

# **Presentation on Audit of specialised branches**

**Welcome to this presentation  
On behalf of SIRC-ICAI by  
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# SPECIALISED BRANCHES

- Definition of
- specialised branches:
- As per RBI Notification **RBI/2015-16/133**  
**DBS.CO.ARS.No. BC. 2/08.91.021/2015-16** dated July 16, 2015 **THIS**
- Includes
- AgriBranches
- SME
- Corporate Branches
- Retail Assets Branches
- Portfolio Management
- Treasury, Forex, Back Office, etc.,
- **THUS DEFINITION is an inclusive one and not an exclusive one.**

# LFAR and SPECIALISED BRANCHES

- Reference is **ALSO** invited to **Long Form Audit Report**, to be given for specialized branches which includes the following as specialised branches
- **1) Branches dealing in** foreign exchange transactions
- Normally referred to as Authorised Dealing **(AD)Branches**.
- Transactions at these branches together with transactions undertaken by them on behalf of NAD branches will come under scrutiny.

# LFAR and SPECIALISED BRANCHES

- 2) Branches dealing in large advances (These are named differently by different banks Viz Corporate and Institutional Credit branch, Mid corporate and large corporate branch, Industrial finance branch )-Branches having advances in excess of Rs 100 crores even if they are NOT named as above will still be covered under this.
- 3) Branches dealing in recovery of Non Performing Assets (Named DIFFERENTLY BY DIFFERENT BANKS as Asset Recovery Branch, NPA Management Branch OR simply as Recovery branch)
- 4) Branches dealing in Clearing House Operations (Referred to as service branches)

# Risk vs audit

- **Audit is to**
- Understand the risks involved
- Apply the checks that are required to assess them carefully
- Assess the areas of strength and weakness
- Plan the audit procedures that are required
- Execute and complete the same as per time schedule prescribed.

# APPROACH TO AUDIT OF A NORMAL BRANCH vs SPECILAISED BRANCH

- **A)** All basic checks and verifications to be done in case of a General branch will **MUTIS MUTANDIS** be applicable to a specialised branch too.
- **B)** Verification of items of Profit and loss as also Balance sheet of a specialised branch will thus be on similar lines to that of a general branch as per prescribed procedures/audit/accounting standards ..

# Check list for each type of specialized branch

- **Knowing** the type of specialized business which is subject to audit
- **Being aware** of the **MASTER CIRCULARS/NOTIFICATIONS** if any pertaining to the special type of business.
- **Getting to know** Policy guidelines of the respective branch's bank in so far as it relates to specialised business
- **Understanding** Audit and Assurance standards pertaining to the same if any. (Members may visit for the **MACRO** level approach to audit vide AAS experts' webcast dated 5.3.2017)
- .

# Important points of relevance from Broad cast of experts committee on AAS

- Responsibility of auditors w.r.t **Demonetisation** and after math – Applicability to all branches **INCLUDING SPECILAISED BRANCHES** esp with reference to transactions with **currency chest** IF ANY.
- **Classification of NPAs** (w.r.t the concession allowed in deciding period of overdues **CONSEQUENT UPON IMPACT OF DEMONETISATION**) with particular reference to **Asset Recovery Branches**
- **Treatment of LCs devolved** –Relevance to Large Industrial advances especially where the **devolvement is parked in seperate account.**
- **Examination of DATE OF Completion of Project (COP) ESPECIALLY WHERE RESTRUCTURING is involved (Applicable to large industrial advances with focus on Infra structure advances .)**



# Relief to MSMEs (Impact of demonetisation)

- Following master directions of RBI may be gone thru on financing SMEs and Concessions to SMEs.
- 1) RBI/ FIDD /2016-17/37 Master Direction FIDD.MSME & NFS.3/06.02.31/2016-17 July 21, 2016 **on finance to MSMEs &**
- 2) RBI/2016-17/200 FIDD.MSME & NFS.BC.No.20/06.02.31/2016-17 dated December 29, 2016 on
- **SANCTION of Additional Working Capital Limits to Micro and Small Enterprises (MSEs)**

# Relief to MSMEs (Impact of demonetisation)

- Reference: [RBI circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015](#) on 'Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle'. In terms of para 3 (ii) of the above circular, banks were advised, inter alia, to incorporate with their Boards' approval, in their lending policy to MSEs, a clause for fixing a separate additional limit, at the time of sanction / renewal of working capital limits, specifically for meeting the temporary increase in working capital requirements arising mainly due to unforeseen / seasonal increase in demand for products produced by them.
- **2. Consequent upon withdrawal of legal tender status of Specified Bank Notes (SBN) of ₹ 500 and ₹ 1000 denominations and based on feedback that some MSEs are facing temporary difficulties in carrying out their normal business due to cash flow mismatches, it has been decided to review the above instructions.**

## Relief to MSMEs (Impact of demonetisation)

- 3. Accordingly, banks are hereby advised that they may use the facility of providing above 'additional working capital limit' (approved by their boards as above) to their MSE borrowers, to overcome the difficulties arising out of such cash flow mismatches also. **This would be a onetime measure up to March 31, 2017 and should thereafter be normalised in fresh working capital assessment cycle.**
- **THUS SUCH ADDITIONAL LIMITS GIVEN IN TERMS OF THE ABOVE WILL NOT MAKE AN ACCOUNT AS NPA (ON THE BEASIS OF EXCESS DRAWINGS OVER REGULAR LIMITS)**

# Check List for audit of LARGE INDUSTRIAL ADVANCES Branch

- ASCERTAIN THE NUMBER OF ACCOUNTS AND VALUE OF ADVANCES to plan the audit force and the audit plan
- Find out the location of godowns/factories to decide on the visits where deemed necessary
- Call for ERI –Exceptional Report Information to Concentrate on nature of exception and authority for the same.
- Scrutinise the Circulars issued by Advances department to see their compliance in line and spirit. For Exceptions if any whether competent authority's approval obtained or not.

# Check list- audit of LARGE INDUSTRIAL ADVANCES Branch (Continued)

- Check for excess over limits/Drawing power and ensure the status of accounts classified as correct or other wise
- Check the following:
  - A) Regular submission of stock statements.
  - B) Regular submission of Book debt statements
  - C) Availability of Insurance
  - D) Appraisal shortcomings if any
  - E) List accounts with o/s in excess of Rs 1crore (whether upgraded or down graded in their status along with reasons there for)

# ASSET Recovery Branches

- Check List
- A) Obtain list of all accounts with **ADVANCE AMOUNT** in excess of Rs 2 crores and above as per format prescribed. Comments on **significant adverse features** shall be given by SBAs for consolidation by SCAs as appropriate.
- B) Obtain List all accounts with **outstanding in excess of Rs 2 crores** which have been **upgraded** during the year under audit and satisfy about the status of the a/c
- C) **System of upgradation** of accounts-whether satisfactory?
- D) **Promptness** in execution of decrees, filing of suits , valuation of securities as per standard guidelines prescribed to be examined and **Appropriation of recoveries whether in order** to be studied/commented.

# Asset Recovery branches- Check list (Ctd)

- E) Examination of accounts transferred by other branches to AR branches during the year
- F) Availability of documents in respect of all such cases
- G) Whether all facilities relevant to the borrower is trd including credit balances if any .
- H) Whether any non fund based facilities which have crystallised during the year have been captured with out fail-Check and counter check .

# Check list for Service branches- (Clearing operations)

- The following aspects to be checked:
- 1) Old outstanding entries in “clearing adjustment account” - System in practice for follow up and elimination and its efficacy.
- 2) year wise break up of outstanding (Number and value ) to be obtained and commented on for old/unusual/unexplained debit/credit.
- 3) Compliance in line and spirit to guidelines of the controlling authorities and deviations to be commented upon.



# Check list for Service branches- (Clearing operations)-Ctd

- To obtain from branch statistics as under:
- Data on inward clearing and Outward clearing to be separately given as per table below:

TYPE OF CLEARING	NUMBER	VALUE
NORMAL CLEARING		
HIGH VALUE CLEARING		
INTER BRANCH CLEARING		
RETURNED/DISHONOUR ED CLEARING	THIS WILL REQUIRE MORE INDEPTH SCRUTINY BY AUDITORS	

# CHECK LIST FOR FOREX branches

- Branch auditors may go thru MASTER DIRECTION of RBI in general IN ADDITION to following in particular:
- A) vide BI/FED/2016 -1 7/12 dated January 1, 2016 (Updated as on October 20, 2016) on **Imports of Goods and services**
- B) vide RBI/FED/2015-16/15 dated January 1, 2016 (Updated as on February 23, 2017) on - **External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency** by Authorised Dealers and Persons other than Authorised Dealers
- C) vide RBI/FED/2015-16/13 FED Master Direction No.18/2015-16 January 1, 2016 (Updated as on September 19,2016 on **Reporting under Foreign Exchange Management Act, 1999**
- Circular ref B WILL ALSO BE OF RELEVANCE TO LARGE ADVANCES  
BRANCH

# CHECK LIST FOR FOREX branches (Continued)

- **Scrutiny of**
- Deposit accounts
- Advances
- Export bills (On collection and on purchase/discount)
- Any other area involving FX operations keeping in mind
- **observations of** Concurrent/internal/RBI inspection reports to ascertain **adverse features persisting** if any in respect of the above and corrective action taken etc.

# CHECK LIST FOR FOREX branches (Continued)

- Nostro accounts and operations in them to be examined-Reconciliation of entries therein.
- Whether Confirmation of balances from overseas branches/correspondents obtained periodically and held .
- Compliance aspects w.r.t submission of reports etc to RBI (R returns)
- Adherence to prescribed guidelines and procedures w.r.t VOSTRO accounts and the reconciliation thereof.

# AGRI BRANCHES /FOOD CREDIT

## BRANCHES

- These are branches exclusively involved in extending agri credit(Direct and indirect) /branches where food credit is parked
- To ensure that the advances granted at these branches are exclusively agri in nature as per prescribed guidelines.(GOI/RBI)
- To apply master direction **RBI/FIDD/2016-17/27- FIDD No.FSD.BC.2/05.10.001/2016-17 dated July 1, 2016** Related to Relief Measures by Banks in Areas Affected by Natural Calamities) Directions, 2016
- **In ensuring compliance to the norms prescribed for Reshedulement/Rehabilitation/ASSET STATUS under IRAC norms**

# Check list for other branches of specialised nature

- Other branches which are involved in portfolio management, Retail assets management
- are to be examined with reference to
- A) nature of their activities undertaken
- B) the policies of the department of the respective bank's central office in respect of these activities
- C) the threshold limits within which they are required to operate
- D) the reporting requirements and compliance

# <<<<A FINAL WORD>>>>

- EVERY BANK HAS GOT A CULTURE
- Every branch is unique
- Every audit approach to be tailor made
- Every rule is to be understood and applied
- Every report of an auditor can add value to economy and society.
- **IN SHORT AN AUDIT WELL DONE IS THE HALL MARK OF ICAI.**

# Thank u all

- THANKS
- AND
- BEST WISHES
- FOR SMOOTH AUDIT EXPERIENCE -  
2017”