

TOPIC

Normal ⇒ Voucher → Journal → Ledger → Trial Bal. → Final A/c

Bank ⇒ Voucher/Slip → Posting → Individual Ledger → General Ledger Trial Balance

* "Journal don't have any major value"

- Slip Posting System
- Voucher Posting System

Unit 9

⇒ Cash trans.

⇒ Non-Cash → "Transfer trans."

Operational Aspects Of Accounting Entries

Voucher ⇒ "Branch Stationary Printed"

DR.

CR.

"money outflow from Customer A/c"

"money Inflow into Customer's A/c"

TOPIC

PECULIAR FEATURES OF ACCOUNTING SYSTEM IN BANKS

In the case of banks, relatively lesser emphasis is placed on books of prime entry such as cash books or journals ≡ Journal

Banks follow the accounting procedure of "voucher posting" ≡ vouchers are straightaway posted to the individual accounts in the subsidiary ledgers. ≡

the total thereof is posted to the respective control account in the general ledger. The

general ledger trial balance is prepared every day ≡

Types of Transactions

Cash and non-cash.

In the latter case, also called "transfer transactions" ≡

TOPIC

Vouchers

Debit vouchers are, \Rightarrow outflow ✓

1. Cheques ✓ issued by the customers.
2. Cheques/pay orders ✓ issued by the bank.
3. Withdrawal ✓ forms received from the savings bank account holders.
4. Drafts ✓ issued by other branches of the bank payable at the branch
5. Drafts issued by other banks ✓ on the branch,
6. Dividend/interest warrants issued by the bank's customers and payable by the branch in terms of an approved arrangement. 'if Customer is a Company'
7. Travellers' cheques issued by any branch of the bank which are presented to the branch for payment.

TOPIC

8. Drafts/pay orders issued by the branch
9. Letters of authority signed by the customers, containing standing instructions.
10. Term deposit receipts presented for payment,

Credit vouchers which are also \Rightarrow Inflow

- Pay-in-slips filled by the customers
- Applications for issue of term deposits, demand drafts, RTGS/NEFT, banker's cheques, pay orders, gift cheques, travellers' cheques
- Challans for deposits into the accounts of Central/State Government,
- DR • Credit vouchers prepared by the branch on its printed stationery
- On payment of collection instruments from other branches of the bank,

TOPIC



- ⇒ Accounting
- ⇒ E-Banking
- ⇒ KYC Compliance and documentation
- ⇒ Reconciliation
- ⇒ Foreign A/c records

Unit 10 - Back Office Functions/ Handling

Unreconciled Entries In Banks

- Bank ⇒
- ⇒ Other Branches
 - ⇒ Banks
 - ⇒ RBI
 - ⇒ Govt.
 - ⇒ Intermediaries
- ⇒ Balance Mismatch ⇒ Back office will do Reconciliation

TOPIC

FUNCTIONS PERFORMED BY THE BACK OFFICE

- Book keeping and accounting:
- General Ledger and other books of account, balancing of branch accounts, reconciliation of entries and sub-systems, preparation of financial statements
- Deposits:
- Loans:
- Regulatory Compliance: KYC gaps, customer grievance redressal system
- E-banking: handling transactions through internet, mobile banking or ATMs, card based payments, etc
- Other functions: clearing, collection, remittances, etc.

RECONCILIATION FUNCTION IN BANKS

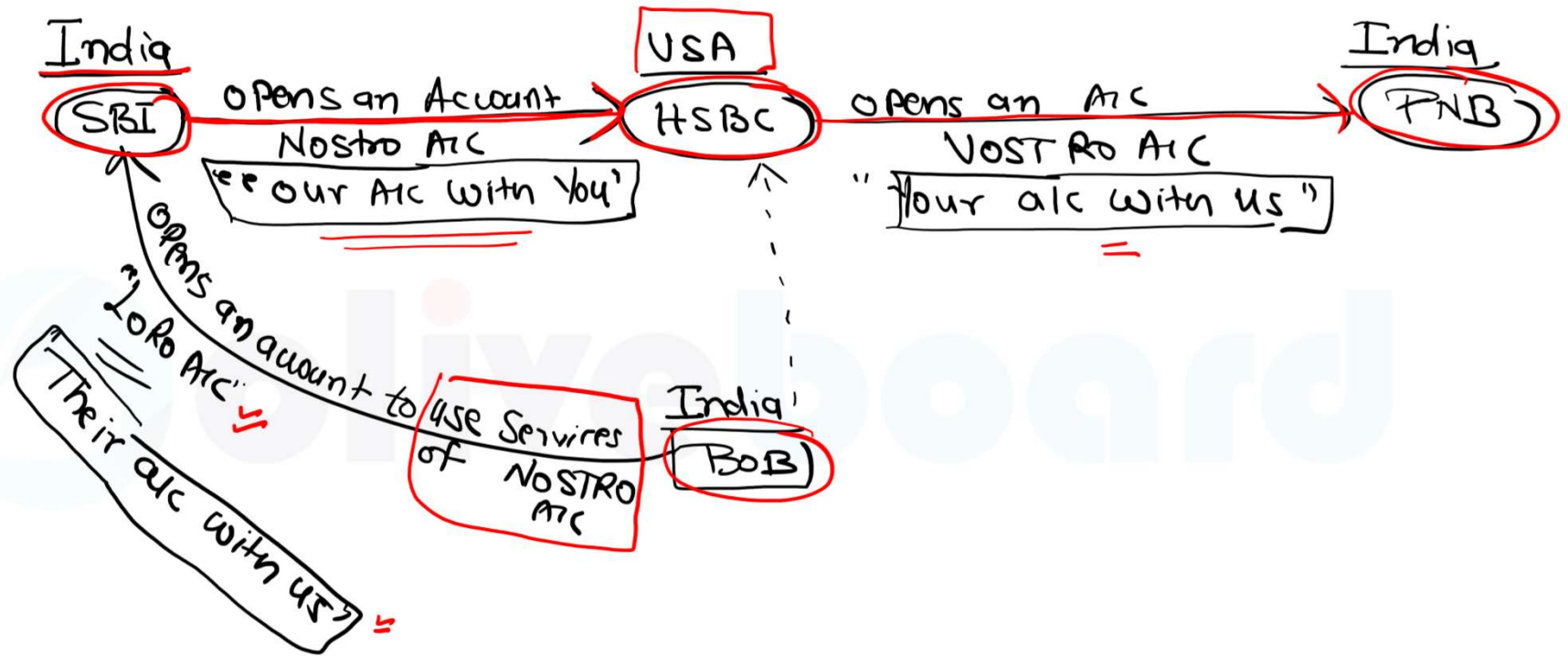
- Reconciliation of accounts for payments involving intermediary ✓
- Reconciliation of accounts with correspondent banks ✓
- Reconciliation of bank accounts with RBI and other banks and ✓
- Reconciliation of intra branch entries and sub-systems ⇒ within Same Branch
- Reconciliation of inter branch/office entries ⇒ with another Branch

⇒ Foreign currency account, maintained by a bank at an overseas centre, is designated by it as 'Nostro Account' i.e. "Our account with you".

Vostro Account

Loro Account

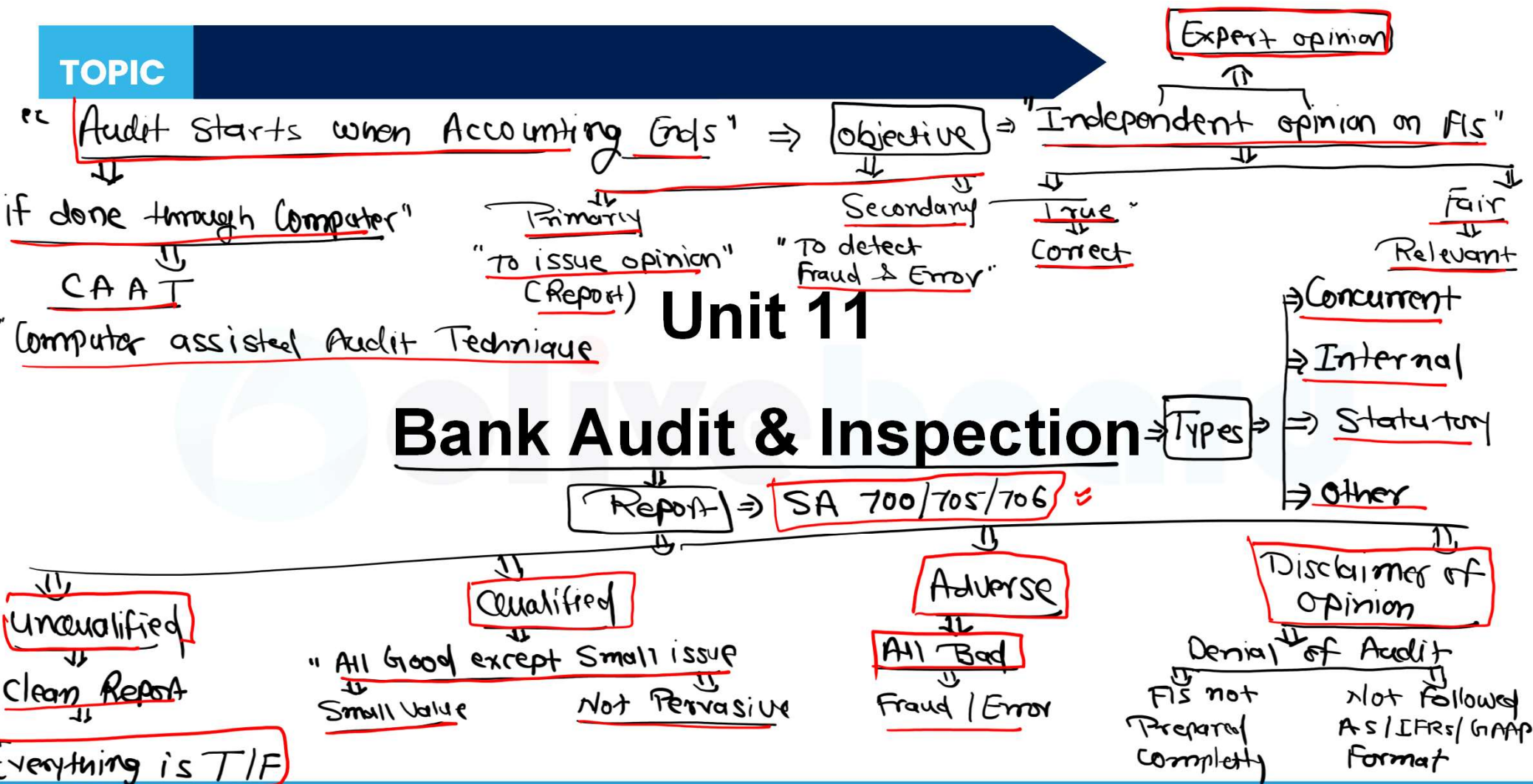
TOPIC



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⇒ Sec. 138 to Sec. 148 of Co. Act. → Related to Audit (Chapter X)

⇒ Qualification ⇒
⇒ Statutory Auditor → Practicing CA
⇒ Internal Auditor → Staff of Bank
⇒ Concurrent Auditor → Anyone (Normally Staff)

⇒ Appointment ⇒
Sec. 30 B.R. Act.
⇒ Public Sector ⇒ BoD
⇒ Private Sector ⇒ Shareholders } Panel of CA by RBI

⇒ Internal Audit ⇒
⇒ Control] ⇒ RBI Guideline ⇒ Follow Std. ⇒ Follow like Basel Norms
⇒ Risk] [2021]
IIA ⇒ International Institute of Internal Audit

Report → Submit → Head of Internal Audit → Fwd → Audit Committee → Fwd → Shareholders

Min. 3/year

Statutory Audit \Rightarrow once in a year Audit

Sec-29 B.R. Act. 1949 :- Bank have to Prepare FIS in Specific format = 18 Sch

Sec. 29 = Signature Sec. 30 \Rightarrow Get it Audited Annually

$\Rightarrow A = BIS = \begin{matrix} 11 \\ 12 \end{matrix}$
 $\Rightarrow B = P/L = \begin{matrix} 13-17 \\ 18 \end{matrix}$

Statutory Audit \Rightarrow Not focus = operational trans. (day to day function)
 \rightarrow Concurrent / Internal



\Rightarrow Focus = PSL / KYC / NPA / Basel / Compliance with AS

\Rightarrow Normal Company Act. Reports = Unqualified / Qualified / Adverse / Discrepancy
 \Rightarrow Long form Audit Report = 30 June \Rightarrow AS per RBI guideline
 \Rightarrow Tax Audit Report = 30 Sep.

AY 25-26 \Rightarrow 31st Oct.

- **Book:** “An Introduction to Indian Government Accounts and Audit”
- **Issued by:** The Comptroller and Auditor General of India, CAG
- **Defines audit as:** “An instrument of financial control.”

Computer Aided Audit Techniques (CAATs): Audit through computer

Types Of Bank Audits

- Concurrent Audit ✓
- Internal Audit/Information System Audit ✓
- Statutory Audit ✓

Emergence Of Risk-Based Internal Audit (RBIA) and Its Significance

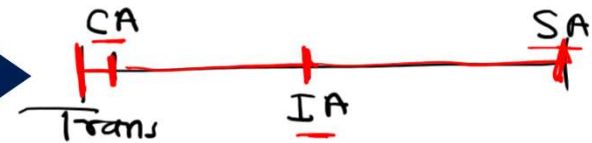
⇒ Control
⇒ Risk

The internal audit system in banks, historically, concentrated on

- Transaction testing, ⇒ Authorised
- Testing of accuracy
- Reliability of accounting records and financial reports,
- Integrity, reliability and timeliness of control reports,
- Adherence to legal and regulatory requirements.

Thus, RBI vide circular dated December 27, 2002, had introduced Risk-Based Internal Audit (RBIA) system in Scheduled Commercial Banks. (SCBs) as part of their internal control framework. This was further supplemented vide circular dated January 07, 2021.

- Banks are encouraged to adopt the International Internal Audit standards, like those issued by the Basel Committee on Banking Supervision (BCBS) and the Institute of Internal Auditors (IIA).



- ⇒ Real time Audit ⇒ Reduce Gap between transaction happening and its checking

• Concurrent Auditors check daily maximum cash balance adherence compliance, KYC norms compliance, proper documentation of new loan disbursements, whether new loans have been made as per rules and regulations, revenue leakages etc. among other things like putting any new RBI instructions to work. Any exceptions are reported in the Concurrent Audit Report.

 - ⇒ Cash Bal.
 - ⇒ KYC
 - ⇒ Documentation
 - ⇒ Rules (loan)
 - ⇒ Revenue leakage

Statutory Audit

Introduction As per the **Banking Regulation Act, 1949**, ^{+ Company Act.} annual Financial Statements in the form of Profit and Loss Account and Balance Sheet are required to be audited in accordance with the requirements of applicable statutes.

- Statutory audit mainly looks at the loans and advances, Compliance with Priority Sector Lending (PSL) requirements, CRR, SLR, CRAR / AS / NPA / Foreclosure

Salient Features

- It is conducted by a 'Statutory Auditor' - the word 'Statute' means - mandated or compulsorily required by any law or Act.
- In case of Banks, sub-section (1) of Section 30 of the Banking Regulation Act, 1949 requires that the Balance Sheet and Profit and Loss account of a banking company should be audited.
- Statutory audit does not look at the intricacies of the banking transactions (which are looked into by concurrent and Internal audits);

Appointment of Statutory Auditors in Banks

(section 30)

RBI prepares a panel of Chartered Accountants

Various Other Types Of Audits Undertaken By Banks

Revenue Audit (known as Income & Expenditure audit)

Stock and Receivables ⇒ NPA Audit



Forensic Audit ⇒ "To Collect evidence for Court"

Investigation

Management Audit Management ⇒ "To evaluate efficiency of top management decision making"

Tax Audit including Goods and Services Tax (GST)

⇓
"Tax Return filled timely and tax deposited"