL RAJ

57

## Branch Audit Certifications

- IRAC Norms and guidelines followed
- AML Certificate
- Sundry Assets
- Capital Subsidy Claims
- Accuracy of Capital Adequacy
- Certificate on Serious Irregularity
  - Fraud, fraudulent activity, foul play
- Compliance with Jilani & Ghosh Committee Recommendations

10-03-2017

ICAI - R VITTAL RAJ

58

## Session Outline

CBS Branch Audit Planning Considerations

Transaction Audit Aspects

Achieving LFAR Objectives

Other Branch Audit Aspects

Auditing key IT controls in CBS Environment

10-03-2017

ICAI - R VITTAL RAJ

29

## Ghosh Committee Recommendations

- Exception Reports on Compliance Issues
- Ledger Balancing
- Inter Branch Clearing – Items > 2L
- Suitable internal Controls in computerised environment
- Micro filming of records, vouchers, Books
- Screening and monitoring of EDP staff

10-03-2017

ICAI - R VITTAL RAJ

30

## Jilani Committee Report

- 19/53- Appropriate Control Measures should be devised and documented to **prevent the computer system from attack of unscrupulous elements.**
- 20/54- Various tests to be carried out to ensure that EDP **applications have resulted in consistent and reliable system for inputting, processing and generation of output of data**
- 15/44- Auditors and inspector to get the **majority of irregularities rectified during their stay at branches** concerned and guide them with it.

10-03-2017

ICAI - R VITTAL RAJ

61

## Key Procedures – Integrity & Availability

- HO – IT/CPPD/DC Circulations and Notifications
- Application Version – Patch Updates
- Access Controls over CBS and other software parameter changes
- Access Controls to sensitive folders containing reports etc.
- Maintenance of sensitive passwords
- Card Operations – PIN and Mailer Handling
- E-mail controls
- Clock Synchronization Controls – date and time stamping
- Anti Virus Controls
- ATM, RTGS and NEFT Access and Reconciliation Controls
- ATM loading, CRA, Suspense, Maintenance, CCTV Controls
- Branch Server – Backup, restoration and synchorinization controls
- Co-operative Banks – Controls over Branch data tapes and CDs etc.

10-03-2017

ICAI - R VITTAL RAJ

62

## Specific Assertions in LFAR *Branch Auditor's Dilemma !*

- Are hardcopies of accounts printed regularly
- Indicate the Extent of Computerisation
- Are Data Accuracy, Data Security and Internal Controls adequate
- Backups taken as per guidelines and reported to the authorities
- Adequate controls in place as regards Disaster Recovery Planning, loss of data and encryption
- Suggestions for Improvement in Systems as regards computerisation

10-03-2017

ICAI - R VITTAL RAJ

63

## Documentation – Work Papers

- Risk and Controls Assessment
  - Minutes of Meetings
  - Walkthrough Observations
- Audit Program and Procedures
- Audit Environment Scope Limitations
- Data identified for analysis and results for analysis
- Evidence
  - Electronic Evidence – Reports ?, Screen Shots ?
  - Copies of relevant report extracts and documents
- Key Submissions and certifications from Branch Management
- Record basis of judgment
- Call and Invite Attention of Central Stat. Auditor on Key Issues
- Ensure AAS Documentation Requirements are met

10-03-2017

ICAI - R VITTAL RAJ

64



## Reporting

- Ensure reporting on
  - When it comes to Internal controls, it is better to be specific rather than generic
  - Clearly highlight the system weaknesses that have impacted/can potentially impact financial reporting and bring attention to CSA
    - Eg Application, Interfaces, Migration, IT Infrastructure etc.
  - Also highlight where unable to comment upon and bring attention to CSA

10-03-2017

ICAI - R VITTAL RAJ

65

## In summary

- Accelerated automation of banking business; emerging technologies
- Increase in frauds and errors (system abused or system failed to detect!)
- Leveraging the CBS Environment can deliver effective and efficient audit & help manage audit risks better
- Information Gathering & Planning is key to CBS audits
- Move from transaction audit to Risk based audit approach
- Lookout for risks arising from exceptional events
- Data Analysis can be the game changer
- Lookout for system abuse frauds
- Great Opportunity to equip and leverage on contemporary techniques.

10-03-2017

ICAI - R VITTAL RAJ

66

Thank you

[rvittalraj@gmail.com](mailto:rvittalraj@gmail.com)

