

AC report digitization

9 October 2024



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Agenda

- Executive summary - Key insights - Qualitative and Quantitative
- Summary Statistics - Basic high-level statistics based on the underlying audit reports
- Summary of Issue findings - Summary of issue findings for top 3 Review Areas for high and medium rated issues
- Probable Risk Summary - Top 3 probable risks identified and summary of issues and root cause explanations
- Issue root cause summary - Summary of issue root cause explanations for high and medium rated issues across review areas
- Summary of issue statistics, issue findings, root cause explanation, probable risk - Overall

Executive summary

Key insights – Qualitative and Qualitative

- A total of 4 internal audits were performed.
- The reports belong to quarter 1 of 2024.
- The total number of issues identified were 34, with 4 being high risk, 12 being medium risk and the remaining 18 being low risk. Some issues were noted across multiple Review areas, resulting in a total of 10 unique high and medium rated risk issues: 2 high risk and 8 medium risk issues.
- The Review Areas with highest number of high and medium risk issues are Branch Review with 1 high and 4 medium risk issues, Wholesale LOB (Large Corporate and Mid Market segment) with 1 high and 3 medium risk issues, Wholesale LOB (Construction Finance Segment) with 1 high and 3 medium risk issues.
- The top Probable Risk categories with the highest overall issue counts are 'Operational' with 4 high-risk and 5 medium-risk issues, and 'Compliance' with 12 medium-risk issues. However, some issues are common across multiple review areas, resulting in a unique count of 2 high-risk and 4 medium-risk issues for 'Operational Risk,' and 4 medium-risk issues for 'Compliance Risk.'
- Operational Risk:
 - High Rated Issues:

The two high-risk operational issues identified pertain to inadequate oversight and control systems. Firstly, there's a significant gap in documentation and approvals for changes to product notes as required by the Product Working Group Charter. Secondly, there's a serious risk of data breaches due to unattended sensitive customer documents across various branches, indicating poor handling and storage of confidential information.
 - Medium Rated Issues:

The four medium-risk operational issues identified involve breaches of information security, non-compliance with established processes, non-compliance with regulatory requirements, and inadequate physical security. There have been instances of password sharing among relationship officers, compromising system integrity. Additionally, there has been a deviation from the Interest Service Reserve (ISRA) requirement for a loan, demonstrating procedural non-compliance. Furthermore, branches are failing to display notices and certificates as per RBI guidelines, indicating regulatory non-compliance. Lastly, physical security controls at branches are insufficient, compromising incident investigation capabilities.

Executive summary Contd...

Key insights – Qualitative and Qualitative

➤ Compliance Risk:

High Rated Issues: No high rated issues

Medium Rated Issues:

The four medium-risk compliance issues involve lapses in Know Your Customer (KYC) protocols, lack of policy for identifying non-cooperative borrowers, failure to verify non-profit organization customers' registration on the DARPAN Portal, and inadequate adherence to regulatory requirements. There is non-compliance with the RBI's Re-KYC mandate for co-borrowers and a lack of risk categorization for them in the Loan Management System (LMS). Additionally, the absence of a defined policy for reporting non-cooperative borrowers, as required by RBI, creates ambiguity and potential non-compliance. The organization also fails to ensure its non-profit customers are registered on the DARPAN Portal, risking regulatory penalties. Lastly, branches are not displaying various notices and certificates as per RBI guidelines, indicating potential fines or penalties.

- The top root cause categories are Lack of Documentation with 3 high and 3 medium risk issues and Process Non-adherence with 1 high and 5 medium risk issues.

Summary Statistics

Basic high-level statistics based on the underlying audit reports

1. Number of underlying internal audit reports: 4

2. Total Issues identified: The total number of issues identified are 34.

1. High-rated issues: 4

2. Medium-rated issues: 12

3. Low-rated issues: 18

Some issues were noted across multiple Review areas, resulting in a total of 10 unique high and medium rated risk issues: 2 high risk and 8 medium risk issues.

3. Review Area Level: The Review Areas with highest number of high and medium risk issues is Branch Review with 1 high and 4 medium risk issues.

4. Probable Risk Level: The top Probable risks are 'Operational Risk' (2 high and 4 medium risk issues), 'Compliance Risk' (4 medium risk issues).

5. Root Cause : The top root cause categories are Lack of Documentation with 3 high and 3 medium risk issues and Process Non-adherence with 1 high and 5 medium risk issues.

Summary of Issue findings (1/3)

Summary of issue findings for top 3 Review Areas for high and medium rated issues

- The count of high and medium risk issues under each unique review area is as follows:

- Branch Review: 5
- Wholesale LOB (Large Corporate and Mid Market segment): 4
- Wholesale LOB (Construction Finance Segment): 4

- The issue findings for the identified high and medium risk issues are:

❑ Branch Review

Total High-Risk Issues: 1

Total Medium-Risk Issues: 4

High-Risk Issue:

- ▶ Inadequate Control Over Handling and Storage of Customers' Confidential Documents: Sensitive documents were found unattended in various branches, indicating a severe lapse in security protocols. This situation poses a risk of data breaches and loss of confidential information.

Medium-Risk Issues:

- ▶ Sharing of User ID and Password by Relationship Officers: Instances of password sharing among relationship officers were observed, violating information security policies. This practice increases the risk of data breaches and compromises the integrity of organizational systems.
- ▶ Inadequacies in Compliance with Regulatory Requirements: Various notices and certificates mandated by RBI guidelines were not displayed at branches, indicating a lack of adherence to statutory requirements.
- ▶ Inadequate Physical Security Controls at Branches: Deficiencies in physical security controls were noted, including missing CCTV recordings and inadequate monitoring, compromising the ability to effectively monitor and investigate incidents.
- ▶ Exceptions in compliance with information security (IS) policy: The review of Information Security (IS) policy adherence at branches revealed two instances where personal Google applications were accessible on company laptops/desktops, and 20 instances where the streaming website YouTube was functioning on user's devices. This behaviour contravenes established IS policies, exposing the organization to potential data breaches and related risks.

Summary of Issue findings (2/3)

Summary of issue findings for top 3 Review Areas for high and medium rated issues contd...

❑ Wholesale LOB (Large Corporate and Mid-Market segment)

Total High-Risk Issues: 1

Total Medium-Risk Issues: 3

High-Risk Issue:

- ▶ Approval of Product Note: There was no evidence of approvals and formal email sign-offs for product notes as required by the Product Working Group Charter. This lack of documentation creates an absence of an audit trail, which is critical for accountability.

Medium-Risk Issues:

- ▶ Re-KYC of Co-Borrowers: Periodic Re-KYC was not conducted for co-borrowers, violating RBI regulations. The LMS system also fails to capture the risk categorization for co-borrowers, leading to potential non-compliance.
- ▶ Non-Cooperative Borrowers: There is no defined policy for identifying and reporting non-cooperative borrowers, which creates ambiguity in compliance. This lack of documentation may hinder regulatory compliance efforts.
- ▶ Registration on NITI Aayog Darpan Portal: The organization has not established a process to verify that non-profit organization customers are registered on the DARPAN Portal, as required by RBI regulations. This oversight could lead to non-compliance and regulatory penalties.

Summary of Issue findings (3/3)

Summary of issue findings for top 3 Review Areas for high and medium rated issues contd...

❏ Wholesale LOB (Construction Finance Segment)

Total High-Risk Issues: 1

Total Medium-Risk Issues: 3

High-Risk Issue:

- ▶ Approval for Product Notes: Similar to the previous area, there was no evidence of approvals and formal email sign-offs for product notes. This indicates a significant gap in documentation and oversight, leading to a lack of audit trails.

Medium-Risk Issues:

- ▶ Re-KYC of Co-Borrowers: Periodic Re-KYC is not conducted for co-borrowers as mandated by RBI regulations. The LMS does not capture the risk categorization for co-borrowers, leading to potential non-compliance.
- ▶ Deviation for Interest Service Reserve: An instance was noted where the required Interest Service Reserve was not obtained from a borrower, and no approval was secured for this deviation, indicating a failure to adhere to established processes.
- ▶ Non-Cooperative Borrowers: There is currently no defined policy for identifying and reporting non-cooperative borrowers, which creates a compliance risk.

Probable Risk Summary

Top 3 probable risks identified and summary of issues and root cause explanations

Issue root cause summary

Summary of issue root cause explanations for high and medium rated issues across review areas

Summary of issue statistics, issue findings, root cause explanation, probable risk - Overall
