# Contents of Accompanying CD

## Appendices

# Draft Engagement Letter to be sent to the Appointing Authority of the Bank

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

*To the Board of Directors (or the appropriate representative of senior management).*

This has reference to the letter No. ……………. dated …….received from …………………………………..(Name of the relevant authority) whereby we have been offered to carry out the statutory audit the following branches of your Bank for the financial year ended 31st March 20XX, including Tax Audit, issuance of the Long Form Audit Report and, as a part of the audit, verification and/ or certification of certain specific aspects, as listed in your aforementioned letter.

We are pleased to confirm our acceptance for the aforementioned assignment through the Letter of Acceptance attached herewith subject to the following:

i) Our audit of the financial statements of these branches will be conducted with the objective of our expressing an opinion on the truth and fairness of the financial statements of these branches. These financial statements include the Balance Sheet, the Profit and Loss Account and Cash Flow Statement for the year ended 31st March 2014, and a summary of significant accounting policies and other explanatory information.

ii) We will conduct our audit in accordance with the Standards on Auditing (SAs) and any other applicable pronouncement of the Institute, as well as the requirements of the Banking Regulation Act, 1949, and the guidelines/ directions issued by the Reserve Bank of India under the said statutes, from time to time. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

iii) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

iv) Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.

v) In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

vi) Our assignment will be conducted on the basis that the branch management and, where appropriate, those charged with governance of the Bank acknowledge and understand that they have responsibility:

(a) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework. This includes:

- the responsibility for the preparation of financial statements on a going concern basis;
- the responsibility for selection and consistent application of appropriate accounting policies, including implementation of applicable Accounting Standards, along with proper explanation relating to any material departures from those Accounting Standards;
- the responsibility for making judgements and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the branch at the end of the financial year and of the profit or loss of the branch for that period.

(b) for such internal controls, as the branch management determines, are necessary to enable the preparation of financial statements, that are free from material misstatement, whether due to fraud or error. The responsibility for internal controls also implicitly enshrines the responsibility for compliance with the relevant directions/ circulars of the Reserve Bank of India, including for those aspects which have been specifically listed for verification/ certification by us in your aforementioned letter; and

(c) to provide us with:

(i) access to all information, including the books, account, vouchers and other records and documentation, of the branch, whether kept at the branch office or elsewhere, of which the branch management is aware, that is relevant to the preparation of the financial statements such as records, documentation and other matters;

(ii) additional information that we may request from the branch management for the purpose of the audit, including any internal audit, concurrent audit, revenue audit, stock audit, Reserve Bank of India's Inspection report; and

(iii) unrestricted access to persons within the entity, from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the branch such information and explanations, as we may think necessary for the performance of our duties as auditor.

As part of our assignment, we will request from the branch management, written confirmation concerning representations made to us in connection with the audit, including confirmations in respect of the balances held by the Branch with other banks, and such other items on the financial statements of the Branch, as may be considered necessary by us for the purpose of our assignment.

It may also be noted that non provision of any information/ confirmation, requested by us from the branch management, may result in limitation on the scope of our assignment.

We also wish to invite your attention to the fact that, our audit process is subject to 'peer review' under the Chartered Accountants Act, 1949, to be conducted by an independent reviewer. The reviewer may inspect, examine or take abstracts of our working papers, in the course of the peer review.

We look forward to full cooperation from your staff during our audit.

Our fees for the said audits (excluding fees for Tax Audit and the travelling expenses will be as specified by the Reserve Bank of India/ State Bank of India[1].

Our fees for audit of Non Business Offices/ CMS Branches, as well as the tax audit fees of the branches, would be as specified in your aforementioned letter.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our aforementioned assignment/s including our respective responsibilities. (Kindly also mark a copy of such acknowledgement to the concerned official/s of the respective branch managements.)

XYZ & Co.
Chartered Accountants
…………………………
(Signature)

Date : (Name of the Member)
Place : (Designation[2])

Acknowledged on behalf of ………………. Branch of …………………Bank
……………………..
(Signature)
Name and Designation
Date

Attached: Letter of Acceptance duly signed by us.

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[1] As may be appropriate.

[2] Partner or proprietor, as the case may be.

# The Third Schedule to the Banking Regulation Act, 1949

(See Section 29)

## FORM 'A'

## Form of Balance Sheet

Balance Sheet of ____________________ (here enter name of the Banking Company)

Balance Sheet as on 31st March – (Year) (000's omitted)

| | Schedule | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| ***Capital & Liabilities*** | | | |
| Capital | 1 | | |
| Reserves & Surplus | 2 | | |
| Deposits | 3 | | |
| Borrowings | 4 | | |
| Other liabilities and provisions | 5 | | |
| Total | | | |
| ***Assets*** | | | |
| Cash and Balances with Reserve Bank of India | 6 | | |
| Balances with banks and money at call and short notice | 7 | | |
| Investments | 8 | | |
| Advances | 9 | | |
| Fixed Assets | 10 | | |
| Other Assets | 11 | | |
| Total | | | |
| Contingent Liabilities | 12 | | |
| Bills for Collection | | | |

## Schedule I
## Capital

| | | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| I. | ***For Nationalised Banks*** | | |
| | Capital (Fully owned by Central Government) | | |

| | | | |
|---|---|---|---|
| II. | ***For Banks Incorporated Outside India*** | | |
| | Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head.) | | |
| | Amount of deposit kept with RBI under section 11(2) of the Banking Regulation Act, 1949 | | |
| | Total | | |
| III. | ***For Other Banks*** | | |
| | Authorised Capital | | |
| | (……. shares of Rs…. each) | | |
| | Issued Capital | | |
| | (…… shares of Rs….. each) | | |
| | Subscribed Capital | | |
| | (…..shares of Rs….. ..each) | | |
| | Called-up Capital | | |
| | (……. shares of Rs… each) | | |
| | *Less:* Calls unpaid | | |
| | *Add:* Forfeited shares | | |
| | Total | | |

## Schedule 2
## Reserves & Surplus

| | | *As on 31.3__ (current year)* | *As on 31.3__ (previous year)* |
|---|---|---|---|
| I. | ***Statutory Reserves*** | | |
| | Opening Balances | | |
| | Additions during the year | | |
| | Deductions during the year | | |
| II. | ***Capital Reserves*** | | |
| | Opening Balances | | |
| | Additions during the year | | |
| | Deductions during the year | | |
| III. | ***Share Premium*** | | |
| | Opening Balances | | |
| | Additions during the year | | |
| | Deductions during the year | | |
| IV. | ***Revenue and Other Reserves*** | | |
| | Opening Balance | | |
| | Additions during the year | | |
| | Deductions during the year | | |
| V. | ***Balance in Profit and Loss Account*** | | |
| | Total (I, II, III, IV and V) | | |

## Schedule 3
## Deposits

| | | | | *As on 31.3__ (current year)* | *As on 31.3__ (previous year)* |
|---|---|---|---|---|---|
| **A.** | I. | ***Demand Deposits*** | | | |
| | | (i) | From banks | | |
| | | (ii) | From others | | |
| | II. | ***Savings Bank Deposits*** | | | |
| | III. | ***Term Deposits*** | | | |
| | | (i) | From banks | | |
| | | (ii) | From others | | |
| | | | Total (I, II and III) | | |
| **B.** | | (i) | Deposits of branches in India | | |
| | | (ii) | Deposits of branches outside India | | |
| | | | Total | | |

## Schedule 4
## Borrowings

| | | | *As on 31.3__ (current year)* | *As on 31.3__ (previous year)* |
|---|---|---|---|---|
| I. | ***Borrowings in India*** | | | |
| | (i) | Reserve Bank of India | | |
| | (ii) | Other banks | | |
| | (iii) | Other institutions and agencies | | |
| II. | ***Borrowings outside India*** | | | |
| | | Total (I & II) | | |

Secured borrowings included in I & II above – Rs.

## Schedule 5
## Other Liabilities and Provisions

| | | *As on 31.3__ (current year)* | *As on 31.3__ (previous year)* |
|---|---|---|---|
| I. | Bills payable | | |
| II. | Inter-office adjustments (net) | | |
| III. | Interest accrued | | |
| IV. | Others (including provisions) | | |
| | Total | | |

## Schedule 6
## Cash and Balances with Reserve Bank of India

| | | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| I. | ***Cash in hand*** (including foreign currency notes) | | |
| II. | ***Balances with Reserve Bank of India*** | | |
| | (i) in Current Account | | |
| | (ii) in Other Accounts | | |
| | Total (I & II) | | |

## Schedule 7
## Balances with Banks and Money at Call & Short Notice

| | | **As on 31.3__ (current year)** | **As on 31.3__ (previous year)** |
|---|---|---|---|
| I. | ***In India*** | | |
| | (i) Balances with banks | | |
| | (a) in current accounts | | |
| | (b) in other deposit accounts | | |
| | (ii) Money at call and short notice | | |
| | (a) with banks | | |
| | (b) with other institutions | | |
| | Total (i & ii) | | |
| II. | ***Outside India*** | | |
| | (i) in current accounts | | |
| | (ii) in other deposit accounts | | |
| | (iii) Money at call and short notice | | |
| | Total | | |
| | Grand Total (I & II) | | |

## Schedule 8
## Investments

| | | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| I. | ***Investments in India in*** | | |
| | (i) Government securities | | |
| | (ii) Other approved securities | | |
| | (iii) Shares | | |
| | (iv) Debentures and bonds | | |

| | | | |
|---|---|---|---|
| (v) | Subsidiaries and/or joint ventures | | |
| (vi) | Others (to be specified) | | |
| | Total | | |
| **II.** | ***Investments Outside India in*** | | |
| (i) | Government securities (including local authorities) | | |
| (ii) | Subsidiaries and/or joint ventures abroad | | |
| (iii) | Other investments (to be specified) | | |
| | Total | | |
| | Grand Total (I & II) | | |

## Schedule 9
## Advances

| | | *As on 31.3__ (current year)* | *As on 31.3__ (previous year)* |
|---|---|---|---|
| A. (i) | Bills purchased and discounted | | |
| (ii) | Cash credits, overdrafts and loans repayable on demand | | |
| (iii) | Term loans | | |
| | Total | | |
| B. (i) | Secured by tangible assets | | |
| (ii) | Covered by bank/Government guarantees | | |
| (iii) | Unsecured | | |
| | Total | | |
| C. *I.* | *Advances in India* | | |
| | (i) Priority sectors | | |
| | (ii) Public sector | | |
| | (iii) Banks | | |
| | (iv) Others | | |
| | Total | | |
| *II.* | *Advances outside India* | | |
| | (i) Due from banks | | |
| | (ii) Due from others | | |
| | (a) Bills purchased and discounted | | |
| | (b) Syndicated loans | | |
| | (c) Others | | |
| | Total | | |
| | Grand Total (C.I. & C.II) | | |

## Schedule 10
## Fixed Assets

| | | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| I. | ***Premises*** | | |
| | At cost as on 31st March of the preceding year | | |
| | Additions during the year | | |
| | Deductions during the year | | |
| | Depreciation to date | | |
| II. | ***Other Fixed Assets*** (including furniture and fixtures) | | |
| | At cost as on 31st March of the preceding year | | |
| | Additions during the year | | |
| | Deductions during the year | | |
| | Depreciation to date | | |
| | Total (I & II) | | |

## Schedule 11
## Other Assets

| | | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| I. | Inter-office adjustments (net) | | |
| II. | Interest accrued | | |
| III. | Tax paid in advance/tax deducted at source | | |
| IV. | Stationery and stamps | | |
| V. | Non-banking assets acquired in satisfaction of claims | | |
| VI. | Others* | | |
| | Total | | |

* In case there is any unadjusted balance of loss the same may be shown under this item with appropriate footnote.

## Schedule 12
## Contingent Liabilities

| | | As on 31.3__ (current year) | As on 31.3__ (previous year) |
|---|---|---|---|
| I. | Claims against the bank not acknowledged as debts | | |
| II. | Liability for partly paid investments | | |
| III. | Liability on account of outstanding forward exchange contracts | | |
| IV. | Guarantees given on behalf of constituents | | |
| | (a) In India | | |
| | (b) Outside India | | |
| V. | Acceptances, endorsements and other obligations | | |
| VI. | Other items for which the bank is contingently liable | | |
| | Total | | |

## Form 'B'

## Form of Profit & Loss Account
## for the year ended 31st Match _________

(000's omitted)

| | | Schedule | Year ended 31.3__ (current year) | Year ended 31.3__ (previous year) |
|---|---|---|---|---|
| I. | ***Income*** | | | |
| | Interest earned | 13 | | |
| | Other income | 14 | | |
| | Total | | | |
| II. | ***Expenditure*** | | | |
| | Interest expended | 15 | | |
| | Operating expenses | 16 | | |
| | Provisions and contingencies | | | |
| | Total | | | |
| III. | ***Profit / Loss*** | | | |
| | Net profit/loss (–) for the year | | | |
| | Profit/loss (–) brought forward | | | |
| | Total | | | |
| IV. | ***Appropriations*** | | | |

| | | |
|---|---|---|
| Transfer to statutory reserves | | |
| Transfer to other reserves | | |
| Transfer to - Government/Proposed dividend | | |
| Balance carried over to balance-sheet | | |
| Total | | |

## Schedule 13
## Interest Earned

| | | *Year ended 31.3__ (current year)* | *Year ended 31.3__ (previous year)* |
|---|---|---|---|
| I. | Interest/discount on advances/bills | | |
| II. | Income on investments | | |
| III. | Interest on balances with Reserve Bank of India and other inter-bank funds | | |
| IV. | Others | | |
| | Total | | |

## Schedule 14
## Other Income

| | | *Year ended 31.3__ (current year)* | *Year ended 31.3__ (previous year)* |
|---|---|---|---|
| I. | Commission, exchange and brokerage | | |
| II. | Profit on sale of investments<br>*Less:* Loss on sale of investments | | |
| III. | Profit on revaluation of investments<br>*Less:* Loss on revaluation of investments | | |
| IV. | Profit on sale of land, buildings and other assets<br>*Less:* Loss on sale of land, buildings and other assets | | |
| V. | Profit on exchange transactions<br>*Less:* Loss on exchange transactions | | |
| VI. | Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India | | |
| VII. | Miscellaneous income | | |
| | Total | | |

**Note:** Under items II to V, loss figures may be shown in brackets.

## Schedule 15
## Interest Expended

| | | *Year ended 31.3__ (current year)* | *Year ended 31.3__ (previous year)* |
|---|---|---|---|
| I. | Interest on deposits | | |
| II. | Interest on Reserve Bank of India/inter-bank borrowings | | |
| III. | Others | | |
| | Total | | |

## Schedule 16
## Operating Expenses

| | | *Year ended 31.3__ (current year)* | *Year ended 31.3__ (previous year)* |
|---|---|---|---|
| I. | Payments to and provisions for employees | | |
| II. | Rent, taxes and lighting | | |
| III. | Printing and stationery | | |
| IV. | Advertisement and publicity | | |
| V. | Depreciation on bank's property | | |
| VI. | Directors' fees, allowances and expenses | | |
| VII. | Auditors' fees and expenses (including branch auditors' fees and expenses) | | |
| VIII. | Law charges | | |
| IX. | Postage, telegrams, telephones, etc. | | |
| X. | Repairs and maintenance | | |
| XI. | Insurance | | |
| XII. | Other expenditure | | |
| | Total | | |

# An Illustrative Format of Report of the Auditor of a Banking Company

**INDEPENDENT AUDITOR'S REPORT**

To
The Shareholders

**Report on the Financial Statements**

1. We have audited the accompanying financial statements of the ABC Bank Limited, which comprise the Balance Sheet as at 31st March, 2XXX and the Statement of Profit and Loss and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of ________ branches audited by us, ______________ branches audited by branch auditors and unaudited returns of ______________ branches in respect of which exemption has been granted by the Central Government under Rule 4 (1) (a) of the Companies (Branch Audit Exemption) Rules, 1961 from the provisions of sub-sections (1) and (3) of Section 228 of the Companies Act, 1956. These unaudited branches account for ______________________ per cent of advances, _______________ per cent of deposits, ___________________ per cent of interest income and ____________________ per cent of interest expense.

***Management's Responsibility for the Financial Statements***

2. Management is responsible for the preparation of these financial statements in accordance with XYZ Law of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

3. 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.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts together with the notes thereon give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956, in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31st March, 2XXX;

(ii) in the case of the Profit and Loss Account of the profit/loss for the year ended on that date; and

(iii) in the case of the Cash Flow Statement, of cash flows for the year ended on that date.

**Report on Other Legal and Regulatory Matters**

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

8. We report that:

(a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.

(b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank.

(c) the returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.

9. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

10. We further report that:

    (i) the Balance Sheet and Profit and Loss Account dealt with by this report, are in agreement with the books of account and the returns.

    (ii) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books.

    (iii) the reports on the accounts of the branches audited by branch auditors have been dealt with in preparing our report in the manner considered necessary by us.

    (iv) as per information and explanation given to us the Central Government has, till date, not prescribed any cess payable under section 441A of the Companies Act, 1956,

    (v) on the basis of the written representation received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2XXX from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For ABC and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation)[#]
Membership Number
Firm Registration Number

Place of Signature:
Date of Report:

[#] Partner or proprietor, as the case may be.

# An Illustrative Format of Report of the Auditor of a Nationalised Bank

## INDEPENDENT AUDITOR'S REPORT

To

The President of India

**Report On The Financial Statements**

1. We have audited the accompanying financial statements of XY Bank as at 31st March, 2XXX, which comprise the Balance Sheet as at March 31, 2XXX, and Profit and Loss Account and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of ___________ branches audited by us and ______________ branches audited by branch auditors. The branches audited by us and those audited by other auditors have been selected by the Bank in accordance with the guidelines issued to the Bank by the Reserve Bank of India. Also incorporated in the Balance Sheet and the Statement of Profit and Loss are the returns from _______________ branches which have not been subjected to audit. These unaudited branches account for ___________________per cent of advances, _____________ per cent of deposits, _______________ per cent of interest income and _______________ per cent of interest expenses.

***Management's Responsibility for the Financial Statements***

2. Management is responsible for the preparation of these financial statements in accordance with XYZ Law of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

3. 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.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

6. In our opinion, as shown by books of bank, and to the best of our information and according to the explanations given to us:

(i) the Balance Sheet, read with the notes thereon is a full and fair Balance Sheet containing all the necessary particulars, is properly drawn up so as to exhibit a true and fair view of state of affairs of the Bank as at 31st March 2XXX in conformity with accounting principles generally accepted in India;

(ii) the Profit and Loss Account, read with the notes thereon shows a true balance of profit/loss, in conformity with accounting principles generally accepted in India, for the year covered by the account; and

(iii) the Cash Flow Statement gives a true and fair view of the cash flows for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

7. The Balance Sheet and the Profit and Loss Account have been drawn up in Forms "A" and "B" respectively of the Third Schedule to the Banking Regulation Act, 1949.

8. Subject to the limitations of the audit indicated in paragraph 1 to 5 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, and subject also to the limitations of disclosure required therein, we report that:

(a) We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit and have found them to be satisfactory.

(b) The transactions of the Bank, which have come to our notice have been within the powers of the Bank.

(c) The returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.

9. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the applicable accounting standards.

For ABC and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation)#
Membership Number
Firm registration number

Place of Signature:
Date of Report:

# Partner or proprietor as the case may be.

# Draft of Written Representation Letter* to be obtained from the Branch Management

**M/s XYZ & Co.,**
Chartered Accountants,
*Place*

Dear Sir(s),

**Sub.: Audit for the year ended March 31, 20XX**

This representation letter is provided in connection with your audit of the financial statements of _____________ branch of _______________ bank, for the year ended March 31, 20XX, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of ___________ branch of _______________ bank as of March 31, 20XX, and of the results of operations for the year then ended. We acknowledge our responsibility for preparation of financial statements, in accordance with the financial reporting framework applicable to the Bank, including the regulatory requirements of the Reserve Bank of India.

We confirm, to the best of our knowledge and belief, the following representations:

1. **Accounting Policies**

The accounting policies, as approved by the board of directors of the Bank, have been duly followed. There are no changes in the accounting policies followed by the branch during the current year.

2. **Assets**

2.1 All the assets owned by the bank and transferred to the branch and such other asset/s, as has/ have been acquired by the branch, has/have been duly accounted for, and none of the assets is encumbered.

2.2 Fixed assets held by Branches have been properly accounted and have been physically verified at the year end. No discrepancies have been noticed on such verification. Depreciation on these assets has been adequately provided as per the policy of the bank.

2.3 In respect of assets other than fixed assets, the same do not have a value lower than realizable value.

2.4 The branch is operating from a leased premises and there is no dispute with respect to the tenancy and lease charges.

3. **Capital Commitments**

At the balance sheet date, outstanding commitments for capital expenditure have been duly depicted in the financial statements.

4. **Cash and Bank Balances**

The cash balance as on March 31, 20XX is Rs._____________, and has been verified by us.

* Kindly also refer Revised Standard on Auditing (SA) 580, "Written Representations".

5. **Liabilities**

The branch has recorded all known liabilities in the financial statements.

6. **Contingent Liabilities**

6.1 The branch has fully disclosed in the notes to the financial statements ;

(a) guarantees that we have given to third parties;

(b) Letters of Credits (Local/ Import);

(c) Letters of Comfort (Local/ Import);

(d) Deferred Payment Credits/ Guarantees (Local/ Import); and

(e) Other contingent liabilities.

6.2 Other than for advances, there are no matters involving the branch in any claims in litigation, arbitration or other disputes, in which there may be some financial implications, including for staff claims, branch rentals, municipal taxes, local levies, etc., except for those which have been appropriately included under contingent liabilities.

6.3 None of the contingent liabilities disclosed are likely to result in a loss, requiring adjustment of assets or liabilities.

**Provisions for Claims and Losses**

7. Provision has been made in the accounts for all known losses and claims of material amounts.

8. There have been no events subsequent to the balance sheet date, that require adjustment of, or disclosure in, the financial statements or notes thereto.

9. We have made available to you all the following latest reports on the accounts of our branch, and compliance by the branch on the observations contained therein:

a) Previous year's branch audit report;

b) Internal inspection reports;

c) Report on any other Inspection Audit, that has been conducted in the course of the year, relevant to the financial year 2011-12.

Apart from the above, the branch has not received any show cause notice, inspection advice, etc., from the Government of India, Reserve Bank of India or any other monitoring or regulatory authority of India, that could have a material effect on the financial statements of the branch during the year.

10. **Balancing of Books**

The books of the accounts are computerised and hence the subsidiary records are automatically balanced with the relevant control records. In the case of manual sub-ledgers maintained, we confirm that they duly match with the general ledger balances.

11. **Overdue/Matured Term Deposits**

All overdue/ matured term deposits are held as matured term deposits.

12. **Advances**

In respect of the Advances and income thereon, the income recognition and asset classification norms prescribed by the Reserve Bank of India have been complied with.

13. **Outstanding in Suspense/ Sundry Account**

The year–wise/ entry–wise break up of amounts outstanding in Sundry deposits/ Sundry assets, as on March 31, 2011, has already been submitted to you along with explanation of the nature of the amounts in brief, and supporting evidences relating to the existence of such amounts in the aforesaid accounts.

14. **Interest Provisions**

Interest provision has been made on deposits, etc., in accordance with the extant instructions of the Head Office.

The interest provision for Head Office Interest shall be made at the Head Office.

15. **Long Form Audit Report–Branch Response to the Questionnaire**

In connection with the Long Form Audit Report, complete information as regards each item in the questionnaire, has been made available to you in order to enable you to verify the same for the purpose of your audit.

16. **Other Certification**

Duly authenticated, information as regards other matters which, as per the bank's letter of appointment, require certification, has been made available to you.

17. **General**

There is no enquiry going on or concluded during the year by the Central Bureau of Investigation (CBI), or any other vigilance or investigating agency, on the branch or on its employees and no cases of frauds or of misappropriation of assets of the branch have come to the notice of the Management during the year, other than for amounts for which provisions have already been made in the books of accounts.

18. The provision for non–performing assets, depreciation, provision for income tax, provision for bonus, gratuity, etc., is made at the Head Office. Therefore, the same has not been provided in the branch accounts.

19. FIMMDA guidelines have been followed, wherever applicable.

20. The branch has complied with all aspects of contractual agreements, that could have a material effect on the financial statements in the event of non–compliance. There has been no non–compliance with requirements of regulating authorities, that could have a material effect on the financial statements in the event of non–compliance.

21. The other particulars required, have already been given to you, and particulars and other representations made to you from time to time are true and correct in all respects.

Thanking you,

Yours faithfully

For & on behalf of __________ branch of ______________ bank

Authorised Signatory

# APPENDIX-6

## Draft Bank Branch Audit Program for the year ended March 31, 2014

NOTE:

1) The above audit program is illustrative and the members are advised to modify the same suitably to suit their requirement.

2) Documentation should be done to support the above audit programme.

Name of the Bank and Branch:
Branch Code No.

IFSC Code

Region/ Zone in which the Branch is located:
Name & Position of the Authorised Person in Branch(BM/AGM)
Sanction Limit of Authorised Person in Branch (BM/AGM)
Advances as on 31st March,2014
NPA as on 31st March,2014
Deposits as on 31st March,2014
Date of Commencement:
Date of Completion:
**Audit Team**
**Partner/s**:

Qualified Assistant

Semi Qualified Assistant

| | |
|---|---|
| **Details of the Authorised Persons of the bank** | **Branch Manager**: |
| **Others** (Specify): | |
| | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| **General** | | |
| **1.** Engagement letter to the appointing authority | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| **2.** letter of requirement to the Branch. | | |
| **3.** letter for NOC to previous auditors | | |
| **4.** Meeting and discussion with the bank branch management and understanding the profile of the bank and its business. | | |
| **5.** Review of<br>• previous year's audit report/ LFAR,<br>• current period's Internal Audit Report/ Concurrent Audit Report<br>• Revenue Audit Report/<br>• IT System Audit Report<br>• RBI Inspection Report<br>• compliance of the branch to any of the above and<br>• any other special review report . | | |
| **6.** Physical verification of<br>• cash,<br>• stationery,<br>• unused DD etc<br>• and valuable securities.<br>**7.** Note down<br>• Shortage of cash appearing in Trial Balance<br>• loss/theft DDs reported to respected authority | | |
| **8.** Physical verification of Investments (obtain certificate from bank manager for the same).<br>If no investment is hold /done by the Branch , such certificate to be obtained | | |
| **9.** Understand the system in CBS Branch a) verify controls b) start of day and end of day report c) verify exceptional report d) understand the editable & uneditable fields at Branch, e) creation & entries in Masters, f) Various short-cut keys for checking the accounts g) system of downgrading & upgrading of accounts, h) interest calculations etc. | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| **10.** Compliance of instructions issued by bank's year and closing circulars, other relevant internal instructions/circulars, Master circulars and other notifications issued by RBI, significant accounting policies of the bank Mandatory Accounting Standards/Auditing Standards and other notification. | | |
| **11.** Prepare a list of various closing returns to be verified and certified, and then checking of the same during the audit. | | |
| **Checking of Balance Sheet Items** | | |
| **1. Checking of the advances:** | | |
| • Critical review of all large advances and their reporting as per prescribed norms. | | |
| • Classification of advances as per IRAC norms. | | |
| • Latest valuation of security given against advances. | | |
| • Provisions on NPA as per IRAC norms. | | |
| **Loan Accounts (Performing)** | | |
| I. Review of all large advances with balance of lower of 5 % or Rs.2 crore of total advances. | | |
| II. Review of loans sanctioned during the year. (specifically those that have been sanctioned by the BM and are within his power). | | |
| III. Review of other advances on test check basis. | | |
| IV. Review of adverse comments by Concurrent auditors, RBI/internal inspectors and the reply given and corrective actions taken by the branch. | | |
| V. Review of suit filed and decree accounts with respect to provision thereon and progress of recovery | | |

| Audit Aspects | | Covered By Whom | Extent of Check |
|---|---|---|---|
| | thereof and Classification as per IRAC norms | | |
| VI. | Review of accounts upgraded during the year from NPA to standard. and ensure full recovery of total overdues | | |
| VII. | Review of all accounts frequently exceeding limits/DP and watch-list accounts | | |
| VIII. | Also verify all the credit card dues which are overdue & debit balances in SB A/c | | |
| **Loan Accounts (Non Performing)** | | | |
| IX. | Review the accounts which are classified as NPA during the year w.r.t Security Value, Interest Reversed, Date of NPA, provisioning thereon etc. | | |
| X. | Review the annual stock audit report for the NPA with balance of Rs.5 cr. and above & latest valuation report for the immovable properties in case the valuation is older than 3 years. | | |
| **NOTE:**<br>(i) Following aspects of the advances to be verified: | | | |
| | **Pre sanction:** System of credit Appraisal and review/renewal. | | |
| | **Post sanction:** Compliance of terms of sanction, documentation, end use of funds. | | |
| | **Monitoring:** Stock and Book statements, drawing power, insurance, inspection of stock/security, operations in the account, etc. | | |
| (ii) All the accounts verified in category (i) to (x) should be documented. | | | |
| 2. Verify controls in respect of the following important items of assets. | | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| (i) Dual custody of cash<br>(ii) Custody and issue of /pay orders/other stationery items etc<br>(iii) ATM cash as per books and actual balance tallied at year end. | | |
| 3. **Fixed Assets** | | |
| I. Checking of additions/deduction/transfers of fixed assets, supported by proper bills/invoices and confirmation of date put to use. Compliance of Accounting Standard (AS)-6, AS10,AS 26 and AS28 related to fixed assets | | |
| II. Checking of Depreciation on additions, deduction during the year and on existing assets as per the policy of the bank. | | |
| III. Verification of Fixed Assets Schedule for furniture & fixtures and other assets and reconciliation with figures appearing in the Balance Sheet and FA management software used by the bank (if any). | | |
| **4. Deposits** | | |
| a) Verification of Anti Money Laundering guidelines and Compliance with KYC norms on test check basis | | |
| b) that overdue deposits, matured time deposits, cash certificates and certificates of deposits are shown in Demand Deposits. | | |
| c) Interest accrued but not due should not be included in deposits but, should be shown under other liability. | | |
| d) Check TDS compliance on the interest paid and on test check | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| basis checking of Form 15G & 15H and confirm whether those forms are submitted with respective Income Tax Authority | | |
| e) Movement of Deposit vis-à-vis movement in interest expense. | | |
| | | |
| 5. **Inter-Office & Suspense A/c:** | | |
| | | |
| 1. Reconciliation of accounts with other banks, head office and inter branch adjustment accounts. | | |
| 2. Inter Office Reconciliation (IOR) Accounts:<br>I. Verify Inter Branch Items In Transit (IBIT) account for old entries.<br>II. Compare on test Check basis, the balance and the entries in IOR Accounts with the copies of the statements submitted to the IOR department/s.<br>III. Critically verify the daily enquiry memos received from the respective IOR department/s for any old and odd items and action taken by the branch for the same.<br>IV. Old un reconciled entries are being provided/ reported to HO for provision | | |
| 3. Detailed checking of suspense accounts – credit as well as debit schedules. i.e., Nominal ledger. | | |
| **Balance Sheet Finalisation** | | |
| 1. Scrutiny of Balance Sheet, particularly – | | |
| i) that all the balances are shown in proper heads and broadly compare previous year figure to understand material variance | | |
| ii) check in case of advances that: | | |
| a) interest accrued but not due on | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| loans is not included in advances. | | |
| b) credit balances in O/D, C/C in–operative current accounts should not be netted off with advances and the same should be shown under demand deposits. | | |
| c) Verification of Anti Money Laundering guidelines and Compliance with KYC norms on test check basis | | |
| d) overdue deposits, matured time deposits, cash certificates and certificates of deposits are shown in Demand deposits. | | |
| e) Interest accrued but not due should not be included in deposits but, should be shown under other liability. | | |
| 2. Checking,<br>(i) Liability under Bank Guarantee/ L/C and effects of expired BGs.<br>(ii) Reconciliation of General Ledger and Subsidiary Ledger. | | |
| **Checking of Profit and Loss Items** | | |
| 1. Test checking of interest on deposits, (particularly, Interest checking should be done on test basis for the period subsequent to the period of revenue/ concurrent audit). Ensure that interest provision on overdue F.D. has been made as per latest RBI guidelines. | | |
| 2. Test checking of interest/commission on various advances, bills, L.C., Guarantees, etc. | | |
| 3. Test checking of discount/commission on bills discounted and others income like commitment charges, processing fees, recovery of insurance/ legal fees etc. | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| 4. Derive various ratios of items of income with comparable and related assets (like Avg. Interest Income to Average Advances etc.) and verify major movements or variances. | | |
| 5. Critical scrutiny of the Expenses/Income accounts and checking of important vouchers, including proper accounting for outstanding and prepaid expenses. | | |
| 6. Provision for expenses, accrued interest on deposits and advances. (Particularly check whether or not interest has been provided/charged on all types of deposits/ advances disputed rent. | | |
| 7. Checking of interest in NOSTRO Accounts debit balances. | | |
| 8. Verification of recovery on account of locker rent, staff accommodation, etc., with details of arrears, if any. | | |
| 9. Commission income on account of Government Business, i.e., collection as well as remittance of Income tax, sales tax, excise duty, etc., | | |
| 10. Details of Prior Period items of Income as well as expenses and complete details of provisions to be made, if any. | | |
| 11. Rebate on Bills discounted. | | |
| 12. Checking of depreciation on fixed assets | | |
| 13. Booking of Interest Income on account of partial recovery in NPA's. | | |
| 14 Ratio analysis with previous years figures.<br>15. Note down the reasons for material variances, if any | | |
| **Others** | | |
| 1. Checking of statement of frauds adequacy of provision, timely reporting to competent authority, recovery and movement in balances.. | | |

| Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|
| 2. Checking of statement of claims against the bank not acknowledged as debt. | | |
| 3. Checking of Foreign Currency forward exchange contracts showing sales and purchase separately. Review of NRE and FCNR accounts, if any. | | |
| 4. Checking of Guarantees given on behalf of Constituents. | | |
| 5. Checking of Acceptance, endorsements and other obligations, i.e., L/C and bills accepted by the bank on behalf of customers. | | |
| (Particularly check in case of Clause 4 and 5 above, whether the above guarantees and L/C issued are within the powers of the authorised person and proper procedures have been followed for issuing the same. Review the position of the above as at the year-end) | | |
| 6. Other contingent liability, if any. | | |
| 7. Checking of and preparation of Interest Subsidy certificate (as per various RBI & Government schemes), correct accounting & whether the same are given to the eligible .borrowers. | | |
| 8. Checking of write off proposal and DICGC claims, sharing of recovery, etc. | | |
| 9. Checking of annual returns on protested bills/ recalled debt accounts (PB/RD). | | |
| 10. Checking of LFAR schedules and preparation of LFAR. (Detailed planning for preparation of LFAR be done at the time of commencement of audit and detailed guidance be sought from the chapter on LFAR in this guidance note). | | |
| 11. Checking of Tax Audit annexures and preparation of Tax Audit Report. | | |
| 12. Checking of service tax collected and paid. | | |
| **Final Audit and Reporting** | | |
| 1. Preparation of Audit Report as per format prescribed under SA-700, ICAI and under any other regulatory authority. | | |

| Audit Aspects | | Covered By Whom | Extent of Check |
|---|---|---|---|
| 2. | Preparation of memorandum of changes for changes to be made in classification of advances and in any item of asset/liability and profit and loss account with other remarks and/ or information which requires further attention at Regional/Zonal Office level. | | |
| 3. | Preparation of Tax Audit Report. | | |
| 4. | Preparation of Long Form Audit Report (by giving annexures where ever necessary).. | | |
| **To Collect the following Certificates:** | | | |
| 1. | Physical verification of the fixed assets carried out on March 31, 2014/During the year | | |
| 3. | Physical verification of Investment carried out on March 31, 2014/ During the Year. If investment are not held or appearing in the Trial Balance, Nil certificate should be obtained. | | |
| 3. | Physical verification of the cash & other items as on March 31, 2014. | | |
| 4. | Physical verification of cash periodically by officers of the bank. | | |
| 5. | Certificate from the branch for the persons attended the audit. | | |
| 6. | Written Representation Letter. | | |
| **To verify and issue the certificates (as applicable) :Illustrative list** | | | |
| **1.** | Certificate of Ghosh and Jilani committee Recommendations. | | |
| **2.** | Cash on 12 odd dates. | | |
| **3.** | Commitment charges payable to IDBI/ SIDBI. | | |
| **4.** | Interest claim on (FCNR) deposits. | | |
| **5.** | Certificate giving details of claims lodged with DICGC / ECGC however, rejected by them | | |
| **6.** | Risk weighted assets as per the capital | | |

| | Audit Aspects | Covered By Whom | Extent of Check |
|---|---|---|---|
| | adequacy report (BASEL II & III). | | |
| **7.** | Certificate for treating an account as bad or doubtful of recovery as per the requirement of DI and CGC. | | |
| **8.** | Average month end rural branch advances. | | |
| **9.** | Subsidy claim under Prime Minister Rojgar Yojna Or any other scheme of the Central/State Government. | | |
| **10.** | Certificate for Interest Subvention | | |

Prepared by: Reviewed by:

## An Illustrative Format of Report of the Branch Auditor of a Nationalised Bank

## Independent Bank Branch Auditor's Report

To,
The Statutory Central Auditors
________ Bank

**Report on Financial Statements**

1. We have audited the accompanying Financial Statements of ______________Branch of ____________ *(name of the Bank)* which comprise the Balance Sheet as at 31st March 20XX, Profit and Loss Account for the year then ended, and other explanatory information.

***Management's Responsibility for the Financial Statements***:

2. 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***:

3. 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.

4. 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Audit opinion.

**Opinion**

6. In our opinion, and to the best of our information and according to the explanation given to us, read with the Memorandum of Changes (mentioned in para 11 below), the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Branch as at March 31, 20XX; and

(b) in the case of Profit and Loss Account, of the Profit / Loss for the year ended on that date;

**Report on Other Legal and Regulatory Requirements**:

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;

8. Subject to the limitations of the audit as indicated in Paragraphs 3 to 5 above and paragraph 10 below, we report that:

a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.

b. The transactions of the branch which have come to my/our notice have been within the powers of the Bank.

9. We further report that:

a. the Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of account and returns;

b. in our opinion, proper books of account as required by law have been kept by the branch so far as appears from our examination of those books;

**Other Matters Paragraph**

10. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

(a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;

(b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 –Employee Benefits' issued by the Institute of Chartered Accountants of India;

(c) Arrears of salary/wages/allowances, if any, payable to staff;

(d) Staff welfare contractual obligations;

(e) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments;

(f) Interest on overdue term deposits;

(g) Depreciation on fixed assets;

(h) Auditors' fees and expenses;

(i) Taxation (Current Tax and Deferred Tax).

11. The following is a summary of Memorandum of Changes submitted by us to the branch management[1].

| Memorandum of Changes (summary) | | | |
|---|---|---|---|
| | No. | Increase | Decrease |
| a. In respect of Income | | | |
| b. In respect of expenditure | | | |
| c. In respect of Assets | | | |
| d. In respect of Liabilities | | | |
| e. In respect of Gross NPAs | | | |
| f. In respect of Provision on NPAs[2] | | | |
| g. In respect of Classification of Advances | | XXX | XXX |
| h. In respect of Risk Weighted Assets | | | |
| i. Other items (if any) | | | |

For ABC and Co.
Chartered Accountants

Signature
(Name of the Member Signing the Audit Report)
(Designation)[3]
Membership Number
Firm registration number

Place of Signature
Date

[1] Where Applicable.
[2] Applicable in cases where banks determine provision at Branch level.
[3] Partner or proprietor as the case may be.

# ANNOUNCEMENT[1]

## Manner of Reporting on Section 227(3)(bb) of the Companies Act, 1956

**I.** Section 227(3)(bb) of the Companies Act, 1956 requires the statutory auditor to report on the following aspect:

> *"bb. whether the report on the accounts of any branch office audited under section 228 by a person other than the company's auditor has been forwarded to him as required by clause (c) of sub-section (3) of that section and how he has dealt with the same in preparing the auditor's report;"*

(A similar reporting requirement appears in section 143(3)(c) of the Companies Act, 2013 though the section has not yet been notified by the Central Government.)

**II.** The Council of the Institute, at its 329th (Adjourned) meeting held on 03rd and 04th January 2014 at New Delhi noted that reporting by the statutory auditors of the Company on clause (3)(bb) of section 227 of the Companies Act, 1956 is a legal requirement in cases where the company had appointed separate branch auditor/s. However, the same was inadvertently not appearing under the "Report on Other Legal and Regulatory Requirements" paragraph in the illustrative format of the independent auditor's report for a Company as given in the Appendix to SA 700. The Council accordingly, decided to add the following reporting in the illustrative independent auditor's report formats for a Company (to be reported upon as and where applicable):

> "bb. the report on the accounts of the branch offices audited under section 228 by a person other than the company's auditor has been forwarded to us as required by clause (c) of sub-section (3) of section 228 and have been dealt with in preparing our report in the manner considered necessary by us;"

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[1] This announcement has been issued by Auditing and Assurance Standards Board under the authority of the Council of ICAI. (aasb@icai.in)

# ANNOUNCEMENT[1]

## Reference to the Accounting Standards Applicable to the Companies in the Auditor's Report and Limited Review Reports and various Engagement Standards

**I.** The Ministry of Corporate Affairs (MCA) has *vide* its notification dated 12th September 2013 notified 98 sections of the Companies Act 2013 having come into force from that date. One of the sections so notified is Section 133 which empowers the Central Government to prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India (ICAI) in consultation with and after examination of the recommendation by the National Financial Reporting Authority (NFRA).

**II.** Subsequently, MCA *vide* its General Clarification No. 15/2013 dated 13th September 2013, has clarified that to facilitate proper administration of the notified sections of the Companies Act 2013, in respect of the aforesaid Section 133, *"Till the Standards of Accounting or any addendum thereto are prescribed by Central Government in consultation and recommendation of the National Financial Reporting Authority, the existing Accounting Standards, notified under the Companies Act, 1956 shall continue to apply."*

**III.** Further, *vide* its Circular no. 16/2013 dated 18th September 2013 has further clarified that with effect from 12th September 2013, *"the relevant provisions of the Companies Act, 1956, which correspond to provisions of 98 sections of the Companies Act, 2013 brought into force on 12.09.2013, cease to have effect from that date."* As a result, section 211(3C) of the Companies Act, 1956 corresponding to which section 133 of the Companies Act, 2013 has been notified has ceased to have effect from 12th September, 2013.

**IV.** In view of the above, members have sought guidance on the manner of reference to the Accounting Standards applicable to the company in the statutory auditor's report of the company as well as the limited review report in case of a listed company, issued pursuant to clause 41 of the Listing Agreement.

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[1] This announcement has been issued by Auditing and Assurance Standards Board under the authority of the Council of ICAI. (aasb@icai.in)

**IV.** The matter was considered by the Council of the Institute of Chartered Accountants of India at its 329th Adjourned meeting held on 03rd and 04th January 2014 at New Delhi. The Council noted that in so far as the format of the auditor's report for a statutory audit of a company, for example, as given in illustration 1 in Appendix to SA 700, is concerned, reference to the Accounting Standards issued under section 211 (3C) of the Companies Act, 1956 appears at two places. First, under the "*Management's Responsibility* for the *Financial Statements*" paragraph and second, under the "*Report on Other Legal and Regulatory Requirements*" paragraph.

**V.** The Council noted that, while section 133 of the Companies Act, 2013 had been notified, and accordingly, section 211(3C) of the Companies Act, 1956 had been superceded, section 143 of the Companies Act, 2013, which dealt with the matters to be contained in the auditor's report, had not yet been notified. Accordingly, the auditor's reporting requirements were still being governed by section 227(3) of the Companies Act, 1956 and that clause 227(3)(d) of the Companies Act, 1956 requires the auditors to report *"whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of section 211"* of the Companies Act, 1956.

**VI.** The Council is of the view that in the above background, till the time section 143 of the Companies Act, 2013 is made operative, both the following manners of making reference to the Accounting Standards in the independent auditor's report of a Company would be acceptable:

*Alternative 1:* Refer to section 211(3C) of the Companies Act, 1956 (both in the "Management's Responsibility for Financial Statements" and "Report on Legal and Other Regulatory Matters" paragraphs *(as currently given in the illustrative format of independent auditor's report for accompany given in Appendix to SA 700)*;

OR

- *Alternative 2:* Refer to only the Companies Act, 1956 along with the reference to the relevant notifications of MCA *vide* which it had clarified that the Accounting Standards prescribed under the Companies Act, 1956 would continue to apply in respect of section 133 of the Companies Act, 2013.

**VII.** Where the members decide to opt for *Alternative 2* above, the "Management Responsibility for Financial Statements" paragraph and the "Report on Legal and Other Regulatory Matters" paragraph in the independent auditor's report would need to suitably reworded as follows and such rewording would be construed to be in accordance with that prescribed in the text/ Appendix to the concerned Engagement Standard.

**"Management's Responsibility for the Financial Statements**

Management is …………………..cash flows of the Company in accordance with the Accounting Standards notified under the Companies Act, 1956 ("the Act") read with the General Circular 15/2013 dated 13th September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013. This responsibility…………………………… fraud or error."

**"Report on Other Legal and Regulatory Requirements**

2. As required by Section 227(3) of the Act, we report that:

(a) …………………………………..

………………………………..

(d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Companies Act, 1956 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013.

……………………………

(f) ………………………………."

**VIII.** Similarly, in case of limited review reports issued in terms of clause 41 of the Listing Agreement, approach similar to as suggested above may also be adopted while making a reference to the Accounting Standards applicable to the concerned Company in the limited review report/s issued by a practitioner pursuant to the Standard on Review Engagement (SRE) 2400, *Engagements to Review Financial Statements* or the Standard on Review Engagement (SRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

# ANNOUNCEMENT[1]

## Amendment to the "Auditor's Responsibility" Paragraph Included in the Independent Auditor's Report

1. The Council of the Institute of Chartered Accountants of India at its 329th Adjourned meeting held on 03rd and 04th January 2014, New Delhi noted that in the context of the "auditor's responsibility", paragraph 31(b) of the Standard on Auditing (SA) 700, *Forming An Opinion and Reporting on Financial Statements,* issued by the Institute, required the following to be mentioned in the auditor's report:

"31. The auditor's report shall describe an audit by stating that:

(b) The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, <u>the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control</u>. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and"

*(emphasis added)*

2. The Council noted that the "Auditor's Responsibility" paragraph as given in the illustrative formats of the independent auditor's report, as given in the Appendix to SA 700 (and as a corollary, in the Appendices to SA 705[2] and SA 706[3]), however, did not contain such description that the auditor's risk assessment and procedures were not designed for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

3. The Council, accordingly, decided to amend the "Auditor's Responsibility" paragraph in an independent auditor's report as follows:

"An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

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1 This announcement has been issued by Auditing and Assurance Standards Board under the authority of the Council of ICAI. (aasb@icai.in)

2 SA 705, *Modifications to the Opinion in the Independent Auditors Report.*

3 SA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.*

material misstatement of the financial statements, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements."

*(The amendment is shown in the underline)*

# ANNOUNCEMENT[1]

## Use of the Term "Profit and Loss Account" or "Statement of Profit and Loss" in the Statutory Audit Reports of Companies

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**I.** The Council of the Institute of Chartered Accountants of India, at its 329th Adjourned meeting, held on 03rd and 04th January, 2014 at New Delhi noted that the illustrative formats of the independent auditor's report (in respect of a Company) as given in SA 700, SA 705 and SA 706 contain the references to "*Profit and Loss Account*" at various places. The term was being used since the Schedule VI to the Companies Act, 1956 also used this term.

**II.** The Council also noted that though the Revised Schedule VI to the Companies Act, 1956 as also the corresponding Schedule III to the Companies Act, 2013, instead use the term "Statement of Profit and Loss", section 227 of the Companies Act, 1956, which continues to be applicable in respect of the statutory auditor's reporting requirements, used the term "Profit and Loss Account".

**III.** The Council decided that in view of the above, in the independent auditor's report of a Company, the auditors may chose to use the term "Profit and Loss Account" or "Statement of Profit and Loss".

[1] This announcement has been issued by Auditing and Assurance Standards Board under the authority of the Council of ICAI. (aasb@icai.in)

## Illustrative checklist of key aspects of master circular on Investments

| SN | Particulars |
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| 1 | Check whether there is a proper investment policy in place and is approved by the board. Primary Dealer (PD) activities should be suitably included if the bank carries on such activities.<br>Examine whether, in case that:<br>Bank is desirous of making investment in equity shares/debentures, is has built up expertise in equity research and whether decision regarding direct investments are taken by its Investment Committee. |
| 2 | Check whether the bank is engaged in maintaining CSGL Accounts for its constituents |
| 3 | If Yes, Check the Subsidiary general ledger (SGL) & CSGL reconciliation |
| 4 | Extract samples and carry out Deal Verification |
| | **Check whether the following is present in deals during deal verification ;** |
| a) | Deal No.-Check whether the deals are serially numbered |
| b) | Deal Date |
| c) | Settlement Date |
| d) | Maturity Date |
| e) | Dealing Platform |
| f) | Deal Amount |
| g) | Interest rate and amount, if applicable |

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| h) | Signature by the authorised person |
| i) | Name of counterparty |
| j) | Deal type: Buy or Sell/Direct deal or broker deal |
| k) | Nature of deal |
| | Once the deal is complete, the dealer should pass on the deal ticket to the back-office for recording and processing. It should be ascertained whether a confirmation has been issued to the counter-party. |
| 5 | Check whether the short position is covered in three months' time including the day of trade.<br>Also check whether the sale leg as well as the cover leg of the transaction should be accounted in the HFT category.<br>Failures to deliver securities short sold shall be treated as an instance of 'SGL bouncing' and the concerned bank will be liable to disciplinary action.<br>At no point of time should a bank accumulate a short position (face value) in any security in the HFT category in excess of the following limits:<br>i) 0.25 per cent of the total outstanding stock issued of each security in case of securities other than liquid securities.<br>ii) 0.50 per cent of the total outstanding stock issued of each security in case of liquid securities.<br>Banks have been permitted to use the securities acquired under a reverse repo to meet the delivery obligation of the short sale transaction.<br>The permission to use securities acquired under reverse repo as above applies only to securities acquired under market repo and not to securities acquired under RBI's Liquidity Adjustment Facility. |
| 6 | As no overdraft facility is available for SGL Account transactions, check whether there is no bouncing of SGL Account. |
| 7 | A separate account of brokerage paid to be maintained broker-wise. |

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| | A disproportionate part of the business should not be transacted through only one or a few brokers.<br><br>A limit of **5% of total transactions** through brokers (both purchase and sales) entered into by a bank during a year should be treated as the **aggregate upper contract limit** for each of the approved brokers.<br><br>No broker should be engaged in inter-bank activities. |
| 8 | Check whether;<br><br>Banks are exercising due caution, while taking any investment decision to subscribe to bonds, debentures, shares etc., and refer to the 'Defaulters List' to ensure that investments are not made in companies / entities who are defaulters to banks / FIs. |
| 9 | Banks must not invest in unrated non-SLR securities. However, the banks may invest in unrated bonds of companies engaged in infrastructure activities, within the ceiling of 10 per cent for unlisted non-SLR securities |
| 10 | Bank's investment in unlisted non-SLR securities should not exceed 10 per cent of its total investment in non-SLR securities as on March 31, of the previous year, and such investment should comply with the disclosure requirements as prescribed by the SEBI for listed companies. The limit of 10% can be increased by an additional 10%, provided the investment is on account of investment in Securitisation papers issued for infrastructure projects, and bonds/debentures issued by Securitisation Companies (SCs) and Reconstruction Companies (RCs) |
| 11 | The total investment by banks in liquid/short term debt schemes (by whatever name called) of mutual funds with weighted average maturity of portfolio of not more than 1 year, will be subject to a prudential cap of 10 per cent of their net worth as on March 31 of the previous year. The weighted average maturity would be calculated as average of the remaining period of maturity of securities weighted by the sums invested. |
| 12 | It should be observed that the aggregate exposure of a bank to the capital markets in all forms (both fund based and non-fund based) should not exceed 40 per cent of its net worth as on March 31 of the |

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| | previous year. |
| 13 | Check whether proper classification is done in terms of HTM, HFT and AFS.<br>However, in the balance sheet, the investments should be disclosed as follows;<br>a) Government securities,<br>b) Other approved securities,<br>c) Shares,<br>d) Debentures & Bonds,<br>e) Subsidiaries/ joint ventures and<br>f) Others (CP, Mutual Fund Units, etc.) |
| 14 | It should be ensured that banks are allowed to include investments included under HTM category upto 25 per cent of their total investments. Certain conditions included in the Circular should be kept in mind. |
| 15 | Profit on sale of investments should be first taken to profit and loss account and thereafter be appropriated to 'Capital Reserve Account'.<br>Also verify whether Bank has not capitalised the Broken Period Interest paid to seller as part of cost, but treated it as an item of expenditure under P&L Account in respect of investments in Government and other approved securities. |
| 16 | Check whether the valuation for money market is in compliance with RBI Circular. The following can be checked: |
| 17 | Check whether the price for government securities has been taken from FIMMDA published prices |
| 18 | Check whether the price for bonds have been taken according to the price function (in excel) taking into consideration coupon, yield, settlement date etc. into consideration. Yield should also be taken from FIMMDA |
| 19 | Check whether the effect for valuation has been given properly or not |

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| 20 | Check whether interest has been recorded properly in the books |
| 21 | Check whether there is any shifting of categories among securities during the year |
| 22 | Ensure that proper provisioning and disclosures on shifting of categories is done. |
| 23 | Check whether the value of sales and transfers of securities to/from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year, banks should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. This disclosure is required to be made in 'Notes to Accounts' in banks' audited Annual Financial Statements. However, the one-time transfer of securities to/from HTM category with the approval of Board of Directors permitted to be undertaken by banks at the beginning of the accounting year and sales to the Reserve Bank of India under pre-announced OMO auctions will be excluded from the 5 per cent cap. |
| 24 | Check whether not more than 25% of securities from the bank's portfolio are under HTM category |
| 25 | Check whether the bank carries on any Repo or Reverse Repo auctions |
| 26 | Check whether the interest applied on the repo & reverse repo transactions is correct or not |
| 27 | Check whether classification of the repo transactions is correct in the financials |
| 28 | Check whether any Liquidity Adjustment transactions carried out & if any whether the interest is properly calculated |
| 29 | Check whether any CD or CP transactions have been entered or not. If yes, interest calculation for the same should be correct |
| 30 | Check whether CD has been classified at carrying cost |

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| 31 | Check whether T-Bills discount amortisation is done properly |
| 32 | Check whether Mutual funds valuation is carried out as per RBI Circular considering latest NAV . Banks should book income from units of mutual funds on cash basis. |
| 33 | Valuation of preference shares should be in the following way;<br>a) The YTM rate should not be lower than the coupon rate/ YTM for a GoI loan of equivalent maturity.<br>b) The rate used for the YTM for unrated preference shares should not be less than the rate applicable to rated preference shares of equivalent maturity. The mark-up for the unrated preference shares should appropriately reflect the credit risk borne by the bank.<br>c) Investments in preference shares as part of the project finance may be valued at par for a period of two years after commencement of production or five years after subscription whichever is earlier.<br>d) Where investment in preference shares is as part of rehabilitation, the YTM rate should not be lower than 1.5% above the coupon rate/ YTM for GoI loan of equivalent maturity.<br>e) Where preference dividends are in arrears, no credit should be taken for accrued dividends and the value determined on YTM should be discounted by at least 15 per cent if arrears are for one year, and more if arrears are for more than one year. The depreciation/provision requirement arrived at in the above manner in respect of non-performing shares where dividends are in arrears shall not be allowed to be set-off against appreciation on other performing preference shares.<br>f) The preference share should not be valued above its redemption value. |
| 34 | Check whether proper market price reflecting on the BSE is taken for valuation of equity shares.<br>For unquoted equity shares, break-up value should be determined to value equity shares. The break-up value should be based on company's latest balance sheet and it should not be for a period less than a year. In case the latest balance sheet is not available the shares are to be valued at Re.1 per company. |

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| 35 | Security receipts should be valued at the NAV specified in the Securitisation company's statement. |
| 36 | Banks' investments in unquoted shares/bonds/units of VCFs made after August 23, 2006 (i.e issuance of guidelines on valuation, classification of investments in VCFs) will be classified under HTM for initial period of three years and will be valued at cost during this period.<br><br>After three years, the unquoted units/shares/bonds should be transferred to AFS category and valued as under:<br><br>Units: In the case of investments in the form of units, the valuation will be done at the NAV shown by the VCF in its financial statements. Depreciation, if any, on the units based on NAV has to be provided at the time of shifting the investments to AFS category from HTM category as also on subsequent valuations which should be done at quarterly or more frequent intervals based on the financial statements received from the VCF. At least once in a year, the units should be valued based on the audited results. However, if the audited balance sheet/ financial statements showing NAV figures are not available continuously for more than 18 months as on the date of valuation, the investments are to be valued at Rupee 1 per VCF. |
| 37 | If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities, including preference shares issued by the same issuer would also be treated as NPI and vice versa. However, if only the preference shares are classified as NPI, the investment in any of the other performing securities issued by the same issuer may not be classified as NPI and any performing credit facilities granted to that borrower need not be treated as NPA. |
| 38 | Check whether general re-finance documents are in place. Also check whether interest has been calculated & paid properly. |
| 39 | Check whether any call or notice borrowings or lending exists. Accordingly check its interest calculations & payments |
| 40 | Check whether the securities under HFT category are sold within 90 days |
| 41 | Check whether SLR & Non SLR compliance has been met properly |

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| 42 | Check whether CBLO borrowings are properly recorded & interest is calculated properly |
| 43 | Check whether all OTC transactions in corporate bonds are settled through NSCCL or MCX-SX CCL while carrying on deal verification |
| 44 | Check whether the aggregate exposure to capital markets does not exceed 40% of its net worth as on March 31 of the previous year |
| 45 | Investments under HTM should be necessarily carried at acquisition cost and need not be marked to market |
| 46 | Check whether any investments are bought at premium & the excess over face value should be amortised over remaining period |
| 47 | Also check whether any permanent dimunition in these HTM securities should be recognised. Such dimunition should be provided separately for each investment |
| 48 | The individual scrips under AFS will be marked to market separately |
| 49 | Banks shall compute their credit exposures, arising on account of the interest rate & foreign exchange derivative transactions and gold, using the 'Current Exposure Method', as detailed below. While computing the credit exposure banks may exclude 'sold options', provided the entire premium / fee or any other form of income is received / realised.<br><br>Bilateral netting of Mark-To-Market (MTM) values arising on account of such derivative contracts cannot be permitted. Accordingly, banks should count their gross positive MTM value of such contracts for the purposes of capital adequacy as well as for exposure norms.<br><br>Current credit exposure is defined as the sum of the positive mark-to-market value of these contracts.<br><br>Potential future credit exposure is determined by multiplying the notional principal amount of each of these contracts |

## Comparison of Requirements under BASEL II AND BASEL III

| SNO | Particulars | Para reference [BASEL III] | Requirement under BASEL II | Requirement under BASEL III | Key Change |
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| | | **Para 1.2** | Banks are required to maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9 per cent on an ongoing basis. | Banks are required to maintain a minimum Pillar 1 Capital to Risk weighted Assets Ratio (CRAR) of 9% on an on-going basis (other than capital conservation buffer (CCB) and countercyclical capital buffer). | Under BASEL III, a new requirement to maintain CCB @ 2.5% (with effect from April 2016) has been introduced other than the minimum CRAR of 9% (which is for the Scheduled Commercial Banks excluding RRBs and LABs). |
| | **Section A. ELEMENTS OF REGULATORY CAPITAL AND THE CRITERIA FOR THEIR INCLUSION IN THE DEFINITION OF REGULATORY** | **2.1 Components of Capital** | Banks are encouraged to maintain, at both solo and consolidated level, a Tier I CRAR of at least 6 per cent. Capital funds are broadly classified as Tier I and Tier II capital. Elements of Tier II capital will be reckoned as capital funds up to a maximum of 100 per cent of Tier I capital, after making | Under revised guidelines (Basel III), total regulatory capital will consist of the sum of the following categories:<br>(i) Tier 1 Capital (going-concern capital)<br>(a) Common Equity Tier 1 (CET 1)<br>(b) Additional Tier 1 (AT 1)<br>(ii) Tier 2 Capital (gone- | Under BASEL II the regulatory capital is broadly classified as:<br>Tier 1<br>Tier 2 ( which has an element of Upper & lower Tier 2 also)<br>whereas, under BASEL III, the total regulatory capital will be divided specifically under:<br>Tier 1 capital (which includes CET 1 and AT 1) andTier 2. |

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| | **CAPITAL** | | the deductions/ adjustments referred to in paragraph 4.4. | concern capital) | Also, Tier 1 is considered to be now as Going- concern capital and Tier 2 as Gone-concern capital<br>*# From regulatory capital perspective, going-concern capital is the capital which can absorb losses without triggering bankruptcy of the bank. Gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the bank.* |
| | | **Component of Tier 1 capital** | For Indian banks, Tier I capital would include the following elements:<br>i) Paid-up equity capital, statutory reserves, and other disclosed free reserves, if any;<br>ii) Capital reserves representing surplus arising out of sale proceeds of assets;<br>iii) Innovative perpetual debt | Accordingly, the Common Equity component of Tier 1 capital will comprise the following:<br>(i) Common shares (paid-up equity capital) issued by the bank which meet the criteria for classification as common shares for regulatory purposes as given Appendix 2; | As per BASEL III, the major component of Tier 1 is CET 1 which mainly includes Paid-up equity and free reserves. The other components included under BASEL II are categorised under AT 1.<br>BASEL III revised guidelines are more stringent and the components not complying with the guidelines may be |

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| | | | instruments eligible for inclusion in Tier I capital, which comply with the regulatory requirements as specified in Annex - 2 ;<br>iv) Perpetual Non-Cumulative Preference Shares (PNCPS), which comply with the regulatory requirements as specified in Annex – 3; and<br>v) Any other type of instrument generally notified by the Reserve Bank from time to time for inclusion in Tier I capital.<br>Foreign currency translation reserve arising consequent upon application of Accounting Standard 11 (revised 2003): ‘The effects of changes in foreign exchange rates’; shall not be an eligible item of capital funds. | (ii) Stock surplus (share premium) resulting from the issue of common shares;<br>(iii) Statutory reserves;<br>(iv) Capital reserves representing surplus arising out of sale proceeds of assets;<br>(v) Other disclosed free reserves, if any;<br>(vi) Balance in Profit & Loss Account at the end of the previous financial year;<br>(vii) Banks may reckon the profits in current financial year for CRAR calculation on a quarterly basis provided the incremental provisions made for non-performing assets at the end of any of the four quarters of the previous financial year have not deviated more than 25% from the average of the four | grandfathered under Transitional clause. |

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| | | | | quarters. | |
| | | **2.3.2 Common Equity Tier 1 Capital – Foreign Banks' Branches** | For foreign banks in India, Tier I capital would include the following elements:<br>(i) Interest-free funds from Head Office kept in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norms.<br>(ii) Statutory reserves kept in Indian books.<br>(iii) Remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India.<br>(iv) Capital reserve representing surplus arising out of sale of assets in India held in a separate account and which is not eligible for repatriation so long as the bank functions in India. | Elements of Common Equity Tier 1 capital will remain the same and consist of the following:<br>(i) Interest-free funds from Head Office kept in a separate account in Indian books specifically for the purpose of meeting the capital adequacy norms;<br>(ii) Statutory reserves kept in Indian books;<br>(iii) Remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India;<br>(iv) Interest-free funds remitted from abroad for the purpose of acquisition of property and held in a separate account in Indian books provided they are non-repatriable and have the ability to absorb losses | 1. Under BASEL II, Head Office borrowings in foreign currency by foreign banks operating in India for inclusion in Tier I capital which comply with the regulatory requirements is included in Tier 1 whereas, this borrowed capital will be classified under AT 1 as per the new guidelines.<br><br>2. BASEL III requires that, Interest-free funds acquired for the purpose of acquisition of property shall be included in T1, provided they are non-repatriable and have ability to absorb losses. |

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| | | | (v) Interest-free funds remitted from abroad for the purpose of acquisition of property and held in a separate account in Indian books.<br>(vi) Head Office borrowings in foreign currency by foreign banks operating in India for inclusion in Tier I capital which comply with the regulatory requirements as specified in Annex 4 and<br>(vii) Any other item specifically allowed by the Reserve Bank from time to time for inclusion in Tier I capital. | regardless of their source;<br>(v) Capital reserve representing surplus arising out of sale of assets in India held in a separate account and which is not eligible for repatriation so long as the bank functions in India; and<br>(vi) Less: Regulatory adjustments / deductions applied in the calculation of Common Equity Tier 1 capital [i.e. to be deducted from the sum of items (i) to (v)]. | |
| | | **2.4.1 Elements of Additional Tier 1 Capital – Indian Banks** | | Additional Tier 1 capital consists of the sum of the following elements:<br>(i) Perpetual Non-Cumulative Preference Shares (PNCPS), which comply with the | BASEL III has introduced a new concept of AT 1 under Tier 1 capital. However, there are regulatory requirements which needs to be complied, as prescribed in Appendix 4 of the |

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| | | | | regulatory requirements as specified in Appendix 4;<br>(ii) Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital;<br>(iii) Debt capital instruments eligible for inclusion in Additional Tier 1 capital, which comply with the regulatory requirements as specified in Appendix 5;<br>(iv) Any other type of instrument generally notified by the Reserve Bank from time to time for inclusion in Additional Tier 1 capital;<br>(v) While calculating capital adequacy at the consolidated level, Additional Tier 1 instruments issued by consolidated subsidiaries of the bank and held by third parties which meet the criteria | Circular.<br>Also, AT1 capital issued by consolidated subsidiaries and held by third parties i.e. minority interest shall be eligible for inclusion under AT1. Banks should not issue AT1 to retail investors. |

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| | | | | for inclusion in Additional Tier 1 capital (please see paragraph 3.4 of Section B); and<br>(vi) Less: Regulatory adjustments / deductions applied in the calculation of Additional Tier 1 capital [i.e. to be deducted from the sum of items (i) to (v)]. | |
| | | **2.4.1.2 Criteria for Classification as Additional Tier 1 Capital for Regulatory Purposes** | | Refer to the Master Circular for criteria for inclusion of PNCPS and PDI. | Under Basel III, the criteria for instruments to be included in Additional Tier 1 capital have been modified to improve their loss absorbency as indicated in Appendices 4, 5 & 12. |
| | | **2.4.2 Elements of Additional Tier 1 Capital – Foreign Banks' Branches** | | Elements of Additional Tier 1 capital will remain the same as under existing guidelines. Various elements of Additional Tier 1 capital are as follows:(i) Head Office borrowings in foreign | The regulatory requirement of Appendix 5 & 12 are required to be met to qualify as AT 1. |

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| | | | | currency by foreign banks operating in India for inclusion in Additional Tier 1 capital which comply with the regulatory requirements as specified in Appendices 5 &12;(ii) Any other item specifically allowed by the Reserve Bank from time to time for inclusion in Additional Tier 1 capital; and(iii) Less: Regulatory adjustments / deductions applied in the calculation of Additional Tier 1 capital [i.e. to be deducted from the sum of items (i) to (ii)]. | |
| | | **2.5 Elements of Tier 2 Capital** | 4.3.4 Subordinated Debt: To be eligible for inclusion in Tier II capital, the instrument should be fully paid-up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses, | Subordinated debts recognition is capped at 90% from January 1, 2013, with the cap reducing by 10 percentage points in each subsequent year. The total amount of Tier 2 Instruments | Under Basel II the subordinated debt was eligible for inclusion to the extent of 100% however under Basel III the cap has been placed on its inclusion over the period of its maturity. |

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| | | | and should not be redeemable at the initiative of the holder or without the consent of the Reserve Bank of India. Instruments with an initial maturity of less than 5 years or with a remaining maturity of one year should not be included as part of Tier II capital | issued in foreign currency shall not exceed 25% of the unimpaired Tier 1 capital. | |
| | | **2.5.1.1 Criteria for Classification as Tier 2 Capital for Regulatory Purposes** | | Under the existing guidelines (i.e. Basel II), Tier 2 capital instruments could have step-ups which can be construed as an incentive to redeem, thereby compromising their loss absorbency capacity. In addition, the existing criteria are not sufficient to ensure that these instruments absorb losses at the point of non-viability, particularly, in cases where public sector intervention including in terms | To improve quality of capital, the RBI has revisited the criteria for components to qualify as Tier 2. They are more stringent and include PCPS/ RNCPS/ RCPS. Most of the banks will have these elements which will not qualify and may be grandfathered as per the transitional provision of revised circular. |

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| | | | | of injection of funds is considered essential for the survival of the bank. Therefore, under Basel III, the criteria for instruments to be included in Tier 2 capital have been modified to improve their loss absorbency as indicated in Appendices 6, 7 & 12. Criteria for inclusion of Debt Capital Instruments as Tier 2 capital are furnished in Appendix 6. Criteria for inclusion of Perpetual Cumulative Preference Shares (PCPS) / Redeemable Non-Cumulative Preference Shares (RNCPS) / Redeemable Cumulative Preference Shares (RCPS) as part of Tier 2 capital are furnished in Appendix 7. Appendix 12 contains criteria for loss absorption through | |

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| | | | | conversion / write-off of all non-common equity regulatory capital instruments at the point of non-viability. | |
| | | | | Elements of Tier 2 capital in case of foreign banks' branches will be as under:(i) General Provisions and Loss Reserves (as detailed in paragraph 2.5.1 (i) above);(ii) Head Office (HO) borrowings in foreign currency received as part of Tier 2 debt capital;(iii) Revaluation reserves at a discount of 55%; and(iv) Less: Regulatory adjustments / deductions applied in the calculation of Tier 2 capital [i.e. to be deducted from the sum of items (i) & (iii)]. | |
| | | **2.5.2.1 Criteria for Classification** | | Criteria for inclusion of Head Office (HO) borrowings in foreign currency received as | Refer Appendices 6 & 12 of the Master Circular for criteria for inclusion of H.O borrowings. |

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| | | **as Tier 2 Capital for Regulatory Purposes** | | part of Tier 2 debt Capital for foreign banks are furnished in Appendices 6 &12. | |
| | **Section C Regulatory adjustments/ deductions** | **Para 4 Introduction** | Intangible assets and losses in the current period and those brought forward from previous periods should be deducted from Tier I capital. | Under the existing guidelines, goodwill and other intangible assets are required to be deducted from Tier 1 capital. In terms of Basel III, goodwill and other intangibles should be deducted from the Common Equity component of Tier 1. . | The existing guidelines require banks to make regulatory adjustments / deductions from either Tier 1 capital or 50% from Tier 1 and 50% from Tier 2 capital. As a consequence, it has been possible for some banks under the current guidelines to display strong Tier 1 ratios with limited tangible Common Equity. However, the crisis demonstrated that credit losses and write-downs were absorbed by Common Equity. Therefore, under Basel III, most of the deductions are required to be applied to Common Equity. |
| | | | | (iii) The full amount of the intangible assets is to be deducted net of any | |

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| | | | | associated deferred tax liabilities which would be extinguished if the intangible assets become impaired or derecognized under the relevant accounting standards. For this purpose, the definition of intangible assets would be in accordance with the Indian accounting standards. Operating losses in the current period and those brought forward from previous periods should also be deducted from Common Equity Tier 1 capital.(iv) Application of these rules at consolidated level would mean deduction of any goodwill and other intangible assets from the consolidated Common Equity which is attributed to the Balance | |

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| | | | | Sheets of subsidiaries, in addition to deduction of goodwill and other intangible assets which pertain to the solo bank. | |
| | | | The DTA computed as under should be deducted from Tier I capital:<br>i) DTA associated with accumulated losses; and<br>ii) The DTA (excluding DTA associated with accumulated losses), net of DTL. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to Tier I capital. | Deferred Tax Assets (DTAs)<br>Under the existing guidelines, the DTA computed as under should be deducted from Tier 1 capital:<br>(a) DTA associated with accumulated losses; and<br>(b) The DTA (excluding DTA associated with accumulated losses), net of DTL. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (a) nor added to Common Equity Tier 1 capital.<br>Application of these rules at | Under Basel III, in view of uncertainty attached to the realization of DTAs which rely on future profitability of the bank, only such DTAs are required to be deducted from Common Equity Tier 1. However, banks in India will be required to deduct all DTAs, irrespective of their origin as from the Common Equity Tier 1 capital as a prudent measure. |

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| | | | | consolidated level would mean deduction of DTAs from the consolidated Common Equity which is attributed to the subsidiaries, in addition to deduction of DTAs which pertain to the solo bank. | |
| | | | | 4.3 Cash Flow Hedge Reserve<br>(i) The amount of the cash flow hedge reserve which relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) should be derecognised in the calculation of Common Equity Tier 1. This means that positive amounts should be deducted and negative amounts should be added back. | As per BASEL III, the amount of Cash flow hedge reserve which relates to the hedging of items that are not fair valued on balance sheet date should be derecognized in the calculation of CET1. This rule will be applied at consolidated level also. |
| | | | 4.4.3 Any gain-on-sale | 4.4 Shortfall of the Stock of | - Credit enhancements which are |

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| | | | arising at the time of securitisation of standard assets, as defined in paragraph 5.16.1, if recognised, should be deducted entirely from Tier I capital. In terms of guidelines on securitisation of standard assets, banks are allowed to amortise the profit over the period of the securities issued by the SPV. The amount of profits thus recognised in the profit and loss account through the amortisation process need not be deducted.<br>4.4.5 Securitisation exposures, as specified in paragraph 5.16.2, shall be deducted from regulatory capital and the deduction must be made 50 per cent from Tier I and 50 per cent | Provisions to Expected Losses: The deduction from capital in respect of a shortfall of the stock of provisions to expected losses under the Internal Ratings Based (IRB) approach should be made in the calculation of Common Equity Tier 1. The full amount is to be deducted and should not be reduced by any tax effects that could be expected to occur if provisions were to rise to the level of expected losses.<br>4.5 Gain-on-Sale Related to Securitisation Transactions(i)<br>As per Basel III rule text, banks are required to derecognise in the calculation of Common Equity Tier 1 capital, any increase in equity capital resulting from a securitisation transaction, | first loss positions should be risk weighted at 1111%.<br>- Any rated securitisation exposure with a long term rating of 'B+ and below' when not held by an originator, and a long term rating of 'BB+ and below' when held by the originator will receive a risk weight of 1111%.<br>- Any unrated securitisation exposure should be risk weighted at 1111%. In an unrated and ineligible liquidity facility, both the drawn and undrawn portions (after applying a CCF of 100%) shall receive of risk weight of 1111%.<br>- Any increase in equity capital resulting from a securitization transaction, such as that associated with expected future margin income (FMI) resulting in |

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| | | | from Tier II, except where expressly provided otherwise. Deductions from capital may be calculated net of any specific provisions maintained against the relevant securitisation exposures. | such as that associated with expected future margin income (FMI) resulting in a gain-on-sale. However, as per existing guidelines on securitization of standard assets issued by RBI, banks are not permitted to recognise the gain-on-sale in the P&L account including cash profits. Therefore, there is no need for any deduction on account of gain-on-sale on securitization. Banks are allowed to amortise the profit including cash profit over the period of the securities issued by the SPV. | a gain-on-sale should be derecognise in the calculation of Common Equity Tier 1 capital.<br>The holdings of securities devolved on the originator through underwriting should be sold to third parties within three-month period following the acquisition. In case of failure to off-load within the stipulated time limit, any holding in excess of 20% of the original amount of issue, including secondary market purchases, shall receive a risk weight of 1111%. |
| | | | | However, if a bank is following an accounting practice which in substance results in recognition of realized or unrealized gains at the inception of the | These rules will be applicable at Consolidated as well as solo level. |

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| | | | | securitization transactions, the treatment stipulated as per Basel III rule text as indicated in the beginning of the paragraph would be applicable.<br>(ii) Application of these rules at consolidated level would mean deduction of gain-on-sale from the consolidated Common Equity which is recognized by the subsidiaries in their P&L and / or equity, in addition to deduction of any gain-on-sale recognised by the bank at the solo level. | |
| | | | | 4.6 Cumulative Gains and Losses due to Changes in Own Credit Risk on Fair Valued Financial Liabilities.<br>Under Basel III, banks are required to derecognise in the calculation of Common Equity | As per BASEL III, though a bank will have to recognize a loss reflecting the credit risk of the counterparty (i.e. credit valuation adjustments-CVA), the bank will not be allowed to recognize the corresponding gain due to its |

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| | | | | Tier 1 capital, all unrealised gains and losses which have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk. If a bank values its derivatives and securities financing transactions (SFTs) liabilities taking into account its own creditworthiness in the form of debit valuation adjustments (DVAs), then the bank is required to deduct all DVAs from its Common Equity Tier 1 capital, irrespective of whether the DVAs arises due to changes in its own credit risk or other market factors. | own credit risk (i.e debit valuation adjustment-DVA). |
| | | | | 4.7 Defined Benefit Pension Fund Assets and Liabilities Under Basel III, defined benefit pension fund liabilities, as included on the balance | (i) Under the existing guidelines, there is no explicit guidance on treatment of defined benefit pension fund assets and liabilities in the books of banks |

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| | | | | sheet, must be fully recognised in the calculation of Common Equity Tier 1 capital. | from the perspective of capital adequacy. |
| | | | 4.4.13 A special dispensation of amortizing the expenditure arising out of second pension option and enhancement of gratuity was permitted to Public Sector Banks as also select private sector banks who were parties to 9th bipartite settlement with Indian Banks Association (IBA). In view of the exceptional nature of the event, the unamortised expenditure pertaining to these items need not be deducted from Tier I capital. | From January 1, 2013 banks should deduct the entire amount of unamortized expenditure from common equity Tier 1 capital for the purpose of capital adequacy ratios. | As per BASEL III, the amortizing of expenditure arising out of second pension option and enhancement of gratuity permitted to PSBs and select Private banks for 5 years will not allowed under BASEL III. Accordingly, from 1 January 2013 banks should deduct the entire the amount of unamortized expenditure from CET1, as all pension liabilities are required to be recognized in Balance sheet under BASLE III. |
| | | | | 4.8 Investments in Own Shares (Treasury Stock) Banks should deduct exposures to own shares | (i) Investment in a bank's own shares is tantamount to repayment of capital and therefore, it was considered |

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| | | | | from their Common Equity Tier 1 capital. | necessary under Basel III to knock-off such investment from the bank's capital with a view to improving the bank's quality of capital. |
| | | | | Shortfall of the stock of provisions to expected losses under the Internal Ratings Based (IRB) approach should be deducted from capital in the calculation of Common Equity Tier 1. | New guidance under Basel III |
| | | | | If the amount of investments made by the mutual funds / index funds / venture capital funds / private equity funds / investment companies in the capital instruments of the investing bank is not known but, as per the investment policies / mandate of these entities such investments are permissible; the indirect investment would be equal to | If the amount invested by the entities in bank's capital is not know, the indirect investment would be calculated:<br>(Bank's investment in entity * 10% of entity's investment in bank's capital) |

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| | | | | bank's investments in these entities multiplied by 10% of investments of such entities in the investing bank's capital instruments. Banks must note that this method does not follow corresponding deduction approach i.e. all deductions will be made from the Common Equity Tier 1 capital even though, the investments of such entities are in the Additional Tier 1 / Tier 2 capital of the investing banks.(iii) Application of these rules at consolidated level would mean deduction of subsidiaries' investments in their own shares (direct or indirect) in addition to bank's direct or indirect investments in its own shares while computing consolidated Common Equity Tier 1. | |

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| | | | As regards the treatment of investments in equity and other capital-eligible instruments of scheduled banks, within the aforesaid ceiling of 10 per cent, will be risk weighted as per paragraph 5.6.1. Further, in the case of non-scheduled banks, where CRAR has become negative, the investments in the capital-eligible instruments even within the aforesaid 10 per cent limit shall be fully deducted at 50 per cent from Tier I and 50 per cent from Tier II capital, as per paragraph 5.6.1. | 4.9.1 Limits on a Bank's Investments in the Capital of Banking, Financial and Insurance Entities<br>(i) Under the existing guidelines, a bank's investment in the capital instruments issued by banking, financial and insurance entities is subject to the following limits:<br>(a) A bank's investments in the capital instruments issued by banking, financial and insurance entities should not exceed 10% of its capital funds, but after all deductions mentioned in Section C (upto paragraph 4.8) of this annex.<br>(b) Banks should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's holding exceeds 5% of | Treatment of investments in the capital of banking, financial and insurance entities has undergone substantial change. Under Basel III, RBI has defined cap on investments in banking, financial and insurance entities and the treatment under capital adequacy is dependent upon such limits along with consolidation criteria for these entities. E.g. investments in subsidiaries exceeding in excess of 10% of the bank's equity would be deducted from core-equity, while investments up to 10% of the bank's equity capital would be risk-weighted at 250% as against under Basel II wherein the investment in subsidiary / associate was deductible at 50% from Tier I and 50% from Tier II capital. Refer Para 4.4.9 and 5.13.6, 5.13.7 and 5.13.8 of the |

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| | | | | the investee bank's equity capital.<br>(c) Under the provisions of Section 19 (2) of the Banking Regulation Act,1949, a banking company cannot hold shares in any company whether as pledge or mortgagee or absolute owner of an amount exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less. Refer to Master Circular on Basel III for further details. | master circular on Basel III. |
| | | | 4.4.6 In the case of investment in financial subsidiaries and associates, the treatment will be as under for the purpose of capital adequacy:<br>(i) The entire investments in the paid up equity of the | A bank's equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not | |

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| | | | financial entities (including insurance entities), which are not consolidated for capital purposes with the bank, where such investment exceeds 30% of the paid up equity of such financial entities and entire investments in other instruments eligible for regulatory capital status in those entities shall be deducted, at 50 per cent from Tier I and 50 per cent from Tier II capital. (For investments less than 30 percent, please see para 5.13.7)<br>(ii) Banks should ensure that majority owned financial entities that are not consolidated for capital purposes and for which the investment in equity and | exceed 20% of the bank's paid-up share capital and reserves. The cap of 20% would not apply for investments classified under 'Held for Trading' category and which are not held beyond 90 days.<br><br>Under Basel III, the above guidelines will continue to apply to banks in India. | |

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| | | | other instruments eligible for regulatory capital status is deducted, meet their respective regulatory capital requirements. In case of any shortfall in the regulatory capital requirements in the de-consolidated entity, the shortfall shall be fully deducted at 50 per cent from Tier I capital and 50 per cent from Tier II capital. | | |
| | | | 4.4.7 An indicative list of institutions which may be deemed to be financial institutions for capital adequacy purposes is as under:<br>o Banks,<br>o Mutual funds,<br>o Insurance companies,<br>o Non-banking financial companies,<br>o Housing finance | (ii) An indicative list of institutions which may be deemed to be financial institutions other than banks and insurance companies for capital adequacy purposes is as under:<br>• Asset Management Companies of Mutual Funds / Venture Capital Funds / Private Equity Funds etc;<br>• Non-Banking Finance | As per BASEL III, the indicative list includes:<br>AMC of MFs/ VCFs/ PEs and entities engaged in activities ancillary to the business of banking and excludes:<br>Banks/ MFs/ Insurance companies |

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| | | | companies,<br>o Merchant banking companies,<br>o Primary dealers. | Companies;<br>• Housing Finance Companies;<br>• Primary Dealers;<br>• Merchant Banking Companies; and<br>• Entities engaged in activities which are ancillary to the business of banking under the B.R. Act, 1949. | |
| | | | 4.4.8 A bank's/FI's aggregate investment in all types of instruments, eligible for capital status of investee banks / FIs / NBFCs / PDs as listed in paragraph 4.4.9 below, excluding those deducted in terms of paragraph 4.4.6, should not exceed 10 per cent of the investing bank's capital funds (Tier I plus Tier II, after adjustments). Any investment in excess of this | 4.9.2 Treatment of a Bank's Investments in the Capital Instruments Issued by Banking, Financial and Insurance Entities within Limits<br>(i) Under the existing guidelines, based on Basel II framework, the following investments are required to be deducted 50% from Tier 1 and 50% from Tier 2 capital.<br>• While applying the capital adequacy framework at the | The corresponding deduction approach under BASEL III would be applied to all Investments in other entities as well as for Reciprocal cross holding. |

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| | | | limit shall be deducted at 50 per cent from Tier I and 50 per cent from Tier II capital. Investments in equity or instruments eligible for capital status issued by FIs / NBFCs / Primary Dealers which are, within the aforesaid ceiling of 10 per cent and thus, are not deducted from capital funds, will attract a risk weight of 100 per cent or the risk weight as applicable to the ratings assigned to the relevant instruments, whichever is higher. | consolidated level, all investments in the regulatory capital instruments of insurance subsidiaries and all associates where the bank's investment in the equity is in excess of 30% of investee company's equity.<br>• While applying the capital adequacy framework at the solo level, all investments in the regulatory capital instruments of both insurance and other subsidiaries and all associates where the bank's investment in the equity is in excess of 30% of investee company's equity. | |
| | | | 4.4.9 Banks' investment in the following instruments will be included in the prudential limit of 10 per cent referred to at paragraph 4.4.8 above.<br>a) Equity shares; | (iii) The investment of banks in the regulatory capital instruments of other financial entities came in for criticism during the crisis because of their contribution to inter- | |

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| | | | b) Perpetual Non-Cumulative Preference Shares<br>c) Innovative Perpetual Debt Instruments<br>d) Upper Tier II Bonds<br>e) Upper Tier II Preference Shares (PCPS/RNCPS/RCPS)<br>f) Subordinated debt instruments; and<br>g) Any other instrument approved by the RBI as in the nature of capital.<br>4.4.10 Subject to the ceilings on banks' aggregate investment in capital instruments issued by other banks and financial institutions as detailed in para 4.4.8, Banks / FIs should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing | connectedness amongst the financial institutions. In addition, these investments also amounted to double counting of capital in the financial system. Therefore, under Basel III, these investments have been subjected to stringent treatment in terms of deduction from respective tiers of regulatory capital. It will help ensure that when capital absorbs a loss at one financial institution this does not immediately result in the loss of capital in a bank which holds that capital. This will help increase the resilience of the banking sector to financial shocks and reduce systemic risk and pro-cyclicality. A schematic representation of treatment of banks' | |

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| | | | bank's / FI's holding exceeds 5 per cent of the investee bank's equity capital. Banks / FIs which currently exceed the specified limits, may apply to the Reserve Bank along with a definite roadmap for reduction of the exposure within prudential limits. | investments in capital instruments of financial entities is shown in Figure 1 below. Accordingly, all investments in the capital instruments issued by banking, financial and insurance entities within the limits mentioned in paragraph 4.9.1 will be subject to the rules as prescribed in Para 4.9, 5.2 and 5.3 of the Master Circular. | |
| | **Credit Value Adjustment (CVA)** | | **No Guidance** | The 'capital charge for credit value adjustments (CVA) risk' is introduced under Basel III. Capital charge for default risk will continue to be calculated using current exposure method and capital charge for CVA is to be computed as per methodology defined in Para 8.8.1 in the master circular. The CVA loss will be | New Guidance under Basel III. |

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| | | | | calculated as a prudent valuation adjustment as per prudent valuation guidance contained in Para 8.8.1 of master circular, without taking into account any offsetting debit valuation adjustments (DVA) which have been deducted from capital. Refer Para 5.15.3 to 5.15.7 of master circular on Basel III. | |
| | **Section D Disclosure Requirements** | **Para 5.1** | | In order to ensure adequate disclosure of details of the components of capital which aims at improving transparency of regulatory capital reporting as well as improving market discipline, banks are required to additionally disclose certain statements. The list of which is given under Section D of the guidelines on BASEL III. | New Guidance under Basel III. |

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| | **Market risk** | **Para 8.3.5** | The criteria for application of Specific risk capital charge under Basel III have undergone change as compared to Basel II. Refer to table 16 and table 19 of the Basel III master circular. | Change in specific risk capital charge in Basel III. |

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| | **Liquidity ratio** | | No Guidance | Leverage ratio<br>The leverage ratio shall be maintained on a quarterly basis. The basis of calculation at the end of each quarter is "the average of the month-end leverage ratio over the quarter based on the definitions of capital (the capital measure) and total exposure (the exposure measure) specified in paragraphs 16.3 and 16.4, respectively". During the period of parallel run from 2013 to 2017, banks should maintain their existing level of leverage ratio but, in no case the leverage ratio should fall below 4.5%.<br>Leverage ratio = Tier 1 Capital / Adjusted Assets<br>Tier I capital = Equity capital + Reserves – Intangible Assets<br>Adjusted assets = Total Assets – Intangible Asset | New guidance under Basel III. |

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| **4** | **Annexure 4 - Capital Conservation Buffer** | Annex 4 - 1 | Not there in BASEL II | **1. OBJECTIVE**<br>1.1 The capital conservation buffer (CCB) is designed to ensure that banks build up capital buffers during normal times (i.e. outside periods of stress) which can be drawn down as losses are incurred during a stressed period. The requirement is based on simple capital conservation rules designed to avoid breaches of minimum capital requirements. | New guidelines on CCB under BASEL III. A new concept of maintaining Capital conservation buffer over and above the minimum capital requirement is prescribed under the new guidelines @ 2.5% in a progressive phase starting from 1 January 2016 for 4 years @ 0.625%.<br>This is the capital buffer which could be created by the banks during the normal times which can be drawn down to meet the losses incurred during stressed period.<br>The requirements for CCB are mentioned in detail in Annexure 4. |

# Accounting and Auditing Framework

## Accounting Policies

01. The term 'accounting policies' refers to the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

02. The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of the financial statements. The accounting policies followed vary from enterprise to enterprise. An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. The principle consideration should be whether disclosure of an accounting policy would assist users in understanding how transactions, other events and conditions are reflected in the balance sheet and profits/loss account.

03. Recognising the need for disclosure of accounting policies by banks, the RBI has required all scheduled banks to disclose their significant accounting policies. The accounting policies are required to be disclosed at one place along with the notes on accounts. A specimen form in which accounting policies may be disclosed has also been given by the RBI. The specimen indicates broadly the areas in respect of which the accounting policies followed by a bank should be disclosed. Banks can, however, make necessary modifications to suit their individual needs.

04. The specimen form given by the RBI recommends the disclosure of the fact that the financial statements are prepared on the historical cost basis and conform to the statutory provisions and practices prevailing in the country. Besides, disclosure of accounting policies relating to the following areas is recommended in the specimen form:

(a) Transactions involving foreign exchange, *viz*., monetary assets and liabilities, non-monetary assets, income and expenditure of Indian branches in foreign currency and of overseas branches, and profit/loss on pending forward contracts.

(b) Investments.

(c) Provisions in respect of doubtful advances.

(d) Fixed assets and depreciation.

(e) Staff benefits.

(f) Significant provisions deducted in computing net profit, e.g., provision for income-tax, provision for doubtful advances, etc.

(g) Grouping of contingency funds in presenting balance sheet.

05. The specimen form of accounting policies was issued by the RBI in 1991. Since then, the RBI has issued a number of guidelines relating to income recognition, asset classification, provisioning and investments. These guidelines have had a profound impact on the accounting policies of banks in the relevant areas. Disclosure of accounting policies formulated by banks to comply with these guidelines is essential to enable the users to properly understand the financial statements. Besides, in the case of banks having overseas branches, the methodology adopted for translating the financial statements of such branches may also constitute a significant accounting policy.

## Conformity of Accounting Policies with Accounting Standards

06. The Institute of Chartered Accountants of India (ICAI) issues, from time to time, accounting standards for use in the preparation of general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members. The Central Government has notified the Accounting Standards issued by the Institute of Chartered Accountants of India under The Companies (Accounting Standards) Rules, 2006 (except, AS 30, AS 31 and AS 32). Reference may be made to the Announcement "Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government" issued by the ICAI. The following is the list of Accounting Standards issued by the ICAI as on 01.01.2013:

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| AS 1 | Disclosure of Accounting Policies |
| AS 2 | Valuation of Inventories |
| AS 3 | Cash Flow Statements |
| AS 4 | Contingencies and Events Occurring After the Balance Sheet Date |

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| AS 5 | Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies |
| AS 6 | Depreciation Accounting |
| AS 7 | Construction Contracts (Revised) |
| AS 9 | Revenue Recognition |
| AS 10 | Accounting for Fixed Assets |
| AS 11 | The Effects of Changes in Foreign Exchange Rates (Revised-2003) |
| AS 12 | Accounting for Government Grants |
| AS 13 | Accounting for Investments |
| AS 14 | Accounting for Amalgamations |
| AS 15 | Employee Benefits |
| AS 16 | Borrowing Costs |
| AS 17 | Segment Reporting |
| AS 18 | Related Party Disclosures |
| AS 19 | Leases |
| AS 20 | Earnings Per Share |
| AS 21 | Consolidated Financial Statements |
| AS 22 | Accounting for Taxes on Income |
| AS 23 | Accounting for Investments in Associates in Consolidated Financial Statements |
| AS 24 | Discontinuing Operations |
| AS 25 | Interim Financial Reporting |
| AS 26 | Intangible Assets |
| AS 27 | Financial Reporting of Interests in Joint Ventures |
| AS 28 | Impairment of Assets |
| AS 29 | Provisions, Contingent Liabilities and Contingent Assets |
| AS 30 | Financial Instruments: Recognition and Measurement |
| AS 31 | Financial Instruments: Presentation |
| AS 32 | Financial Instruments: Disclosures |

07. Of the twenty eight standards notified under the Companies (Accounting Standards) Rules, 2006, presently, the following standards are not applicable to banks to the extent specified.

(a) AS 13, "Accounting for Investments", does not apply to investments of banks.

(b) AS 11, "The Effects of Changes in Foreign Exchange Rates", does not apply to accounting of exchange difference arising on a forward exchange contract entered to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. However, it shall apply to exchange differences in respect of all other forward exchange contracts.

08 RBI has issued Circular no. DBOD.No.BP.BC.76/ 21.04.018/2004-05 dated March 15, 2005 and Circular no. DBOD.BP.BC.76/21.04.018/2005-06 dated April 5, 2006, containing the guidelines on compliance with AS 11 (Revised 2003).

## Audit of Accounts

09. 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 by a person duly qualified under any law for the time being in force to be an auditor of companies. Similar provisions are contained in the enactments governing nationalised banks [Section 10 of the Banking Companies (Acquisition and Transfer of Undertakings) Act of 1970/1980], State Bank of India [section 41 of the State Bank of India Act, 1955], subsidiaries of State Bank of India [section 41 of the State Bank of India (Subsidiary Banks) Act, 1959], and regional rural banks [section 19 of the Regional Rural Banks Act, 1976]. It is important to note that section 41 of the State Bank of India Act, 1955, specifically provides that the affairs of the bank shall be audited by "two or more auditors". Further, the members, while carrying out audit of a bank (head office or branches) are required to comply with the Engagement and Quality Control Standards[1], issued by the Institute of Chartered Accountants of India. A list of the Engagement and Quality Control Standards applicable to audit of financial statements of a bank is given in Chapter 1 of Part II.

10. As mentioned in Chapter 1 of this Part, banks operate through a network of branches. The financial statements of branches (comprising branch's profit and loss account, balance sheet and various returns to head office) are incorporated in preparing the financial statements of the bank as a whole. The requirements of section 30 of the Act and the corresponding

[1] Hitherto known as Auditing and Assurance Standards.

requirements of other enactments governing different types of banks, referred above, relate to audit of financial statements of the bank as a whole and not to audit of financial statements of branches. The discussion in paragraphs 3.29 to 3.58 below is also in the context of audit of financial statements of the bank as a whole. The provisions relating to audit of financial statements of branches are discussed later in paragraphs 3.59 to

11. Further, the members, while carrying out audit of a bank (head office or branches) are required to comply with the Engagement and Quality Control Standards issued by the Institute of Chartered Accountants of India (ICAI).

## Qualifications of Auditor

12. According to section 226 of the Companies Act, 1956, a chartered accountant, a firm of chartered accountants or a restricted state auditor can be appointed as an auditor of a company. However, the following persons cannot be appointed as an auditor of a company:

(a) a body corporate;

(b) an officer or employee of the company;

(c) a person who is a partner, or who is in the employment of an officer or employee of the company;

(d) a person who is indebted to the company for an amount exceeding one thousand rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees; or

(e) a person holding any security, i.e., an instrument which carries voting rights of the company.

13. The aforesaid section further provides that a person is not qualified for appointment as auditor of a company if he is disqualified for appointment as an auditor of any other body corporate which is that company's subsidiary or holding company or a subsidiary of that company's holding company, or would be so disqualified if the body corporate were a company. Section 226 also provides that if an auditor becomes subject, after his appointment, to any of the disqualifications described in the preceding paragraph, he shall be deemed to have vacated his office.

14. As regards the disqualification on account of indebtedness, a partner of a firm of chartered accountants is disqualified when the firm is indebted to

the company in excess of the prescribed limit and vice versa*.

15. It may be noted that in case of indebtedness in excess of the specified limit as mentioned above, the chartered accountant concerned (or the firm of chartered accountants) becomes disqualified to audit any branch of the bank; the disqualification is not confined to appointment as auditor of the particular branch to which the debt is owed.

16. In the context of banks, the expression indebtedness would cover, *inter alia*, the amounts outstanding in respect of credit cards issued by a bank. Thus, where the credit card outstanding exceed the prescribed limit of Rs.1,000, the chartered accountant in whose name the card is issued as well as the firm of which he is a partner would be disqualified for appointment as an auditor of the issuing bank.

17. The qualification for appointment as an auditor as prescribed in law are the minimum qualifications and a regulatory authority (or an individual bank) may lay down further conditions to determine the eligibility of a chartered accountant or a firm of chartered accountants for appointment as an auditor. The further conditions (which, of course, must be reasonable) may relate to such matters as experience of the chartered accountant /firm/partners of the firm, staff strength, etc. and may be laid down to ensure that the chartered accountants/firms of chartered accountants appointed as auditors possess the requisite skills and resources to carry out the audit effectively.

## Appointment of Auditor

18. As per the provisions of the relevant enactments, the auditor of a banking company is to be appointed at the annual general meeting of the shareholders, whereas the auditor of a nationalised bank is to be appointed by the bank concerned acting through its Board of Directors. In either case, approval of the RBI is required before the appointment is made. The auditors of the State Bank of India are to be appointed by the Comptroller and Auditor General of India in consultation with the Central Government. The auditors of the subsidiaries of the State Bank of India are to be appointed by the State Bank of India. The auditors of regional rural banks are to be appointed by the bank concerned with the approval of the Central Government.

19. As mentioned earlier, the State Bank of India Act, 1955, specifically provides for appointment of two or more auditors. Besides, nationalised banks and subsidiaries of State Bank of India also generally appoint two or more firms as joint auditors.

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* Readers may also refer to the "Guidance Note on Independence of Auditors", issued by the ICAI.

## Remuneration of Auditor

20. The remuneration of auditor of a banking company is to be fixed in accordance with the provisions of section 224 of the Companies Act, 1956 (i.e., by the company in general meeting or in such manner as the company in general meeting may determine). The remuneration of auditors of nationalised banks and State Bank of India is to be fixed by the RBI in consultation with the Central Government. The remuneration of auditors of subsidiaries of State Bank of India is to be fixed by the latter. In the case of regional rural banks, the auditors' remuneration is to be determined by the bank concerned with the approval of the Central Government.

## Powers of Auditor

21. The auditor of a banking company or of a nationalised bank, State Bank of India, a subsidiary of State Bank of India, or a regional rural bank has the same powers as those of a company auditor in the matter of access to the books, accounts, documents and vouchers. He is also entitled to require from the officers of the bank such information and explanations as he may think necessary for the performance of his duties. In the case of a banking company, he is entitled to receive notice relating to any general meeting. He is also entitled to attend any general meeting and to be heard there at on any part of the business, which concerns him as an auditor.

22. It is important to note that under section 10 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, the auditor of a nationalised bank may employ accountants or other persons at the expense of the bank to assist him in audit of accounts. Similar provisions exist in section 41 of the State Bank of India Act, 1955 and the State Bank of India (Subsidiary Banks) Act, 1959. These provisions are aimed at facilitating the work of auditors of these banks by empowering them to appoint the auditors of branches and are particularly important in the context of the fact that the above enactments do not contain any specific provisions for audit of branches of these banks. This is unlike banking companies where audit of branches is required under section 228 of the Companies Act, 1956. It may be noted that the Regional Rural Banks Act, 1976, does not contain any provisions relating to audit of branches. Accordingly, in the case of such banks, audit of branches is also carried out by the auditors appointed for the bank as a whole.

# Legal Framework

01. There is an elaborate legal framework governing the functioning of banks in India. The principal enactments which govern the functioning of various types of banks are:

- Banking Regulation Act, 1949.
- State Bank of India Act, 1955.
- Companies Act, 1956.
- State Bank of India (Subsidiary Banks) Act, 1959.
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.
- Regional Rural Banks Act, 1976.
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980.
- Information Technology Act, 2000.
- Prevention of Money Laundering Act, 2002.
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- Credit Information Companies Regulation Act, 2005.
- Payment and Settlement Systems Act, 2007.

02. Besides, the above enactments, the provisions of the Reserve Bank of India Act, 1934, also affect the functioning of banks. The Act gives wide powers to the RBI to give directions to banks which also have considerable effect on the functioning of banks.

## Salient Provisions of Banking Regulation Act, 1949[*]

03. Of the above, the Banking Regulation Act, 1949 (hereinafter referred to as "the Act"), is the most important as it affects the functioning of all institutions carrying on banking business whereas the other enactments relate only to certain specific type(s) of banks. Some of the important provisions of the Act are briefly

[*] RBI *vide* its Circular No. DBOD.NO.PSBD.BC.62/16.13.100/2013-14 on "Amendments to Banking Regulation Act, 1949 –Banking Laws (Amendment) Act, 2012- Applicability to private sector banks" dated October 23, 2013 advised that amendments by Banking Laws (Amendment) Act, 2012 are binding on banks notwithstanding any clauses to the contrary contained in the Memorandum of Association (MoA) and Articles of Association (AoA) of the banks. Banks are therefore, advised to make necessary amendments in the MoA and AoA.

described below, since familiarity with them is essential for the performance of the duties of an auditor. It may, however, be emphasised that the ensuing discussion is not an exhaustive discussion on all the relevant provisions of the Act. It may also be noted that some of the provisions discussed hereunder are not applicable to certain types of banks in view of there being specific provisions with regard to the relevant matters in the respective principal statutes governing their functioning.

## Sec 4: Power to Suspend Operation of the Act

04. On a representation made by the RBI in this behalf, the Central Government may suspend the operation of the Act or of any provision thereof for a period up to 60 days either generally or in relation to any specified banking company. In case of a special emergency, the Governor of the RBI or, in his absence, any authorised Deputy Governor may also, similarly, suspend such operation for a period up to 30 days. In either case, the Central Government has a power to extend the period of suspension, from time to time, but the said extension should not exceed a period of 60 days at any one time. The total period of suspension cannot, however, exceed one year.

## Sec 5(b): Banking

05. 'Banking' is defined as "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise".

## Sec 5(c): Banking Companies

06. A *banking company* means "any company which transacts the business of banking in India". The term 'company' for this purpose covers companies registered in India as well as foreign companies. It has been clarified that any company which is engaged in the manufacturing of goods or carries on any trade, and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader, shall not be deemed to transact the business of banking [*Explanation* to section 5(c)].

## Sec 6: Forms of Business

07. Section 6 of the Act permits a banking company to engage in certain forms of business in addition to the business of banking. Besides the forms of business specifically listed in clauses (a) of sub-section (1) of section 6, a banking company may do "all such other things as are incidental or conducive to the promotion or advancement of the business of the company" [clause (n) of sub-section (1) of section 6]. Under clause (o), a banking company may engage

in any other form of business (besides those covered by other clauses), which the Central Government may, by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.

2.08 Under sub-section (2) of section 6, a banking company is prohibited from entering into any form of business other than those covered by sub-section (1) of the said section. Section 8 specifically prohibits a banking company from buying, selling or bartering of goods except in connection with the realisation of a security held by it. It also prohibits a banking company from engaging in any trade of buying/selling or bartering of goods for others except in connection with collecting or negotiating bills of exchange or in connection with undertaking the administration of estates as executor, trustee or otherwise. However, the above prohibitions are not applicable to any business specified by the Central Government in pursuance of clause (o) of sub-section (1) of section 6.

### Sec 11, 12 and 13: Requirements as to Minimum Paid-up Capital and Reserves and Regulation of Capital

09. Section 11 of the Act lays down the requirements as to minimum paid-up capital and reserves. Different limits have been laid down for banking companies incorporated outside India and other banking companies. Under section 12, the capital of a banking company can consist of ordinary (i.e., equity) shares only, except where preference shares have been issued prior to July 1, 1944 or where the banking company has been incorporated before January 15, 1937[1]. Section 13 restricts the pay out; either directly, or indirectly, of commission, brokerage, discount or remuneration in any form in respect of any shares issued by a banking company to two and one-half percent of the paid-up value of the said shares.

### Sec 14 and 14A: Prohibition on Creation of Charge on Unpaid Capital

10. A banking company is prohibited from creating any charge on their un-paid shares. A banking company is also prohibited from creating floating charge on the undertaking or any property of the company or any part thereof unless the creation of such floating charge is certified in writing by the RBI as not being detrimental to the interest of the depositors of such company.

### Sec 15: Restriction on Payment of Dividend

11. No banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation expenses, share-selling commission, brokerage, amount of losses incurred and any other

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[1] The attention of the members is also invited to RBI's circular no. DBOD.BP.BC.42/21.01.002/ 2007-08 of October 29, 2007 on "Guidelines for issuing preference shares as part of regulatory capital".

item of expenditure not represented by tangible assets) have been completely written off. A banking company may, however, pay dividends on its shares without writing off:

a. Depreciation, if any, in the value of Investments in approved securities where such depreciation has not been capitalised or otherwise accounted for as loss,

b. Depreciation, if any, in the value of its investments in shares, debentures or bonds where adequate provision for such depreciation has been made to the satisfaction of the auditors,

c. Bad debts, if any, where adequate provision for such bad debts has been made to the satisfaction of the auditors.

## Sec 17: Reserve Fund

12. Every banking company incorporated in India is required to transfer out of the balance of profit of each year as disclosed in the Profit and Loss account to reserve fund, a sum equivalent to 20% of its profit before declaration of dividend. Central Government may on recommendation of the RBI having regard to adequacy of its paid up capital and reserves declare in writing that the provisions of Section 17(1) shall not apply to the banking company. Where a banking company appropriates any sum or sums from the reserve fund or the share premium account, it shall report the fact to the RBI.

## Sec 18: Cash Reserve

13. Every banking company, other than a scheduled bank, is required to maintain in India a cash reserve with itself or by way of balance in a current account with the RBI, or by way of net balance in current accounts or in one or more of the aforesaid ways, a sum equivalent to at least three per cent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight.

14. Such companies are also required to submit to the RBI before the twentieth day of every month, a return showing the amount so held on alternate Fridays during a month with particulars of its demand and time liabilities in India on such Fridays or if any such Friday is a public holiday under the Negotiable Instruments Act, 1881 (26 of 1881), at the close of business on the preceding working day.

## Sec 19: Restriction on Nature of Subsidiary Companies

15. A banking company is prohibited from forming a subsidiary company except for the following purposes:

a. For undertaking any of the businesses which, under clauses (a) to (o) of Section 6(1), is permissible for a banking company,
b. With the previous approval of RBI in writing for carrying on of the business of banking exclusively outside India,
c. For undertaking of such other business, which RBI may, with the prior approval of the Central Government, consider conducive to the spreading of banking in India or to be otherwise useful or necessary in public interest.

16. A banking company shall not hold shares in any other company other than the subsidiary, whether as pledgee, mortgagee or absolute owner of an amount exceeding 30% of the paid up share capital of that company or 30% of its own paid up share capital and free reserves, whichever is less. No shares shall be held as pledgee, mortgagee or absolute owner in any company, other than a subsidiary company, in the management of which any managing director or manager of the banking company is in any manner concerned or interested.

## Sec 20 and 21: Restriction on Loans and Advances

17. Section 20 of the Banking Regulation Act, 1949, (hereinafter referred to as 'the Act') lays down restrictions on loans and advances by banks. Apart from banking companies, nationalised banks, State Bank of India, its subsidiaries, and regional rural banks are also covered by this section. Accordingly, none of these banks can grant loans and advances in the following circumstances:

(a) on the security of its own shares;
(b) to or on behalf of any of its directors;
(c) to any firm in which any of its directors is interested as a partner, manager, employee or guarantor;
(d) any company of which, or of a subsidiary of the holding company of which, any of the directors of the bank is a director, manager, employee or guarantor or in which he holds substantial interest. This restriction, however, does not apply to the following companies:
    (i) a subsidiary of the banking company;
    (ii) a company registered under section 25 of the Companies Act, 1956; and
    (iii) a government company.

(e) any individual in respect of whom any of its directors is a partner or guarantor.

18. Under section 20(5) of the Act, the RBI has been empowered to clarify whether any transaction is a loan or advance for the purpose of this section and the decision of RBI thereon shall be final. In doing so, the RBI would consider the nature of the transaction, the period within which and the manner and the circumstances in which, any amount due on account of the transaction is likely to be realised, the interest of the depositors and other relevant considerations. In exercise of this power, the RBI has, vide its circulars DBOD.No.BC.415/ 08.95.005/98 dated September 29, 1998 and DBOD.No.BC.26/08.95.005/99 dated April 1, 1999 excluded certain loans to directors from the purview of section 20.

19. Under section 20A of the Act, a banking company is prohibited from remitting, wholly or partly, the debts due to it by certain persons without obtaining the prior approval of the RBI. Any such remission made without the prior approval of the RBI is void and ineffective. The persons specified in this behalf are:

(a) any director of the banking company;

(b) any firm or company in which any director is interested as director, partner, managing agent or guarantor; and

(c) any individual if any director of the bank is his partner or guarantor.

The above prohibition also applies to nationalised banks, State Bank of India, its subsidiaries, and regional rural banks.

20. Under section 21 of the Act, the RBI has the power to determine the policy in relation to advances to be followed by banking companies generally, or by any banking company in particular. In particular, the RBI can give directions to banking companies regarding:

(a) the purposes for which advances may or may not be made;

(b) the margins to be maintained in respect of secured advances;

(c) the maximum amount of advances or other financial accommodation which may be made by a banking company to any one company, firm, association of persons or individual;

(d) the maximum amount up to which guarantees may be given by a banking company on behalf of any one company, firm, association of persons or individual; and

(e) the rate of interest and other terms and conditions on which advances or other financial accommodation may be made or guarantees may be given.

21. Every banking company (as also a nationalised bank, State Bank of India, a subsidiary of State Bank of India, and a regional rural bank) is bound to comply with the policy determined, and directions given, by the RBI.

## Sec 22: Licensing of Banking Companies

22. Section 22 of the Act prohibits a company from carrying on banking business in India unless it holds a license issued by the RBI. The licence may be a conditional licence. The licence may be cancelled if the company ceases to carry on banking business in India or fails to comply with the conditions imposed upon it under sub-section (1) of this section or fails to fulfil any other condition laid down in the section.

## Sec 23: Restrictions on Opening and Transfer of Places of Business

23. Under section 23, prior permission of the RBI is required for opening of new, or transfer of existing, places of business in India. Similarly, prior permission from RBI is required by a banking company incorporated in India for opening a new, or transferring an existing, place of business outside India. The above restrictions, however, do not cover the change of location of an existing place of business within the same city, town or village. Further, opening of a temporary place of business for a period not exceeding one month is also exempted provided the conditions laid down in this behalf are satisfied. The term ‘place of business’ includes any sub-office, pay office, sub-pay office and any place of business at which deposits are received, cheques are encashed or monies are lent.

24. It may be noted that recently, the RBI has permitted banks to open new places of business or transfer existing ones without obtaining specific permission from it provided certain conditions specified by the RBI in this behalf are satisfied.

## Sec 24: Maintenance of a Percentage of Assets (SLR)

25. Section 24 mandates that a scheduled bank, in addition to the average daily balance required to be maintained under Section 42 of the Reserve Bank of India Act, 1934 every other banking company, in addition to the cash reserve required to be maintained under section18, shall maintain in India, assets of the value which shall not be less than such percentage not exceeding forty percent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, in such form and manner as the RBI may by notification in the Official Gazette, specify from time to time.

26. Section 25 requires that the assets in India of every banking company at the close of business on the last Friday of every quarter or if that day is a public holiday, at the close of the preceding working day, shall not be less than 75% of its demand and time liabilities in India.

***Returns to be Submitted to the RBI***

27. The Banking Regulation Act, 1949 requires banking companies, nationalised banks, State Bank of India, its subsidiaries, and regional rural banks to furnish the following returns to the RBI:

(a) Monthly return of assets maintained in India in accordance with section 24 and demand and time liabilities in India at the close of business on each alternate Friday during the month. [Section 24]

(b) Quarterly return of assets and liabilities in India at the close of business on the last Friday of every quarter. [Section 25]

(c) Annual return of unclaimed accounts which have not been operated for 10 years. [Section 26]

(d) Monthly return of assets and liabilities in India at the close of business on the last Friday of every month. [Section 27]

28. The above types of banks have also to furnish such other statements or information as may be required by the RBI under section 27 of the Act. In exercise of its powers under the aforesaid section, the RBI requires a large number of returns to be furnished to it. Some of the important returns required to be furnished to the RBI are as enumerated below, with their periodicity indicated in parentheses.

(a) Report on Non-performing Advances (annual)

(b) Statement showing the position of reconciliation of investment account (annual)

(c) Statement on compromises and settlements involving write off (half-yearly)

(d) Statement on bad debts written off (annual)

(e) Details of Doubtful or Loss Assets and also Suit Filed accounts with outstandings aggregating Rs. one crore and above (half-yearly)

(f) Details of remittance of profits/surplus retained in India (annual)

(g) Particulars of provisions held on problem credits of overseas branches (half-yearly)

(h) Inter-branch reconciliation (quarterly)

(i) Reconciliation of outstanding inter-branch accounts (annual)

(j) Reconciliation of clearing differences (annual)

(k) Position of balancing of books (quarterly)

(l) Returns relating to frauds, robbery, etc., including fraud involving Rs. one crore and above (quarterly)

(m) Return of Capital Adequacy (quarterly)

(n) Return on Asset Quality (quarterly)

(o) Asset-liability management (monthly)

(p) Return in respect of Statutory Liquidity Ratio (monthly)

## Sec 29-33: Provisions Relating to Accounts and Audit

29. Section 29 of the Act lays down requirements as to profit and loss account and balance sheet. Section 30 deals with audit of profit and loss account and balance sheet prepared in accordance with section 29. Section 31 deals with publication of profit and loss account and balance sheet and their submission to RBI, whereas section 32 deals with submission of profit and loss account and balance sheet alongwith the auditor's report to the Registrar of Companies. Section 33 deals with display of audited balance sheet and profit and loss account by companies incorporated outside India and carrying on banking business in India. These provisions are discussed in detail in Chapter 3 of Part I of the Guidance Note. It may be noted that some of the above provisions are not applicable to nationalised banks, State Bank of India, subsidiaries of State Bank of India, regional rural banks, and co-operative banks (this aspect is discussed later in this Chapter).

## Other Important Provisions of the Banking Regulation Act, 1949

30. Besides the above provisions, a number of other provisions of the Act are relevant to the work of the auditor. Some of the important provisions are as follows:

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| Section 9 | Disposal of non-banking assets<br>(Banks are prohibited to hold any immovable property other than assets for its own use and should dispose off the assets held in satisfaction of claim within 7 years or such extended period as RBI allows.) |
| Section 36A | Certain provisions of the Act do not apply to certain banking companies |
| Section 49A | Restriction on acceptance of deposits, withdrawable by cheque |
| Section 45Y | Power of Central Government to make rules for the preservation of records |

31. Further, the provisions of the Banking Regulation Act, 1949, except as provided for in the said Act, will override anything to the contrary contained in the:

- memorandum or articles of the banking company or
- in any agreement executed by it or
- in any resolution passed by the banking company in a general meeting or its Board of Directors.

## Reserve Bank of India Act, 1934

32. As per section 42, every bank included in the Second Schedule of the Reserve Bank of India Act shall maintain with the RBI an average daily balance of not less than 3% of its total demand and time liabilities. RBI has power to increase the said rate by issuing notification in the Gazette of India but the increased rate shall not exceed 20% of its total demand and time liabilities.

### Inspection by the RBI

33. Wide powers have been given to the RBI under section 35 for inspection of any banking company and its books and accounts. The Central Government can also direct the RBI to cause such an inspection.

### Power of the RBI to Give Directions

34. The RBI is empowered to issue such directions to banking companies generally or to any banking company in particular as it deems fit in public interest, or in the interest of banking policy, or to prevent the affairs of any banking company from being conducted in a manner detrimental to the interests of the depositors or in a manner prejudicial to the interests of the banking company, or to secure the proper management of any banking company generally (section 35A). The RBI is also empowered to caution or prohibit banking companies generally or any particular banking company against entering into any particular transaction or class of transactions, and generally give advice to any banking company [Clause (a) of sub-section (1) of section 36].

## Applicability of Various Enactments to Different Types of Banks

35. As mentioned in paragraph 2.01 above, a number of enactments govern the functioning of banks in India. While the Banking Regulation Act, 1949 is applicable to all types of banks (though some of its provisions may not be applicable to certain types of banks or may be applicable with certain modifications), the other enactments are relevant only to particular type(s) of

banks. The enactments applicable to different types of banks are discussed below.

## Nationalised Banks

36. Nationalised banks are governed by –

(a) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980; and

(b) specified provisions of the Banking Regulation Act, 1949.

37. Fourteen banks were nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 while another six were nationalised under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. The provisions of these two enactments are identical and deal, *inter alia*, with such matters as the following:

- Authorised and paid-up capital
- Annual accounts
- Qualifications, appointment, powers and duties of auditor (including contents of audit report)
- Disposal of profits
- Special audit at the instance of the Central Government
- Time and place of annual general meeting and business to be transacted thereat
- Restrictions on payment of bonus to officers and other employees
- Powers of the Board of Directors to make regulations in consultation with the RBI and with the previous sanction of the Central Government

38. Apart from all the provisions of the aforesaid Act of 1970/1980, the following provisions of the Banking Regulation Act, 1949, also apply to nationalised banks by virtue of section 51 of the latter Act:

| | |
|---|---|
| Section 10 | Prohibition of employment of managing agents and restrictions on certain forms of employment |
| Section 13 | Restriction on commission, brokerage, discount, etc., on sale of shares |
| Section 14 | Prohibition of charge on unpaid capital |
| Section 14A | Prohibition of floating charge on assets |
| Section 15 | Restrictions as to payment of dividend |

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| Section 17 | Reserve Fund |
| Section 19 | Restriction on nature of subsidiary companies |
| Section 20 | Restrictions on loans and advances |
| Section 20A | Restriction on power to remit debts |
| Section 21 | Power of Reserve Bank to control advances by banking companies |
| Section 21A | Rate of interest charged by banking companies not to be subject to scrutiny by Courts |
| Section 23 | Restrictions on opening of new, and transfer of existing, places of business |
| Section 24 | Maintenance of a percentage of assets |
| Section 25 | Assets in India |
| Section 26 | Return of unclaimed deposits |
| Section 27 | Monthly returns and power to call for other returns and information |
| Section 28 | Power to publish information |
| Section 29 [excluding sub-section (3)] | Accounts and balance sheet |
| Section 30 [excluding sub-sections (1B), (1C) and (2)] | Audit |
| Section 31 | Submission of returns |
| Section 34 | Accounting provisions of the Act not retrospective |
| Section 35 | Inspection |
| Section 35A | Power of the Reserve Bank to give directions |
| Section 36 [excluding clause (a) of sub-section (1)] | Further powers and functions of Reserve Bank |
| Section 45Y | Power of Central Government to make rules for the preservation of records |
| Section 45Z | Return of paid instruments to customers |
| Section 45ZA | Nomination for payment of depositors' money |
| Section 45ZB | Notice of claims of other persons regarding |

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|---|---|
| | deposits not receivable |
| Section 45ZC | Nomination for return of articles kept in safe custody with banking company |
| Section 45ZD | Notice of claims of other persons regarding articles not receivable |
| Section 45ZE | Release of contents of safety lockers |
| Section 45ZF | Notice of claims of other persons regarding safety lockers not receivable |
| Section 46 | Penalties |
| Section 46A | Chairman, director, etc., to be public servants for the purposes of Chapter IX of the Indian Penal Code |
| Section 47 | Cognisance of offences |
| Section 47A | Power of Reserve Bank to impose penalty |
| Section 48 | Application of fines |
| Section 50 | Certain claims for compensation barred |
| Section 52 | Power of Central Government to make rules |
| Section 53 | Power to exempt in certain cases |

## State Bank of India and its Subsidiaries

39. State Bank of India and its subsidiaries are governed by –

(a) State Bank of India Act, 1955/State Bank of India (Subsidiary Banks) Act, 1959, as the case may be; and

(b) specified provisions of the Banking Regulation Act, 1949.

40. The provisions of the Banking Regulation Act, 1949, applicable to State Bank of India and its subsidiaries are specified in section 51 of the said Act and are the same as those applicable to nationalised banks (described in paragraph 38. above).

## Companies Act, 1956

41. Section 2 of the Banking Regulation Act, 1949, provides that the provisions of the Act shall be in addition to, and not, save as expressly provided there under, in derogation of the Companies Act, 1956, and any other law for the time being in force. Thus, banking companies attract the provisions of both the Banking Regulation Act, 1949, as well as the Companies Act, 1956. In case the

provisions of these enactments are at variance, the provisions of the Banking Regulation Act, 1949, shall prevail.

## Regional Rural Banks

42. Regional rural banks are governed by –

(a) Regional Rural Banks Act, 1976; and

(b) specified provisions of the Banking Regulation Act, 1949.

43. The provisions of the Banking Regulation Act, 1949, applicable to regional rural banks are specified in section 51 of the said Act and are the same as those applicable to nationalised banks (described in paragraph 2.38 above).

## Co-operative Banks

44. Co-operative banks are governed by –

(a) the Co-operative Societies Act, 1912, or the Co-operative Societies Act of the state concerned, as the case may be; and

(b) Part V of the Banking Regulation Act, 1949.

45. Part V of the Banking Regulation Act, 1949, modifies certain provisions of the Act in their application to co-operative banks and omits certain others. The sections which have been significantly modified in their application to co-operative banks are sections 2, 5-A, 6, 7, 8, 9, 11, 18, 19, 20, 21, 22, 23, 24, 27, 29, 31, 35, 35A, 36, 36A, 49A, 52, 54 and 55. Besides, the First Schedule to the Act is not applicable to co-operative banks while the Third and the Fourth Schedules to the Act have been replaced by a schedule applicable only to co-operative banks.

## Scheduled Banks

46. These are the banks included in the Second Schedule to the Reserve Bank of India Act, 1934. The RBI includes a bank in the said Schedule if it fulfils certain conditions.

47. The RBI gives certain facilities to scheduled banks including the following:

(a) Purchase, sale and rediscounting of certain bills of exchange (including foreign bills of exchange) or promissory notes.

(b) Purchase and sale of foreign exchange.

(c) Making of loans and advances to scheduled banks.

(d) Maintenance of the accounts of scheduled banks in its banking department and issue department.

(e) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of the RBI free of charge or at nominal charges.

## Regulatory Directives

48. Section 35A of the Banking Regulations Act empowers the RBI to issue directions to banking companies generally or in particular, from time to time and such directions shall be binding on all the banking companies. Vested with such power, RBI has issued various circulars regarding banking supervision, banking operations, etc. The circulars issued by RBI deal with issues among other things, accounting, accounting standards, financial statement disclosures, etc. It is mandatory for every banking company to follow the directions and RBI closely monitors such compliances. The circulars issued by RBI covers every facet of banking business.

49. RBI issues Master Circulars every year by consolidating the earlier circulars on the subject and the latest circulars issued are updated. The master circulars and other circulars are hosted on RBI website (*www.rbi.org.in)*. The latest series of master circulars were issued by the RBI on 1st July, 2013 in respect of various matters concerning banking business, valuation of investments, revenue recognition, para-banking activities, capital adequacy, frauds classification and reporting, risk management, classification of advances, etc. Some of these master circulars have been provided in the CD enclosed with this Guidance Note.

# Accounting Systems

## Principal Books of Account

01. The principal books of account, subsidiary books and statistical records generally maintained by banks are described in the following paragraphs. It may, however, be emphasised that the exact nature of such books may differ from one bank to another, depending upon the individual requirements of each bank.

### General Ledger

02. The general ledger contains control accounts of all personal ledgers, the profit and loss account and different asset and liability accounts. There are certain additional accounts also (known as contra accounts) which are kept with a view to keeping control over transactions which have no direct effect on the assets and liabilities of the bank, and represent the agency business handled by the bank on which it earns service charges, e.g., letters of credit opened, bills received or sent for collection, guarantees given, etc.

### Profit and Loss Ledger

03. For managerial purposes, the account heads in the profit and loss ledgers are more detailed than those shown in the published profit and loss accounts of banks. For example, there are separate accounts for basic salary, dearness allowance and various other allowances, which are grouped together in the published accounts. Similarly, various accounts comprising general charges, interest paid, interest received, etc., are maintained separately in the profit and loss ledgers.

## Subsidiary Books

### Personal Ledgers

04. Each control account in the general ledger is supported by a subsidiary ledger. Thus, in respect of control accounts relating to accounts of customers, subsidiary ledgers are maintained for:

(a) various types of deposit accounts (savings bank, current account, recurring deposits, etc.) which contains accounts of individual customers. Each account holder is allotted a separate folio in the ledger;

(b) various types of loan and related accounts (cash credit, term loans, demand loans, bills purchased and discounted, letters of credit opened, bank guarantees issued) wherein the liability of each customer is reflected.

05. Separate registers are maintained to record the particulars of term deposits (including derivatives like call deposits, certificates of deposits, etc.). Banks generally do not allot separate folios to each customer. The register is divided into various sections, each section for a particular period of deposit and/or the rate of interest payable on deposits. As mentioned earlier, postings to these registers are made directly from vouchers and all the vouchers entered in each ledger/register in a day are summarised into voucher summary sheets. The voucher summary sheets are prepared in the department which originates the transactions, by persons other than those who write the ledgers. They are subsequently checked with the vouchers by persons generally unconnected with the writing of ledgers/registers or the voucher summary sheets. However, most of the banks are now under Core Banking and, hence, all the deposits received are automatically recorded in the respective registers.

## Bills Registers

06. Details of different types of bills are kept in separate registers which have suitable columns. For example, bills purchased, inward bills for collection, outward bills for collection etc., are entered serially on a daily basis in separate registers. In the case of bills purchased or discounted, party-wise details are also kept in normal ledger form. This is done to ensure that the sanctioned limits of parties are not exceeded.

07. Entries in these registers are made with reference to the original documents. A voucher for the total amount of the transactions of each day is prepared in respect of each register. This voucher is entered in the day book. When a bill is realised or returned, its original entry in the register is marked off. A daily summary of such realisations or returns is prepared in separate registers whose totals are taken to vouchers which are posted in the day book.

08. In respect of bills for collection, contra vouchers reflecting both sides, i.e., debit and credit, are prepared at the time of the original entry, and this entry is reversed on realisation.

09. Outstanding entries are summarised at stipulated intervals nd their totals agreed with the balances of the respective control accounts in the general ledger.

## Other Registers/Records

10. There are different registers/records to record detailed particulars of

various types of transactions. These registers/records do not form part of books of account but support the entries/balances in the various accounts. Some of the important registers/records relate to the following:

(a) Drafts issued (separate registers may be maintained for drafts issued by the branch on other branches of the same bank and those on the branches of its correspondents in India or abroad).

(b) Drafts paid (separate registers may be maintained on the same pattern as in the case of drafts issued).

(c) Issue and payment of –

 (i) telegraphic transfers.

 (ii) mail transfers.

 (iii) bankers' cheques/pay orders/Traveller's cheques/gift cheques

(d) Letters of credit.

(e) Letters of guarantee.

11. Entries in these registers are made from original documents which are also summarised on vouchers every day. These vouchers are posted into the day book.

12. Outstanding entries are summarised at stipulated intervals and their totals agreed with the respective control accounts in the general ledger.

13. There are frequent transactions amongst the branches of the bank which are settled through the mechanism of inter-office accounts. The examples of such transactions include payment/realisation of bills/cheques, etc., sent for collection by one branch to the other, movement of cash between them, transfer of funds where one branch acts as an agent of the other, e.g., for government–related business. All such transfers of funds are channelised through a nodal account (this account has different names in different banks, e.g., Head Office Account, Inter-office Account, and so on). This is a crucial account both for banks as well as the auditors for two reasons – first, many frauds have been perpetrated on banks through this account and second, banks are now required to make provision for entries routed through this account which remain unreconciled beyond a time period specified by the RBI. For a detailed discussion on this aspect, reference may be made to Chapter 13 of Part III.

14. Banks maintain a Suspense Ledger to record various suspense accounts. Sometimes, transactions of a transitory nature, e.g., travel advances to employees, are recorded in a suspense account pending their adjustment in the related expense/income account. Some banks maintain

separate ledgers for suspense accounts and sundry deposits accounts. The amounts lying in these accounts need regular monitoring to clear them.

15. Suitable registers with back-up registers to record classification under numerous sub-heads are maintained for:

(a) Establishment expenses.

(b) Interest and discount income.

(c) Incomes by way of commission.

(d) Interest expenditure.

(e) Provision for interest accrued but not due on deposits.

(f) Fixed assets.

(g) Stationery consumed/in hand.

(h) Interest payable to, and receivable from head office, in respect of advances and deposits respectively. A peculiar feature of accounting systems of banks is that the branches, notionally, have no funds of their own. All deposits accepted at the branch are deemed to have been passed on to the bank's head office and all loans made at the branch are deemed to have been made out of funds received from the head office. The head office pays interest to the branch for its deposits and charges interest from the branch for its advances. The rates of such interest charged and paid by head office are decided by the head office during the course of the year and are an important factor in calculating the profit or loss of a branch. The mechanism may be known by different names in different banks. All calculations in this regard are done at the branches only and suitable entries are passed, generally at the year-end. These entries, however, get offset in the process of consolidation of accounts and have no effect on the financial statements of the bank as a whole.

(i) Instruments received from customers for payment/collection by the branch. Clearing of locally payable instruments is an important function of banks. Some banks maintain separate registers to record details of various types of instruments lodged by customers whereas some other banks use a common book to record all kinds of instruments lodged by customers.

16. Separate registers are maintained to record and summarise the transactions relating to a particular head of account like Current Account, Savings Bank, Cash Credit, Term Loans. Such books may be called Log Books, Day Books, etc. The totals in this book are carried over to the Cash Book.

## Departmental Journals

17. Each department of a bank maintains a journal to note the transfer entries passed by it. These journals are memoranda books only, as all the entries made there are also made in the day book through voucher summary sheets. The purpose of such a journal is to maintain a record of all the transfer entries originated by the department. For example, the loans and overdrafts department will pass transfer entries for interest charged on various accounts every month, and as all these entries will be posted in the journal of that department, the officer concerned can easily find out the accounts in respect of which the interest entry has been passed. Since all the vouchers passed during the day are entered into the day book only in a summary form, it may not be possible to get this information from the day book without looking into the individual vouchers.

18. As has been mentioned earlier, a 'composite voucher' (or two separate vouchers for debit and credit) is generally prepared for each transfer entry. The composite voucher is generally prepared by and entered into the journal of the department which is accordingly credited to the other department. For example, if any amount is to be transferred from current account of a customer to his savings bank account, the voucher will be prepared by the current accounts department and entered in the journal of that department.

19. Besides the books mentioned above, various departments of a bank have to maintain a number of books to facilitate their work. Some of the important departmental books are described below.

### Cash Department

20. The following books are usually maintained by the cash department:

(a) Receiving cashiers' cash book

(b) Paying cashiers' cash book

(c) Head cashier's book

(d) Cash balance book

21. Cash Book may have one column, or two or three columns, depending upon the system adopted by the bank to record cash, transfer and clearing transactions separately or to treat all of them as cash transactions. Two points may be noted here:

(a) 'Transfer' relates to only those transactions where both debit and credit transactions are made in the accounts at the same branch and includes operations on non-customer accounts also. Clearing transactions essentially relate to customer accounts and the branch handles either payment or receipt of the underlying amount.

(b) Banks generally maintain a register (commonly called Transfer Scroll) wherein brief particulars of the debit and credit sides of a transaction are entered. At the end of the day, the register shows the total value of transfer transactions handled which has to agree with the 'Transfer' column of the Cash Book, if there is such a system. In the case of a single-column Cash Book, the total of the day's transactions must agree with the total of cash and transfer transactions, as per the cash and transfer scrolls of the branch.

22. Banks have introduced different systems to facilitate quick payments to customers. The most prevalent system is the teller system. Under this system, the tellers keep both cash as well as ledger cards and the specimen signature cards of each customer in respect of current and savings bank accounts. The teller is authorised to make payment up to a particular amount. On receipt of the cheque, he checks it, passes it for payment, enters in the ledger card and makes the payment to the customer.

### Outward Clearing Department

23. The following books are usually maintained by the outward clearing department:

(a) Clearing cheques received book for entering cheques received from customers for clearing;

(b) Bank-wise list of the above cheques, one copy of which is sent to the clearing house along with the cheques.

### Inward Clearing Department

24. The inward clearing department maintains a memorandum book to record the number of cheques given to each department. Most of the banks have centralised debiting of inward clearing cheques at the respective service branches. In such cases, the inward cheques will be retained at the service branch itself.

### Loans and Overdrafts Department

25. The Loans and Overdrafts Department usually maintains the following books:

(a) Registers to record details of documents executed by the borrowers and guarantors in respect of credit facilities

(b) Securities registers for recording details of securities in respect of credit facilities

(c) Pending documents and document deficiency register

(d) Godown registers maintained by the godown-keepers of the bank

(e) Price register giving the wholesale prices of commodities pledged with the bank

(f) Overdraft sanction register

(g) Drawing power book

(h) Delivery order books

(i) Storage books

(j) Stock statements registers for loan accounts

(k) Suit filed register

(l) Inspection register for loan accounts

## Deposits Department

26. The Deposits Department usually maintains the following books:

(a) Account opening and closing register

(b) Fixed Deposits, Rate Register giving analysis of fixed deposits rates

(c) Due date diary

(d) Specimen signature cards, containing specimen signatures of deposit account holders.

## Establishment Department

27. The Establishment Department usually maintains the following books:

(a) Salary and allied registers, such as, attendance register, leave register, overtime register, etc.

(b) Register of fixed assets, e.g., furniture and fixtures, vehicles, etc.

(c) Registers to record receipt, issue and balance of stationery including security papers, e.g., draft forms, cheque books, etc.

(d) Old records registers.

### General

28. Besides the above, banks also maintain the following books:

(a) Specimen signature book (of the bank's officers).

(b) Private telegraphic code and cyphers.

(c) Back up registers for various types of returns/statements.

(d) Safe Deposit Lockers / Safe Custody registers.

(e) Registers to record particulars of lost instruments (drafts, cheques, etc.) based on details received from the head office.

(f) Transit books through which instruments are sent to the cash department for payment by the official authorising such payment.

(g) Registers to record particulars of outstanding inter-office entries received from the reconciliation department of the bank which are to be responded to by the branch.

(h) Cheque books issued register.

(i) Token register.

(j) Stop payment register.

## Flow of Transactions

29. The books of account and other books and records maintained by banks have been described above. It is necessary for the auditor to understand how various kinds of transactions executed by a bank get reflected in various books. The following paragraphs accordingly provide a brief overview of the flow of transactions commonly carried out by banks. The emphasis is on transactions carried out at the branch level since it is at this level that banking business and most other types of transactions usually take place.

### Customers' Accounts

30. Transactions with customers (both depositors as well as borrowers) generally account for a substantial proportion of the total transactions at the branch level. These transactions involve either a credit or a debit to the respective customer accounts.

### Credits to Customers' Accounts

31. The customers may deposit cash, instruments payable at the branch itself (e.g., cheques issued by other customers of the branch/drafts issued by another branch of the bank or another bank as per approved arrangement, which is payable at the branch), or instruments drawn on other branches of

the bank/other banks located within the area of the clearing house of which the branch is a member. Generally, clearing houses are managed by the RBI or branches of State Bank of India having currency chest. In some cases, the clearing house may be managed by other banks also. Besides, there may be separate clearing houses managed by the same or by different banks for MICR (Magnetic Ink Character Recognition) and non-MICR instruments. Deposits in a customer's account can be made by any other person also (besides the customer himself).

32. All deposits are made by filling-in the relevant pay-in-slips. All pay-in-slips have two portions – one becomes the voucher for the bank and the other (the counterfoil) is returned to the depositor as acknowledgement of deposit.

33. For deposit of cash, the amount is deposited with the cashier authorised to receive cash who puts a scroll number and his initials on the voucher as also on the counterfoil. The counterfoil, duly signed and stamped, is handed over to the depositor and the voucher is eventually sent to the official responsible for maintaining the customer's account. The official enters the voucher in the account and puts his initials on it in token of having posted it in the customer's account. After posting, the voucher is sent to the cash book section or other section, as per the bank's procedure, which supervises the work relating to Day Books, at the end of the day.

34. For deposits of 'transfer' instruments, there is a designated counter which receives the pay-in-slips[1], tallies the particulars filled in the slip with the enclosed instruments, returns the duly signed, stamped and dated counterfoil to the depositor and records the particulars of the customer's account and the instrument in a register maintained for the purpose. This register is generally supervised by an official who sends both the pay-in-slip and the instrument to the desk where the instrument is to be handled, against

[1] The concept of having cheque drop boxes has also come into vogue wherein banks have almost done away with the system of having a separate counter for receiving cheques. Instead banks now maintain a locked cheque drop box in their premises alongwith a receiving acknowledgment stamp of the bank. The customers now fill up the cheque deposit slip and themselves put the bank's cheque receiving acknowledgement stamp on the bank's copy of the deposit slip as well as their own counterfoil and drop the cheque in the box. However, both the options are available to the customer as RBI Circular No. RPCD.CO.RF.BC.NO./40/07.40.06/2006-07 dated December 26, 2006 on "Cheque Drop Box Facility and the facility for acknowledgement of cheques" requires the banks to invariably display on the Cheque Drop-Box itself that "Customers can also tender the cheques at the counter and obtain acknowledgement on the pay-slips". Further, RBI vide its circular no.DPSS.CO.CHD.No. 485 / 03.06.01 / 2010-11 dated September 1, 2010 on "Dishonour / Return of Cheques - Need to Mention the 'Date of Return' in the Cheque Return Memo" mandates the banks to indicate the 'date of return' in the Cheque Return Memo.

the acknowledgement of the receiving official. (It may be clarified that a number of instruments can be tendered with one pay-in-slip provided they are all 'transfer' transactions, i.e., payable at the branch). The debit instrument is posted in the account concerned by the official handling the desk who then marks it with a 'Transfer' stamp with date and sends both the debit and the credit vouchers to the passing officer (details given later in the chapter). The officer puts his initials or signatures (as per the procedure in the bank) on both the vouchers. Thereafter, the credit voucher is sent to the Transfer Scroll in-charge who records brief particulars of both the debit and the credit vouchers in the scroll and sends the credit voucher to the desk where the customer's account is handled. Only the credit voucher `passed' by the competent official is posted in the account. In case the debit instrument cannot be paid for some reasons (insufficient funds/post-dated/different signatures/stale/ payment stopped by the drawer, etc.), the counter clerk records the particulars in a register, usually called 'Cheques Returned' register and seeks instructions from the branch manager or officer designated by the bank to deal with such matters. The competent official records his decision (to either pay or return the instrument) on the register. Normally, in case of payment of such instruments, the official records 'Pay' on the instruments also. If unpaid, the instrument is returned to the customer.

35. It is possible that there is more than one instrument along with a single pay-in-slip and these instruments are handled at different desks. In such cases, though the procedure outlined above is followed for passing the debit vouchers, the credit voucher may be authenticated, generally, by the official who passes the last debit voucher. Besides, it is also possible that out of many debit instruments, only a few are paid and the others returned. This would mean that the customers' account cannot be credited with the amount shown in the pay-in-slip. In such cases, banks generally credit the account with the amount mentioned in the slip and separately raise a debit for the amount of instruments returned. This is because the banks, on their own, cannot change the amount in the slip after having given the counterfoil to the depositor.

36. The customer can also deposit the 'clearing' instruments with the bank. When a customer deposits a clearing instrument with his bank, the designated desk in-charge checks the voucher and the instruments, gives stamped, signed and dated counterfoil to the depositor, enters the particulars in a register maintained for recording the pay-in-slips received from the customers, and sends the credit voucher along with the instrument to the clearing section in the branch. Once the clearing section receives confirmation of payment of an instrument lodged by it in the clearing house

(local clearing usually takes 1-4 days and an instrument is generally deemed to be cleared if it is not received back within a certain time stipulated for the purpose, by the clearing house rules), its in-charge passes the credit vouchers which are sent to the section where the customer's account is handled, for posting in the customer's account. As regards the instruments received back unpaid, there are two ways of dealing with them. One is to credit the customer's account with the amount of pay-in-slip and then to debit the account with the amount of instruments returned. The other method is not to post the credit voucher at all and treat it as cancelled; this is, however, done only in cases where all the instruments lodged along with a particular pay-in-slip are returned unpaid. Credits also may come from RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer) or ECS (Electronic Clearing System) which do not involve physical movement of cheques/payment instruments.

37. The customers also deposit various kinds of bills (including cheques), as under, payable in India or abroad:

- Bills for collection (against which the bank does not grant any advance to the customer).
- Bills for negotiation (against which the bank provides advance to the customers) – purchase of demand bills and discounting of usance bills.

38. Bills for collection are generally tendered along with a pay-in-slip whereas those for negotiation are tendered along with a letter from the customer. Where the instruments are for collection, these are handled by the Bills Collection Section. This section or any other designated desk in the branch accepts the pay-in-slip and the enclosed bills and gives acknowledgement (counterfoil) to the depositor. The details of the bills are entered in a Bill Collection Register. Each bill is allotted a distinctive number which is recorded on all vouchers/documents pertaining to the transaction. A forwarding schedule (or collection schedule) is prepared giving details of the instruments like drawee, date of instrument, any special instructions given by the drawer, etc. The bill is enclosed to this schedule and sent to the branch which has to collect the proceeds from the drawee. On receipt of the advice of the payment of the bill, the originating branch credits the customer's account with the amount of the bill paid (less any charges deducted by the collecting branch) and simultaneously recovers its own commission for handling the transaction by debit to the customer's account. The procedure stated above is common to both the demand and usance bills, though nomenclature of the registers and the forwarding schedules used for the purpose may be different.

39. As regards the bills tendered for negotiation, the transaction may relate to either the customers who have been granted regular limits for the facility or those who need this facility only occasionally. In the latter case, the bank would have prescribed an authority to approve the negotiation. Generally, bills are submitted by customers along with a forwarding letter while the cheques are submitted with a pay-in-slip, along with a request to negotiate the same. The cases of regular limits are handled by the Loan Section and the official dealing with the accounts or other designated authority approves the bills for negotiation after ensuring that the limit can accommodate the bills or that, in case of any overdrawing, these have been permitted by a competent authority. The bills negotiated are entered in the Purchase/Discount registers and the customer's bill account. Like the collection schedule, the Purchase/ Discount schedules are prepared and sent along with the bills to the branch concerned for realisation. The amount of the bills negotiated is immediately credited to the customer's account, after deducting the prescribed bank charges. In due course, on receipt of payment of the bills, along with overdue interest (if the bills are paid by the drawees after the due dates) or on return of the bills, if unpaid, the entry in the customer's account is reversed. In case of return, the amount of the bill, together with overdue interest at the rates prescribed by the bank, is recovered from the customer. The negotiation of the bills can also be done under the letters of credit (LCs) issued by a bank in favour of the customer. The accounting procedure in case of negotiation under LC is the same as explained above, however, the recording of such bills may be done in a separate set of registers. The negotiating branch also maintains a record of the due dates of bills negotiated and follows up with the realising branches if the proceeds are not received in time.

40. The accounting procedure for export bills – whether for collection or for negotiation – is essentially the same as that for domestic bills as discussed above; the books and registers may, however, have different names and columns, as these transactions involve conversion of a foreign currency into Indian rupees.

41. Some credits are made in customers' accounts by the bank itself, the most common example being the periodic interest on a deposit account and refund of any excess recoveries made earlier. In such cases, the bank may prepare either the pay-in-slip or the plain credit voucher. These vouchers also follow the same route as for those tendered by the customers except that such vouchers are not entered in the register meant for recording the instruments lodged by customers.

42. The cardinal principle followed by banks is that the credit is given to the customer only after the corresponding debit has been approved by an authorised official at the branch.

## Debits to Customers' Accounts

43. In respect of a running account (mainly current/savings bank/cash credit), the most common source of debit is the cheque (or withdrawal form in the case of a savings bank account) or a letter of authority signed by the customer or RTGS/NEFT. In case the customer or the holder of the instrument wants to withdraw cash against this instrument, he presents it to the designated counter which maintains the ledger containing the drawer's account and, in acknowledgement, is given a token bearing a distinctive number. The counter staff records the token number on the instrument and obtains the presenter's signatures on the reverse of the instrument. He then verifies the balance in the account (credit balance in deposit accounts and limit sanctioned in advances accounts). If it is sufficient to meet the amount mentioned in the instrument, he posts it in the account, puts his initials on the instrument in token of having posted it and marks it with a 'pay cash' stamp. The instrument is then sent to the official in charge of that particular counter for authorising the payment. He authorises the payment of the instrument by signing it which serves as an instruction to the cash department to pay the amount to the presenter of the instrument. Each passing official maintains a payment scroll in which he records the account no., token no. and amount of the instrument passed by him. The serial number at which a particular instrument is noted in the official's scroll is recorded on the instrument also. Thereafter, duly passed instrument is sent for payment to the cash department in a `passed voucher book' or `transit voucher book'. The paying cashier acknowledges the receipt of the instrument by initialling the relative entry in the book which is returned to the passing official. The cashier obtains the token from the presenter as also his signatures on the reverse of the instrument which is an acknowledgement of receipt of amount by the presenter and makes payment to him. The particulars of payment including the denomination of notes/coins given in payment are recorded in the cashier's scroll. The serial number in the scroll at which the payment is entered is also recorded on the instrument and the `cash paid' stamp affixed on it under signatures or initials of the cashier.

44. The customer may want to purchase an instrument/receipt like Demand Draft, Mail Transfer, Telegraphic Transfer, Pay Order, Banker's cheque, Term Deposit, Call Deposit, Travellers' cheque, Gift cheque, or any other similar product of the bank, or make any payment to the government.

For the purpose, he tenders the debit instrument (cheque/authority letter, etc.) at the counter where his account is maintained, along with the appropriate credit voucher duly filled in (application form, pay-in-slip, challan, etc.). The counter staff verifies that the vouchers are in order and that sufficient balance is available in the account. He then posts the instrument in the account and the same procedure, as in case of cash payments, is followed upto the stage of authorisation by the official concerned except that instead of a 'Pay Cash' stamp, a 'Transfer' stamp is put by the counter staff on both the instrument and the credit voucher there against. After passing the debit and the credit vouchers, the official sends all the vouchers to the transfer scroll desk where the particulars of all the debit and credit vouchers are recorded and the credit vouchers sent to the respective desks which handle those products.

45. Customer's accounts are debited on account of instruments received in clearing also. All the instruments received through the clearing house, which are payable at the branch, are received by the clearing section and handed over to the desks concerned against acknowledgement. Subsequent procedure is the same as for transfer instruments except that there is no credit voucher with the instrument. The passing official has only to pass the debit instruments which bear the clearing stamp of the bank presenting them. The consolidated credit voucher is passed by the clearing section in-charge.

46. In case the counter staff notices that the balance in the account is inadequate to pay the instrument or the instrument is defective, he has to seek the instructions of the designated authority through the Cheques Returned Register.

47. Paragraphs 4.55 to 4.57 above deal with cases where the customer's account is debited on account of the instruments signed by him. In addition, there are cases in which the bank raises the debits to the customer's account on its own (though, of course, under intimation to the customer). The examples of such debits are:

- Carrying out the standing instructions received from the customer (including charges for executing these instructions).
- Payment of bills under letters of credit opened by the branch on behalf of the customer.
- Payment for guarantees issued at the request of the customer, which are duly invoked by the beneficiary.
- Periodic interest on loan accounts.

- Rectification of any erroneous entry in the account.
- Recovery of bank charges for which the bank holds an express or implied authority like loan application processing charges, ledger fees, inspection charges, locker rent, ATM annual charges, bill handling charges, issue of duplicate drafts etc., noting of 'stop payment instructions' given by the customer, return of cheques issued by the customer due to insufficiency of funds in the account, and so on.

48. A separate mention deserves to be made of the bills received by the branch for collection from its customer (being the drawee of the bill). On receipt of such a bill, the branch sends intimation to the drawee giving the details of the bill. The drawee presents a debit instrument for the amount to be paid (bill amount plus bank charges plus overdue interest, if applicable) to the Bills Section at the branch, along with the intimation received by him from the branch. He does not submit any credit voucher to the branch in such cases. The credit vouchers are internal to the branch and are prepared by the branch itself. The debit instrument given by the customer is processed like any other 'transfer' instrument, as discussed above.

49. Two points should be kept in view with regard to debits to the customers' account:

- Only the customers or their duly constituted attorneys can authorise a debit to the account (unlike a credit which can be made by any person).
- Debit instrument has to be passed first and the credit voucher only thereafter.

## Issue of Drafts

50. Each bank has its own standard application form which has to be filled in by the applicant. Many banks have opened service branches at important centres. Wherever such branches exist, the outstation branches are instructed to draw the drafts only on them. In some cases, the drafts may be made payable on other banks also if there is such an arrangement between the issuing bank and the paying bank. Such type of transactions are quite common in international banking area.

51. If the customer wants to tender cash for purchase of the draft, he tenders the draft application and the required amount of cash (amount of draft and the bank commission) to the cashier concerned. The cashier, after making necessary entries in his books, releases the voucher which is sent to the drafts issue desk. The counter staff prepares the draft as per the

customer's instructions, enters it in the Drafts Issued register, gets it signed by an authorised official, and hands it over to the applicant against his acknowledgement.

52. If the customer wants a draft against a transfer transaction (generally, a cheque drawn on his account), the voucher is prepared after the customer's account has been debited.

53. The branch may, at times, need to issue drafts (or banker's cheque or pay order) on its own account, e.g., for remittance of proceeds of a bill received for collection directly from the drawer of the bill. In such cases, the draft application is signed on behalf of the bank, giving particulars of the Bill No. paid; the remaining procedure is the same as described above.

54. In respect of drafts issued, an advice is generally sent to the drawee branch. Besides, some banks have a system whereby issue of drafts above a prescribed amount is also confirmed to the drawee branch by a coded telegram/by telephone or in any other mode.

55. Some important points to be noted with regard to issue of drafts are as follows:

- For drafts of small value (based on the cut-off level fixed by the bank), the advice regarding issue of draft may not be sent to the drawee branch.
- Some banks also fix a ceiling upto which the draft may be signed by a single official. Beyond this level, normally two officials have to sign the draft. Besides, the specimen signature, number of the official(s) signing the draft has to be mentioned on the draft.
- There is generally a ceiling (fixed by the RBI in consultation with the Central Government) upto which the drafts can be issued against deposit of cash. The ceiling may undergo revision from time to time.

56. At the end of the day, the counter staff works out the total amount of drafts issued on that day and the commission earned thereon. This figure is carried over to the Cash Book.

## Issue of Mail Transfer/Telegraphic Transfer

57. These are two other modes of remittance of funds from one place to the other. The difference between the two is in the manner of transmission. Mail Transfer (MT) is sent by post to the paying branch whereas Telegraphic Transfer (TT) is sent by telegram (these days, some banks use fax also). MTs and TTs differ from drafts only in one respect. MTs/TTs are sent to the

paying centre by the branch itself (under intimation to the customer) whereas draft is handed over to the customer who arranges to send it to the beneficiary. In terms of procedure, MTs/TTs are similar to draft.

## Issue of Pay Orders/Banker's Cheques

58. These instruments are normally issued for local payments including local payments to be made by the issuing branch itself. The procedure is basically the same as for issue of drafts except that no advice is required.

## Issue of Term Deposit/Call Deposits and Receipts and Similar Instruments

59. These instruments are issued in favour of the customers only and are akin to other accounts of the customers except that these are not running accounts (these days, however, some banks have developed hybrid products which contain features of term deposit, saving bank account and current account. For example, many banks have now started offering a facility of automatic transfer of the amount standing to the credit of the savings account of a customer to a fixed deposit account, subject to a certain minimum balance left therein. As and when the customer needs to withdraw an amount or issues an instrument of a value higher than the minimum balance in his account, the bank automatically transfers amount from the fixed deposit account to his savings account). Upto the point of receipt of credit voucher in the TDFR section, the procedure is same as that for credit to any other account of a customer. After receipt of the credit voucher, the procedure is generally on the following lines:

(a) The receipt is prepared in the bank's pre-printed standard format and contains the name of the account holder, the mode of payment of proceeds on maturity, the term of deposit, the interest rate, and the due date.

(b) In case the amount has been deposited under Re-investment Scheme, this fact is mentioned on the receipt. The maturity amount is also mentioned.

(c) Banks normally have separate sections in their Term Deposit registers, interest rate-wise and/or maturity period-wise, to record the issue of term deposit receipts in a chronological order.

(d) The official in charge of the term deposit section verifies the particulars on the receipt with reference to the deposit voucher, and signs the receipt which is then delivered to the depositor against acknowledgement.

(e) The banks maintain a Daily List to record the due dates of deposits as also the dates of payment of periodic interest on deposits, wherever applicable. Necessary entries are made in the list upon issuance of a term deposit receipt.

60. Instruments other than term deposit receipts (e.g., cash certificates) are entered in the relevant register in a similar manner.

### Opening of Letters of Credit

61. Generally, this facility is provided by banks to their regular borrowers but there is no bar on extending this facility to other applicants also. The procedure for opening of letters of credit in either case is generally on the following lines:

(a) The applicant submits an application in the prescribed format to the branch wherein he mentions the name of the beneficiary, documents required from the beneficiary, and the expiry date of the validity of the letter of credit (LC) for the purpose of shipment as well as negotiation of documents by a bank.

(b) In case the bank agrees and issues the LC, it makes contra entries in its books. Necessary vouchers are prepared by the LC section. Normally, a composite voucher is used for these entries.

(c) The transaction is recorded in the LC Issued Register. In the case of customers who have been sanctioned regular LC limits (like a cash credit limit), to ensure that the outstanding LCs do not exceed the sanctioned limit, all issues of LCs are debited to the account (all payments or cancellations of LC are credited).

(d) LC opening charges are recovered from the customer, either by debit to his account or in cash.

(e) Banks generally maintain margin for each LC. It may be retained in any form – in current account, term deposit, lien on drawing power, etc.

(f) LC is prepared by the bank on pre-printed formats of the bank. Each LC has a distinctive number. The original (which is a negotiable copy) and one or two non-negotiable copies of the LC are sent to a bank (known as 'advising bank') for transmitting it to the beneficiary. Copies of the LC are given to the applicant also and at least one copy is retained on the branch records.

(g) The number of officials who have to sign the LC may differ from bank to bank.

62. In terms of issue procedure, there is hardly any difference between an inland LC and a foreign LC. However, foreign LCs can be issued only by branches authorised to undertake foreign exchange transactions. Also, foreign LCs outstanding at the year-end require re-statement in rupee terms.

### Issue of Bank Guarantees

63. In terms of procedure, bank guarantees are similar to LCs. However, the original guarantee is also handed over to the applicant who submits it to the beneficiary. Also, bank guarantees are issued on non-judicial stamp papers whereas LCs are issued in bank's pre-printed formats.

### Issue of Traveller's Cheques/Gift Cheques

64. There are prescribed application forms for these cheques and the procedure for issue is similar to issue of banker's cheques. However, in the case of Traveller's Cheques, the applicant has to sign on the cheque once in the presence of the bank's authorised official. The branch may issue Travellers' Cheques of its own bank and/or those of its correspondents in terms of an approved arrangement.

65. In each bank, there is a nodal office for Traveller's Cheques. Particulars of all cheques issued by the branch are required to be advised by the branch to the nodal office through the inter-office accounting system. The Branches do not normally have a Traveller's Cheques account in their General Ledger as they act merely as agent of the nodal office in issuing (and paying) Traveller's Cheques.

66. Gift cheques are payable by the issuing branch only. Each branch maintains a Gift Cheques account. All issues are credited to the account and details of the cheques entered in a register. Payments are debited to this account. For the sake of operational convenience, the Gift Cheques register is divided into separate sections, denomination-wise.

### Payment of Drafts

67. The drafts issued by banks are invariably payable 'to order' and never 'to bearer' since the issuance of drafts as 'payable to bearer' would tantamount to issuing currency, which banks are not authorised to do.

68. When a draft is presented to the branch on which it is made payable (whether for payment in cash or transfer to an account at the same branch or through the clearing house), the instrument is sent to the Drafts Payment Section. The section usually maintains two kinds of Drafts Paid Registers:

(a) To record payment of drafts for which no advice is required from the issuing branch as per the bank's procedure.

(b) To record payment of drafts for which the aforesaid advice is required.

69. The counter staff enters the particulars in the relevant register after ensuring the *prima facie* correctness of the draft, particularly the drawee branch code number. In respect of drafts falling in category (b) above, though the advice from the issuing branch is required, the branch has to make payment of the draft even if it has not received its advice from the issuing branch till the time of payment. The advices received are marked off in the drafts paid register at the time of payment if advice has been received, or later, on receipt of the advice. For those entries in the register in respect of which the advice is not received, the matter is followed up with the issuing branch. After recording the particulars of the draft in the register, it is sent to the official in-charge along with the draft for verification of the correctness and for authorising the payment (in cash or by credit to the customer's account). The subsequent procedure is the same as that for other payment instruments. It may be mentioned here that separate registers are maintained for payment of drafts drawn by the correspondent banks.

70. Banks generally have a Drafts account to which all drafts issued are credited and all payments debited. Some banks have separate accounts for 'Drafts Issued' and 'Drafts Paid'.

71. Sometimes, the buyer of the draft may want to have it cancelled. This can be done only by the issuing branch. In addition to the usual procedures for payment of drafts, the following steps are also required to be taken:

(a) The fact that it is a case of cancellation is mentioned in the Drafts Paid Register and against the relative entry in the Drafts Issued Register.

(b) It is a common practice amongst banks to obtain a receipt from the buyer of the draft by endorsement on its reverse.

72. At the end of the day, a summary of the total drafts paid is prepared. This figure is carried over to the Cash Book.

### Payment of MTs/TTs

73. As soon as the MTs are received by the branch, these are paid by crediting the account mentioned in the MT. These are entered in an MT paid register and the day's total of the register is debited to an inter-office account. The treatment of TTs is slightly different. The advice of remittance sent by telegram is followed by a written advice signed by the authorised officials of the issuing branch. Payment of TTs is also routed through the inter-office account. As the signed advices are generally not available when the telegraphic advice reaches the paying branch, the payment may be

effected by debit to the Suspense Account or an Items in-Transit Account and the account of the beneficiary, stated in the TT, credited. Besides the above, the transaction is also recorded in TTs Paid Register. All entries in this register show the date of receipt of the signed advice from the issuing branch.

74. MTs and TTs are not paid in cash; they are credited to the accounts of the payees maintained at the branch; in case the payee does not maintain account with the branch, a Pay Order is issued in his favour.

75. The entry in Suspense Account/Items in-Transit Account is adjusted on receipt of advice from the issuing branch.

## Payment of Banker's Cheques/Pay Orders

76. The procedure followed is similar to payment of any other cheque drawn on the branch, except that the date of payment is recorded against the original issue entry.

## Payment of Term Deposit Receipts and Similar Instruments

77. These instruments are 'Not Transferable' and have to be paid strictly in accordance with the mandate of the deposit-holder received at the time of acceptance of the deposit or as modified subsequently by the deposit-holder. The deposit may be repaid before maturity (at the request of the account holder), on the date of maturity, or after the date of maturity. The salient features of the payment procedure are as under:

(a) The deposit receipt, duly discharged, has to be presented for payment. In case the receipt is in the custody of the branch (under lien for any loan or as margin for any facility), it is withdrawn by making necessary entries in the Safe Custody Ledger/Register.

(b) The deposit may be repaid in cash (subject to any ceiling on such cash payments, under statutory or regulatory requirements) or by way of a 'transfer' transaction. As these receipts are not negotiable, these are not routed through the clearing house but sent to the issuing branch for collection of proceeds.

(c) The 'transfer' transaction is either for renewal of the deposit or for credit in full or part to any account maintained at the branch, or for issue of draft /MT/TT/Pay order, etc.

(d) The payment is recorded as a debit to the relevant deposit account and the date of payment recorded against the original entry of issue. The principal amount of the deposit is debited to the deposit account to which it was credited at the time of issue. Interest paid is debited to the concerned provision account for the deposit if such an account is created by the bank or to the account in which such provision is held (amount of interest paid is net of TDS, if applicable). In this regard, it may be noted that generally, the branches create an Interest Provision Account for all interest-bearing deposits to which the amounts calculated at the rates advised by the Head Office are credited every month. This is done to arrive at the profit/loss of the branch and to calculate the bank's liability on an ongoing basis. All payments during the day are totalled and carried over to the Cash Book.

(e) Banks generally do not hold the matured deposits in their regular deposit accounts. On the due dates, those deposits which remain unpaid are transferred in a separate account, usually called as 'Overdue Deposits Account'. These deposits are eventually paid or renewed.

(f) For deposits paid before their scheduled maturity, interest is paid only for the actual period of deposit and not the contracted period. Also, banks may decide to levy some penalty for premature payment.

(g) Normally, for each renewal of the original deposit, banks issue a fresh deposit receipt. Of late, however, some banks have started the facility of automatic renewal of deposits on the due dates and may not issue any fresh receipt but just record the fact of renewal on the original receipt.

(h) The deposits are freely transferable at the request of the depositors from one branch of the bank to another. In such cases, the issuing branch transfers the deposit amount, together with the accrued interest amount held in its books, to the transferee branch along with an advice of transfer (the funds may be remitted by draft/TT/any other mode as per the Bank's procedure).

### Payment of Recurring Deposits

78. Banks provide a Pass Book to the depositor wherein entries are made at the time of deposit or later, as demanded by the account holder. At the time of payment (before/on/after maturity), the depositor has to produce this Pass Book to the branch to record the fact of closure of the account. Generally, banks have a provision to recover from the interest payable on the deposit a specified sum for late deposit of any instalment under the scheme.

At the time of payment, the principal amount deposited is debited to the Recurring Deposit Account and the interest paid is debited to the concerned interest provision account. The procedure for payment in cash/by transfer is the same as in the case of Term Deposits.

## Payment of Call Deposits

79. Most of the call deposits are required by the customers for submission to various authorities like Excise & Customs, PWD, Railways, etc., in connection with their tenders/orders. The deposits are in the names of these authorities only and not in the names of the customers. For payment of such deposits to the customers, the banks demand a release letter or an authority letter from the authority in whose favour the deposit was issued. These deposits are, generally, non-interest bearing. The procedure for payment is the same as in the case of Term Deposits.

## Payments under Letters of Credit

80. Payments under letters of credit involve:

(a) Payment of the bills by the branch named in the LC as the 'negotiating bank'. Such payment may be made even in a case where no such name is mentioned in the LC.

(b) Eventual payment of the bills by the LC opening branch to the negotiating bank.

81. In some cases, the same branch may act as both the LC opening bank and the negotiating bank, i.e., it opens the LC for customer 'A' in favour of 'B' and also negotiates bills under the same LC when presented by 'B' who may or may not be an existing customer of the branch. The procedure for payment of the bills, described below, is equally applicable to both the cases. However, for the sake of clear understanding, the terms 'Opening Bank' (OB) and the 'Negotiating Bank' (NB) have been used though it is recognised that in some cases, the same branch may perform the functions of both of them.

(a) The original LC is in the custody of the customer, i.e., the beneficiary of the LC. He may approach any bank to negotiate the documents if there is no NB designated in the LC. The bank may agree to the request or may refuse it. In case the NB has been designated, the customer has to approach that bank only. This bank cannot generally refuse negotiation because its name would have been mentioned only in accordance with an approved arrangement.

(b) The customer has to produce the original LC and all the documents stipulated in the LC to the NB.

(c) NB examines all the documents and compares them with what has been stipulated in the LC. NB also ensures that the shipment took place within the validity mentioned in the LC and that the documents have been presented for negotiation within the validity stipulated in the LC. If there is any difference in compliance with the terms and conditions mentioned in the LC, the OB may refuse to make payment to NB.

(d) In case NB observes certain discrepancies in the documents submitted by the customer, it may still decide to negotiate them at the risk of the customer. Such negotiations are referred to as 'negotiations under reserve' in the banking parlance. In such cases, NB obtains a written undertaking from the customer to make good the amount (together with bank charges) if payment is ultimately refused by OB. Another common practice for such bills is that before negotiation, NB brings the discrepancies to the notice of OB and seeks instructions. In turn, OB seeks the customer's instructions which are conveyed to NB.

(e) Once a decision to negotiate has been taken by the branch, it enters the particulars of the bills in a Bill Negotiation Register (generally, banks maintain a separate register for negotiation under LCs). A distinctive number is allotted to each negotiation which is recorded on each document of the bill. The date and amount of negotiation are mentioned on the reverse of the LC and signed by an authorised official. Charges on negotiation are to be borne by the party mentioned in the LC – it may be either the beneficiary or the opener of the LC. In case the beneficiary has to bear the charges, the bank will deduct these charges from the bill amount and pay only the net amount to the customer. In case the charges are to the opener's account, the NB will pay the bill amount to the customer and claim the bill amount plus the negotiation charges from OB. The account to be debited by NB at the time of negotiation is different in different situations, as under:

   (i) In case of demand LCs, where OB and NB are the same bank, the LC would generally state that NB should debit the OB through the inter-office account on negotiation. For usance LCs in this situation, the LCs normally authorise NB to debit the OB, through the inter-office account, on due date of the bill. In the latter case, the NB normally debits its own Bills account (may be called Bills Discounted account) at the time of negotiation – the entry is reversed on the due date by debiting OB through the inter-office account.

   (ii) In case of LCs (both demand and usance) where OB and NB are different banks, the LC itself states the manner in which the NB should obtain reimbursement of the bills negotiated from the OB. The NB acts accordingly. Pending receipt of reimbursement, the NB generally keeps the debit in its own Bills Account.

82. After negotiation, the documents are sent by NB to OB for final payment. When the documents are received at the OB, the procedure followed is on the following lines:

(a) The designated section at the branch records receipt of bills in a specified register.

(b) The documents received from NB are compared with the terms of the LC. In case of any discrepancy, it is immediately brought to the notice of the NB as well as the opener. The branch seeks instructions of the customer whether he wants to accept the documents despite these discrepancies or not.

(c) In case the documents are discrepant and are not acceptable to the customer, OB returns the entire set of documents unpaid to NB. In turn, NB recovers the amount of bill, its own charges as also the charges levied by OB, if any, from the beneficiary of the LC. The fact of return is recorded by the OB in its registers.

(d) In case the bill is in order or the discrepancies are acceptable to the customer, OB recovers the amount of bill and the other charges, if any, from the customer.

(e) In addition to the above debit and credit entries, the contra entries made at the time of issue of LC are also reversed by the amount of LC utilised on payment of bills. This is done by way of a composite voucher. Besides, the amount and date of payment are recorded in the LC register and the Bill register.

(f) On expiry of the validity of the LC, the OB waits for a reasonable period from that date for receipt of negotiated documents from NB. In case no documents are received, the OB reverses the amount of unutilised LC in its contra accounts.

(g) In case the beneficiary does not want the bills to be negotiated and instead, wants these to be sent for collection by his bank, he may do so. The accounting procedure at OB in this case is broadly similar to negotiated bills.

### Payments Under Bank Guarantees

83. The following procedure is followed where the customer fails to discharge his contractual obligations and the beneficiary invokes the guarantee:

(a) The section handling the guarantees business at the branch examines the notice of invocation to ascertain that it is strictly in accordance with the terms of the guarantee. The branches generally seek legal opinion on the issue either from inside or outside.

(b) In case the invocation is not in order, suitable reply is sent to the beneficiary.

(c) In case the invocation is in order, the amount demanded by the beneficiary, not exceeding the amount guaranteed, is remitted to the beneficiary. The contra entry in the Bank Guarantee Account, made at the time of issue of the guarantee, is reversed by the total amount of the guarantee if the guarantee has been treated as fully discharged by the beneficiary, notwithstanding that the amount actually paid is different. The branch, in turn, recovers the amount from the customer.

(d) In case the beneficiary does not want the bills to be negotiated and instead, wants these to be sent for collection by his bank, he may do so. The accounting procedure at OB in this case is broadly similar to that followed in the case of negotiated bills.

### Payments Under Deferred Payment Guarantees

84. On due dates of instalments, the bank remits the principal and the interest due to the beneficiary. Procedurally, payments under deferred payment guarantees are similar to payments under the bank guarantees or under LC. One distinctive feature is that the bank's liability to the beneficiary and the corresponding liability of the customer to the bank get reduced with each payment. On each such payment, the contra entries are reversed by the amount paid.

### Payment of Gift Cheques

85. These cheques are honoured by all branches of a bank irrespective of the branch which has issued them. In case the cheque is presented to the issuing branch for payment, the branch records the payment in its Gift Cheques Register. The date of payment is mentioned against the relative issue entry also. The other procedures are the same for as payment of any other cheque. The amount of gift cheques paid during a day is debited to the Gift Cheques Account.

86. In case the cheque is presented to any other branch of the bank, it is paid by that branch by way of a debit to the issuing branch through the inter-office account.

### Payment of Traveller's Cheques

87. Mostly, these cheques are presented for payment in cash by the purchaser of the cheque. In some cases, where the hotels, merchant establishments, etc., accept these cheques in payment of their bills, they obtain signatures along with date from the customers and then deposit these cheques with their bank for payment.

88. When presented for payment in cash, these are presented to the paying cashier in whose presence the customer has to put his signatures with date. The cashier tallies these signatures with the first signatures appearing on the cheque (which were obtained in the issuing branch) and, on being satisfied about the genuineness of the transaction, makes the payment. In the process, he may also refer to the list of lost/stolen Traveller's Cheques available at the branch, which is received from the head office. The amount of all cheques paid during the day is debited to the nodal office designated for these cheques. In case payment of cheques is by way of a transfer transaction, the desk concerned records the particulars of payment in a register and the official in-charge authorises the credit voucher; the debit voucher is normally prepared at the end of the day for all Traveller's Cheques paid on that day.

89. It is possible in some cases that the customer may deposit the unused Traveller's Cheques with the issuing branch itself. In such cases also, the procedure is similar to that for other 'transfer' transactions.

### Cash Transactions

90. Many of the transactions described above involve receipt or payment of cash by the bank. In describing such transactions above, the emphasis has been on the other aspect of each transaction rather than on cash receipt/payment. The following paragraphs deal with flow of cash transactions – receipts as well as payments – primarily from the angle of accounting for, and controls over, cash receipts and payments irrespective of the nature of transaction giving rise to cash receipt or cash payment.

91. 'Receipt' and 'payment' of currency are two of the most important functions of a bank. 'Cashiers' and 'tellers' perform these functions. The

tellers provide only limited services (types of services and monetary ceiling may differ from bank to bank) while cashiers have no such limitations. The tellers do not generally make payments out of loan accounts. Cash and other valuable items like security forms are kept in the strong room and held in the joint custody of two or more officials of the branch, one of whom is the Head Cashier and the other, normally, the Accountant.

92. Currency notes are packed in packets of 100 pieces each, irrespective of the denomination. A slip is put on each packet which carries the initials or signatures of the staff members who have verified and re-verified the quality and quantity of the notes, along with the date of such checking (the procedure may vary slightly among different banks). Coins are stocked in bags. These are weighed and then valued according to a specific weight-value ratio for each type of coin.

93. Depending upon the possession and ownership of cash, branches are divided into three categories:

(a) Currency Chest Branches: These branches hold cash as an agent of RBI. Each chest branch is linked to a currency office of RBI through a link branch of its own bank. Loose packets are not kept in the chest. Every day, the branch withdraws cash from and deposits cash into the chest according to its requirements. At the end of the day, the branch works out the net position as compared to the previous day's closing balance in the chest and sends an advice to link branch (the position of the repository branches is also included, as explained later). The balances in the chest are periodically verified by the bank's officials as well as by RBI officials. Even in a currency chest, the branch will maintain some cash in hand on its own account, though such balance may be nominal.

(b) Repository Branches: These branches carry smaller cash holding than the chest branches but act as a part of the chest. They are linked to a chest branch and report the net withdrawal/net deposit position each day to the link branch.

(c) Hand Balance Branches: These branches carry cash only as their own hand balances. The limit for peak holding at such branches on any day is fixed by their controlling authorities. Whenever the branch has any surplus cash, it deposits the amount with a currency chest branch.

## Receipts

94. The steps involved in physical receipt of cash and its accounting are as follows:

(a) The cash tendered by the depositor is checked by the cashier for the genuineness of the notes and to cross check the number of notes as mentioned by the depositor in the pay-in-slip.

(b) If found in order, the cashier records the particulars of notes received and the account to be credited in the book maintained by him (usually called Cashier's Receipt Scroll). He then puts 'Cash Received' stamp on the pay-in-slip and the counterfoil and signs them; the counterfoil is returned to the depositor.

(c) The pay-in-slips are sent from the cash department to a desk which notes down all receipts of cash in the department in a jotting book. The total of this book thus reflects the total cash received at the branch during the day.

(d) After noting in the jotting book, the voucher is sent to the concerned desk for credit to the relevant account.

(e) After the day's transactions are over, all the receiving cashiers hand over the cash, which should agree with the total of cash receipt scroll, to the Head Cashier.

(f) Banks also deposit cash with other banks, usually for credit to their accounts. At times, the receiving branch is unable to cope up with the volume of work and does not count all the notes on the same day. In such circumstances, the uncounted amount is held as a 'Bond' system in which the depositing bank gives a written confirmation of the correctness of the amount and undertakes to make good the shortage, if found during the actual counting later. This amount may be counted at the convenience of both the banks in due course.

95. The steps involved in making cash payments and their accounting are as follows:

(a) All paying cashiers (including tellers) are given some amount of cash at the start of the day by the Head Cashier against acknowledgement for their expected requirements during the day. They may be given cash in instalments also during the course of the day. They receive instruments for payment either directly at the counter (for tellers) or instruments authorised for payment through the voucher books (for cashiers). They obtain the signatures/thumb impression of the person receiving the payment. Each payment is recorded in a payment scroll maintained by each paying cashier and teller. The instruments paid by the tellers are then sent to the concerned desks for debiting the relevant accounts and authorisation by the officials in-charge of the desks. The instruments paid by cashiers are sent to the desk which carried out the Day Book related work at the end of the day.

(b) After the day's transactions are over, the cashiers return the cash balance with them to the Head Cashier. The balance should agree with the books, i.e., cash received by the cashier less the total of his payment scroll.

96. The 'receipts' and 'payments' have been discussed above separately for the sake of a clear understanding. In practice, a single cashier may perform both the activities. Likewise, a single teller may receive cash, pay cash, issue drafts, pay Traveller's Cheques, and so on.

97. After accounting for all the cash received from the cashiers, the Head Cashier prepares a summary of the day's transactions and the cash balance register and signs them. If any excess cash is found during counting, the amount is held in a special account and is refunded to the genuine claimant on demand or if there is no such claimant, the bank treats it as income. However, shortage in cash has to be made good by the cashiers concerned and the matter has to be reported to the higher authorities.

98. The currency chest branches meet their requirement of notes by remittances from the RBI. They also send remittances of soiled notes in their custody to RBI from time to time. In case RBI comes across any shortage in the remittance sent to it during counting in the presence of a cashier from the remitting branch, it informs the branch which has to make good the amount.

## Incomplete Records

99. In some situations, the auditor may find that certain accounting and other records are not up-to-date. In such a situation, the auditor should first ascertain the extent of arrears in house-keeping, and the areas in which accounting and other records are not up-to-date. In case it is found that the General Ledger, the main cash book, or the trial balances are in arrears or that they do not tally, the auditor should consider expressing a qualified opinion, adverse opinion or disclaimer of opinion, as may be appropriate in

the circumstances. In case any subsidiary ledgers are in arrears, the auditor should consider the impact of such arrears on the financial statements of the bank. It may be pointed out that in the absence of balanced and up-to-date subsidiary ledgers, verification of transactions or of year-end balances may become difficult. In such cases also, the auditor should consider expressing a qualified opinion, adverse opinion or disclaimer of opinion, as may be appropriate in the circumstances. It may also be noted that in Long Form Audit Report (LFAR), the auditor has to make detailed observations on such arrears of house-keeping. Therefore, from this point of view also, it is important for the auditor to satisfy himself about the completeness of all records before submitting his audit report.

## CIS Systems in Banks

100. CIS systems of different banks differ in terms of hardware configuration, software capabilities, levels of hardware and software security, and nature of transactions processed. It is, therefore, not possible to identify a single CIS system that would describe all the features of such systems in operation in different banks. However, the following description of the CIS system of a large bank illustrates the usual manner of computerised information processing and the various controls built into the CIS system. Auditor should check the accuracy, correctness of data and also see that data has been correctly transferred from the previous years audited statements and for this he need to go through the audit trail of modifications/change made. Most of the Banks are working on Core banking now a days and hence the accounting system under the same and the control in place for the same are very important from the bank's perspective as well as from auditors perspective.

### Controls

101. The system provides for a number of controls which seek to ensure that the system is not put to unauthorised use, the transactions entered in the system are valid and accurate, and exceptional matters as well as other significant matters are reported on a timely basis. For example, the following controls seek to ensure that the system is not put to unauthorised use:

- A valid login name and password are essential to enter the system.
- A user can login from a specified workstation only.
- A minimum password length is required.
- The password needs to be changed at least once during a prescribed period.

- The maximum number of attempts to enter the system from a workstation is specified. Thus, if an incorrect password(s) is entered from a workstation, as soon as the number of attempts reaches the specified limit, the user is locked out and a message to this effect, identifying the workstation, is flashed on the system administrator's console/other workstations.
- Access to the system is available only between stipulated hours and specified days only.
- Individual users can access only specified directories and files.
- The access to various menus (such as opening of an account, closing of an account, change in limit or drawing power in a cash credit account, interest rate change, cheque book issue, etc.) is controlled through passwords. Thus, while an operator may enter the system using his login name and password, he cannot access the menus that have been password protected for use by systems administrator only.
- The access to systems software is restricted through password protection. (*The systems software contains several utilities such as copy, delete, etc. that can be used for unauthorised copying or deletion of files.*)
- Exception situations such as limit excess, reactivating dormant accounts, etc., can be handled only with a valid supervisory level password.
- A user timeout is prescribed. If the keyboard of a workstation remains inactive for the specified duration (say 30 seconds), the user has to re-enter the system using his password. This control prevents any unauthorised use when a workstation is left unattended.
- Wherever any rectification or alteration is carried out by more than one level of the officers, such alterations or changes are made as an additional entry and not by changing or deleting an existing recorded entry.
- Once the end-of-the-day process is over, the ledgers cannot be opened without a supervisory level password.
- The system maintains a record of all log-ins and log-outs. The access to this record is not possible without the systems administrator's password.

102. Similarly, the following controls seek to ensure the validity and accuracy of transactions entered in the system.

- The operation instructions such as single operation, joint operation, either or survivor operation, are flashed on the screen when the account is accessed.

- The system checks for cheque number range and stop payment instructions before processing a transaction.
- The system checks whether the amount to be withdrawn is within the drawing power.
- The system flashes a message if the balance in a lien account would fall below the lien amount after the processing of the transaction. The transaction processing is halted and can be proceeded with only with a supervisory password.
- If the transaction is sought to be posted to a dormant (or inoperative) account, the processing is halted and can be proceeded only with a supervisory password.

103. The branch manager is required to send a certificate to the controlling authority at stipulated intervals regarding the functioning of the entire computerised system including compliance with prescribed procedures and processes.

## Structure

104. The system is multi-currency, on-line real time system which allows accounts to be maintained in a number of currencies. A separate General Ledger is maintained for each currency.

105. While the General Ledger (GL) provides the topmost level in aggregation of transactions and balances, the lowest level is a detail account which may be a customer's account or other account such as commission on drafts, locker rent, bill handling charges, etc. The number of levels between the GL and detail accounts is dependent on the requirements of the management and may differ from system to system. In the system under discussion, the GL (for each currency) is divided into a number of 'controls' each of which in turn is divided into a number of the 'memos'. A 'control' is similar to a General Ledger Account in a manual system, with the difference that unlike a GL account in the manual system to which debit and credit transactions can be posted directly, a control is merely a sub-division of the GL and is not an account. For example, 'Current Account' is one of the 'controls'. 'Memos' provide sub-divisions of a 'control'. For example, separate memos under 'Current Accounts' may be maintained for commercial and institutional customers' Current Accounts, agriculture-sector current accounts, and so on. The number of 'controls' that can be opened under General Ledger for each currency and the number of memos that can be

opened under a control may differ from system to system (in the system under discussion, the maximum number of controls is 36 while the maximum number of memos under each control is 1296.). Detail accounts are opened under a memo. For example, all current accounts of C & I will be opened under the memo 'Current Account (C & I)'.

106. A transaction is posted to a detail account only. The detail account balances are updated as the transactions take place, i.e., on a real-time basis. The control and memo balances are updated only at the end of the day. All the books are balanced every day.

### 'Start-of-the-Day' Process

107. Each computerised branch has one or two designated officials to perform the role of the Systems Administrator. The computer operations everyday begin with a 'start-of-the-day' (SOD) process carried out by the System Administrator. Unless SOD is completed, the system cannot be used for data entry. Among the major activities undertaken by the system as part of SOD are changing the date, clearing the log files, diary processing interest application in those accounts where it is due on that day, deposits due for payment on the day, standing orders[2], and list of stopped cheques/drafts[3].

### Recording of Transactions

108. As already stated, the transactions are processed on a real-time based on vouchers. The debit and credit aspects of a transaction have to be posted to the respective ledger accounts simultaneously in all cases. The accounts to which the credit aspect of a transaction is to be posted get updated simultaneously when the account to which the debit pertains is posted.

### Single Transaction Update of Multiple Computer Files

109. A single transaction input into a CIS system may automatically update all records associated with the transaction. For example, if credit voucher for issue of a Fixed Deposit is input, information in the following types of records will get entered simultaneously and automatically:

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[2] Some customers give standing instructions to the bank to make certain remittances on pre-determined dates. The system will generate a list of those standing instructions which are to be carried out on that day.

[3] In some cases, the customers may have advised the bank not to make payments of certain cheques issued by them. These instructions are duly recorded in the system upon receipt from the customers. Besides, it may happen that the bank itself may stop payment of certain instruments, in particular drafts, if some draft forms are lost or stolen. Particulars of such instruments are entered in the system and these are treated as stopped instruments.

- FD day book
- Customer's account (if a running account for issue of FDs is maintained in terms of the Bank's system)
- Daily list (to record payment of periodic interest and repayment of principal)
- Classification of deposit into proper interest rate profile and maturity profile
- FD interest account

110. Single transaction update of multiple files ensures that all relevant records are kept up-to-date. However, it also implies that if one erroneous input is made, many records will contain errors.

### Vulnerability of Data and Program Storage Media

111. Floppy disks, magnetic tapes, hard disks, etc. – the usual media on which data and programs are stored –are susceptible to intentional or accidental destruction. Portable media are also particularly prone to theft, loss, etc., as well as to computer virus. The vulnerability of CIS systems requires extensive internal controls against thefts, loss, and destruction or unauthorised alteration of programs and data.

### On-line Checking

112. All transactions posted at a terminal by an operator need to be checked by a supervisor on-line as soon as practicable after its entry to ensure that the data has been correctly fed into the system. All checked transactions are marked by the supervisory with his ID. (Usually, the operator, while posting the voucher, indicates the ID of the supervisor who has to authenticate the entry. When the supervisor opens the screen, he will find 'yes/no' command against the entry under a suitable heading for authenticating it. If he presses 'y' the entry is taken as passed.)

### 'End-of-the-Day' Process

113. After all the transactions for the day have been inputed and passed by the supervisor concerned, the 'end-of-the-day' (EOD) process begins. EOD involves the following major activities:

- Verification of the integrity of all the transactions entered in the system by comparing the total of balances in detail accounts under each memo with the aggregate of the opening balance of memo and the transactions for the day. Similar checking is done for integrity of memos by comparing the total of all memos under a control with the updated balance of the control.
- Diary processing.

- Interest re-calculation and interest accrual.
- Standing orders.
- Generating statements of account.
- Generating various types of reports, including exception reports.
- Printing of logs.
- Daybook printing.

While the SOD or EOD processes are on, the system does not allow any data entry.

## Backups

114. After EOD, the stipulated number of backups are taken on the prescribed media. The system provides for off-site backup of at least one copy of the updated data. The back up is required to be retained as part of the branch records as per the policy formulated by the bank for retention of records.

## Exception Reports and Other Reports

115. The generation of exception reports is an important aspect of the system. These reports relate to cases which deserve the attention of appropriate levels of branch management. While most of these reports relate to operational aspects of transactions, some relate to the functioning of the CIS system. Besides, some other reports are also generated for the purposes of record. Some of the major reports generated by the system daily are:

- Debit/credit balance change
- Value dated before last rate change
- Value dated before last interest application date
- Maturity record deleted
- Automatically generated accounts
- Inactive accounts
- Dormant accounts reactivated
- Excess allowed over the limits/drawing power
- Irregular term loan accounts with number of arrears of instalments and interest with amounts
- Debits to income head account
- Debits to head office accounts

- Overdue pre-shipment and post-shipment accounts
- Overdue bills and bills returned
- Withdrawals against clearings
- Time barred demand promissory notes
- Unchecked transactions
- Sign-on attempt from two terminals
- Exit to operating system
- Password errors
- Sign-on report
- Sign-off report
- Deposit accounts – debit balances
- Zero balance and non-zero accrued interest accounts[4]
- Debit balance accounts without interest rate
- Loans and advances – credit balances
- Temporary overdrafts allowed beyond the sanction period.
- Items pending in clearing.
- Inter-branch transactions with age-wise details.[5]

## Computerised Accounting and Core Banking Solutions

116. In the preceding paragraphs, the conventional book keeping and manual accounting practises were discussed. The developments in the field of user-friendly systems and solutions have brought a sea change in the accounting atmosphere in the banking industry. Systems and solutions have been developed to cater to the banking requirements without compromising on the basic principle of integrity of information and recording of each and

[4] This relates to closed advances account. Whenever an account is closed, it should be squared off together with the interest due thereon till the date of closure. It may sometimes happen that the account may be brought to nil balance but the accrued interest may remain unrealised. As the system calculates the accrued interest everyday as part of the SOD process, it will show the accounts of the above type as unusual.

[5] Banks have an 'inter-branch-items-in-transit' account wherein the entries are parked when a telegraphic advice is received from the other branch. These entries are reversed in the IBIT account by debit to 'Branch Clearing General Account' when the normal advice in the bank's prescribed format, duly signed, is received from the other branch by post. Such advices must be received within a reasonable time after the telegraphic advice. The intention behind the report in question is to keep a check on the receipt of written advices for such items kept in IBIT account. The age-wise details will show whether the entry has been outstanding in the IBIT account for less than 15 days, more than 30 days, more than 90 days or so on. Such entries require special attention because non or delayed receipt of advices may indicate fraud or other malpractices.

every transaction at any stage. Banks cannot afford to have an error level of even 0.0001% and hence the solutions have been developed to maintain the sterile levels.

117. These systems and solutions are generally audited, reviewed and examined at frequent intervals by the banks to ensure correctness of the data. The banks generally document such reviews and these documents would throw light on the effectiveness of the accounting system of the bank and reliability of its accounting data.

118. SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" lays down that the use of Information Technology (IT) affects the way control activities are implemented. From the auditor's perspective, controls over IT system are effective when they maintain the integrity of the information and the security of the data such systems process, and includes effective IT controls and application controls. In recent years, many banks have moved towards computerisation of their operations. The degree of computerisation, however, varies among different banks and also among various branches of the same bank. While some branches have been fully computerised, some others have been partly computerised while many others are non-computerised. In fully computerised branches, all the customers' transactions as well as internal transactions of the bank, which enter the books of the account of the branch, are routed through a computer system, which may comprise either a computer network or stand-alone personal computers.

119. It may be stated here that even in a fully computerised branch, some work is presently carried out manually, e.g., preparation of vouchers, preparation of letters of credit and guarantees, preparation of some returns and statements, etc. In partly computerised branches, generally the back-office work (i.e., the internal processing of transactions of the branch) is carried out on computers whereas the customers' transactions (i.e., the front-office work) are processed manually. Many of the banks in the private sector have networked all or most of their branches in the country; this has given them the capability of handling most of the transactions of their customers at any of the branches.

## RBI Master Circulars issued as on July 1, 2013

**(This is not an exhaustive list of the Circulars)**

Text of RBI Master Circulars is available at www.rbi.org.in. However, link of RBI Master Circulars are given below. In the CD accompanying with the Guidance Note on Audit of banks 2014 Edition, complete text of Master Circulars are given.

| S.N | Title of the Circular | Link |
|---|---|---|
| 1. | Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/62MCIRAC290613.pdf |
| 2. | Prudential norms for classification, valuation and operation of investment portfolio by banks | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/109IM010713DS.pdf |
| 3. | Loans and Advances – Statutory and Other Restrictions | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/76LS290613FS.pdf |
| 4. | Interest Rates on Advances | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/73MCIRA01072013F.pdf |
| 5. | Bank Finance to Non-Banking Financial Companies (NBFCs) | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/57MC01072013BF.pdf |
| 6. | Exposure Norms | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/68ME290613FS.pdf |
| 7. | Disclosure in Financial Statements - Notes to Accounts | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/58MCF01072013F.pdf |
| 8. | Guarantees and Co-acceptances | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/66MC01072013GOF.pdf |
| 9. | Call/Notice Money Market Operations | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/103CAMMCI010713.pdf |
| 10. | Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/64MLR260613.pdf |
| 11. | Credit Card, Debit Card and Rupee Denominated | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/60MCP01072013F.pdf |

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| | Cobranded Prepaid Card operations of banks | |
| 12. | Para-banking Activities | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/61BA290613FL.pdf |
| 13. | Prudential Norms on Capital Adequacy-Basel I Framework | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/71BM21290613.pdf |
| 14. | Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/72BI010713FB.pdf |
| 15. | Memorandum of Instructions for Opening and Maintenance of Rupee/ Foreign Currency Vostro Accounts of Non-resident Exchange Houses | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/03MCS250613FL.pdf |
| 16. | Housing Finance | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/67HF290613FL.pdf |
| 17. | Export Credit Refinance Facility | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/108010713ECRFL.pdf |
| 18. | Guidelines for Relief Measures By Banks in Areas Affected by Natural Calamities | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/95MN010713C.pdf |
| 19. | Frauds – Classification and Reporting | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/32MCFRD010713F.pdf |
| 20. | Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT)/ Obligation of banks under PMLA, 2002 | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/94CF010713FL.pdf |
| 21. | Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/75IRD01072013F.pdf |
| 22. | Lending to Priority Sector | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/97010713PSAFL.pdf |
| 23. | Lending to Micro, Small & Medium Enterprises (MSME) Sector | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/96010713MSFL.pdf |
| 24. | Wilful Defaulters | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/63MCWILD010713.pdf |
| 25. | Rupee / Foreign Currency Export Credit & | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/65MCE290613FL.pdf |

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| | Customer Service to Exporters | |
| 26. | SHG – Bank Linkage Programme | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/89MCSHG020713.pdf |
| 27. | Instructions relating to deposits held in FCNR(B) Accounts | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/74MCFCNR010713.pdf |
| 28. | Guidelines for Issue of Certificate of Deposit | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/104CDMCIR010713.pdf |
| 29. | Guidelines for Issue of Commercial Paper | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/105CP14010713F.pdf |
| 30. | Guidelines issued under Section 36(1)(a) of the Banking Regulation Act, 1949 -Implementation of the provisions of Foreign Contribution (Regulation) Act, 2010 | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/93FCR010713FL.pdf |
| 31. | Priority Sector Lending- Targets and Classification | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/107010713PSLFL.pdf |
| 32. | Swarna Jayanti Shahari Rozgar Yojana (SJSRY) | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/84MSJSRY010713.pdf |
| 33. | Branch Licensing – RRBs | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/98BLR010713LF.pdf |
| 34. | "Self Employment Scheme for Rehabilitation of Manual Scavengers" (SRMS) | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/85MA010713SR.pdf |
| 35. | Basel III Capital Regulations | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/70BIIIMC010713.pdf |
| 36. | Customer Service in Banks | http://rbidocs.rbi.org.in/rdocs/notification/PDFs/69BC290613FC.pdf |

# LIST OF RBI GENERAL CIRCULARS

Text of these RBI General Circulars is available at www.rbi.org.in. In the CD accompanying with the Guidance Note on Audit of banks 2014 Edition, complete text of General Circulars are given.

| S. No. | Date | Title of the Circular | Circular No. |
|---|---|---|---|
| 1. | February 13, 2014 | Central Repository of Information on Large Credits (CRILC) – Revision in Reporting | DBS.No.OSMOS. 9862 /33.01.018/2013-14 |
| 2. | February 7, 2014 | Utilisation of Floating Provisions/Counter Cyclical Provisioning Buffer | DBOD.No.BP.95/21.04.048/2013-14 |
| 3. | January 30, 2014 | Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalising Distressed Assets in the Economy | - |
| 4. | January 23, 2014 | Review of Guidelines on Restructuring of Advances by NBFCs | DNBS.CO. PD. No. 367 / 03.10.01/2013-14 |
| 5. | January 20, 2014 | Lending against Gold Jewellery | DBOD.BP.BC.No.86 /21.01.023 /2013-14 |
| 6. | January 15, 2014 | Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure | DBOD.No.BP.BC. 85 /21.06.200/2013-14 |
| 7. | December 31, 2013 | Basel III Capital Regulations – Capital Requirements for Credit Valuation Adjustment Risk on OTC Derivatives and for Banks' Exposures to Central Counterparties | DBOD.No.BP.BC.81/21.06.201/2013-14 |
| 8. | December 30, 2013 | Non-Agriculture Loans against Gold Ornaments and Jewellery | DBOD.No.BP.79/21.04.048/2013-14 |
| 9. | December 20, 2013 | Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Credit Card Accounts | DBOD.No.BP.BC.78/21.04.048/2013-14 |
| 10. | December 20, 2013 | Deferred Tax Liability on Special Reserve created under Section 36(1) (viii) of the Income Tax Act, 1961 | DBOD. No.BP.BC.77/21.04.018/2013-14 |
| 11. | December 9, 2013 | Novation of OTC Derivative Contracts | DBOD.No.BP.BC.76/21.04.157/2013-14 |
| 12. | December 4, 2013 | Union Budget - 2013-14 Interest Subvention Scheme | RPCD.No.FSD.BC.71 /05.04.02/2013-14 |
| 13. | November 25, 2013 | Priority Sector Lending – Classification | RPCD.CO.Plan. BC 59/04.09.01/ 2013-14 |
| 14. | November 25, 2013 | Financing of Infrastructure - Definition of 'Infrastructure Lending' | DBOD.BP.BC.No.66 / 08.12.014 / 2013-14 |
| 15. | October 29, 2013 | Marginal Standing Facility Rates | FMD.MOAG. No. 91 /01.18.001/2013-14 |
| 16. | October 29, 2013 | Liquidity Adjustment Facility – Repo and Reverse Repo Rates | FMD.MOAG. No. 90/01.01.001/2013-14 |
| 17. | October 23, 2013 | Amendments to Banking Regulation Act 1949 -- Banking Laws (Amendment) Act 2012 - Applicability to private sector banks | DBOD.NO.PSBD.BC.62/16.13.100/ 2013-14 |

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| 18. | September 25, 2013 | Export Credit in Foreign Currency | DBOD.Dir.BC.No. 57 /04.02.001/2013-14 |
| 19. | September 20, 2013 | Section 42(1) of the Reserve Bank of India Act, 1934 - Change in Daily Minimum Cash Reserve Maintenance Requirement | DBOD.No.Ret.BC.55 /12.01.001/2013-14 |
| 20. | September 20, 2013 | Liquidity Adjustment Facility – Repo and Reverse Repo Rates | FMD.MOAG. No. 86 /01.01.001/2013-14 |
| 21. | September 17, 2013 | Pernicious practices of select banks deterring customer protection and accounting integrity | DBS.CO.PPD No. 3578 /11.01.005/2013-14 |
| 22. | September 11, 2013 | Creation of a Central Repository of Large Common Exposures - Across Banks | DBS.Dir.OSMOS. No. 3327/33.01.001/2013-14 |
| 23. | September 3, 2013 | Housing Sector: Innovative Housing Loan Products – Upfront disbursal of housing loans | DBOD.BP.BC.No. 51 /08.12.015/2013-14 |
| 24. | September 2 , 2013 | Base Rate – Revised Guidelines | DBOD. No. Dir. BC. 47/13.03.00/ 2013-14 |
| 25. | August 26, 2013 | Rupee Export Credit - Interest Subvention | DBOD.Dir.BC.No.43 /04.02.001/2013-14 |
| 26. | August 23, 2013 | Investment portfolio of banks – Classification, Valuation and Provisioning | DBOD.BP.BC.No. 41 / 21.04.141 /2013-14 |
| 27. | July 1, 2013 | Master Circular on Risk Management and Inter-Bank Dealings | Master Circular No. 5/2013-14 |
| 28. | July 01, 2013 | Master Circular on Memorandum of Instructions for Opening and Maintenance of Rupee/ Foreign Currency Vostro Accounts of Non-resident Exchange Houses | Master Circular No. 3/2013-14 |
| 29. | June 07, 2013 | Legal Audit of title documents in respect of large value loan accounts | DBS.FrMC.BC.No.7/23.04.001/2012-13 |
| 30. | January 31, 2013 | Disclosure Requirements on Advances Restructured by Banks and Financial Institutions | DBOD.BP.BC.No.80/21.04.132/2012-13 |
| 31. | January 4, 2013 | Frauds – Classification and Reporting | DBS.FrMC.BC.No.5/23.04.001/2012-13 |
| 32. | November 26, 2012 | Review of the Prudential Guidelines on Restructuring of Advances by Banks/Financial Institutions | DBOD.No.BP.BC.63/21.04.048/2012-13 |
| 33. | November 21, 2012 | Second Quarter Review of Monetary Policy 2012-13 – Unhedged Foreign Currency Exposure of Corporates | DBOD.BP.BC.No. 61/21.04.103/2012-13 |
| 34. | November 20, 2012 | Second Quarter Review of Monetary Policy 2012-13 – Definition of 'Infrastructure Lending' | DBOD.BP.BC.No. 58 / 08.12.014 /2012-13 |
| 35. | November 19, 2012 | Bank finance for purchase of gold | DBOD.No.Dir.BC.57 / 13.03.00/ 2012-13 |
| 36. | November 15, 2012 | Frauds – Classification and Reporting | DBS.FrMC.BC.No. 04/23.04.001/2012-13 |

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| 37. | November 7, 2012 | Liquidity Risk Management by Banks | DBOD.BP.No.56/21.04.098/ 2012-13 |
| 38. | October 12, 2012 | Reporting Platform for OTC Foreign Exchange and Interest Rate Derivatives | FMD.MSRG.No.72/02.05.002/2012-13 |
| 39. | October 12, 2012 | Foreign Exchange Management (Deposit) Regulations, 2000- Loans to Non Residents / third parties against security of Non Resident (External) Rupee Accounts [NR (E) RA] / Foreign Currency Non Resident (Bank) Accounts [FCNR (B)] Deposits | A. P. (DIR Series) Circular No. 44 |
| 40. | September 27, 2012 | Interest Rate Ceiling on Lines of Credit with Overseas Banks | DBOD.DIR.No. 46 /04.02.001/2012-13 |
| 41. | September 18, 2012 | The Scheme of 1% Interest Subvention on Housing Loans up to Rs. 15.00 lakh | RPCD.MSME&NFS.BC.No. 30 /06.11.01/2012-13 |
| 42. | September 14, 2012 | NPA Management – Requirement of an Effective Mechanism and Granular Data | DBOD.No.BP.BC/ 42/21.04.048/2012-13 |
| 43. | July 23, 2012 | Prudential Norms for Off-balance Sheet Exposures of Banks | DBOD.No.BP.BC.31 /21.04.157/2012-13 |
| 44. | May 07, 2012 | Revisions to the Guidelines on Securitisation Transactions | DBOD.No.BP.BC-103/21.04.177/2011-12 |
| 45. | May 2, 2012 | Guidelines on Implementation of Basel III Capital Regulations in India | DBOD.No.BP.BC.98 /21.06.201/2011-12 |
| 46. | January 25, 2012 | Deregulation of Savings Bank Deposit Interest Rate – Guidelines | DBOD.Dir.BC. 75/13.03.00/2011-12 |
| 47. | December 16, 2011 | Deregulation of Interest Rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts | DBOD.Dir.BC. 64 /13.03.00/2011-12 |
| 48. | November 30, 2011 | Prudential Guidelines on Credit Default Swaps (CDS) | DBOD.BP.BC.No.61/21.06.203/2011-12 |
| 49. | November 2, 2011 | Comprehensive Guidelines on Derivatives: Modifications | DBOD.No.BP.BC. 44 /21.04.157/2011-12 |
| 50. | October 25, 2011 | Deregulation of Savings Bank Deposit Interest Rate - Guidelines | DBOD.Dir.BC. 42 /13.03.00/2011-12 |
| 51. | August 11, 2011 | Prudential Norms for Off-balance Sheet Exposures of Banks | DBOD.No.BP.BC. 28 / 21.04.157 / 2011-12 |
| 52. | May 31, 2011 | Findings of Forensic Scrutiny- Guidelines for prevention of frauds _ | DBS. CO.FrMC.BC.No.10/23.04.001/2010-11 |
| 53. | April 27, 2011 | Implementation of the Advanced Measurement Approach (AMA) for Calculation of Capital Charge for Operational Risk | DBOD.No.BP.BC. 88 /21.06.014/2010-11 |
| 54. | April 21, 2011 | Setting up of Central Electronic Registry under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 | DBOD.Leg. No.BC**. 86** /09.08.011 /2010-11 |
| 55. | February 21, 2011 | Guidelines on Base Rate | DBOD.Dir.BC. 81 /13.03.00/2010-11 |
| 56. | February 9, 2011 | Re-opening of pension option to employees of Public Sector Banks and enhancement in gratuity | DBOD.No. BP.BC.80/ 21.04.018/2010-11 |

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| | | limits - Prudential Regulatory Treatment | |
| 57. | February 8, 2011 | Scheme of 1% interest subvention on housing loans up to Rs. 10 lakh– | RPCD.SME & NFS. BC.No. 52 /06.11.01/2010-2011 |
| 58. | February 2, 2011 | Classification of loans against gold jewellery | RPCD.CO.Plan.BC. 51 /04.09.01/2010-11 |
| 59. | February 2, 2011 | Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002 | RPCD.CO.RCB.AML.BC. No. 50/07.40.00/ 2010-11 |
| 60. | January 31, 2011 | Recognition of permanent diminution in the value of investments in banks' subsidiaries/joint ventures | DBOD. No. BP.BC.79 /21.04.141/2010-11 |
| 61. | January 27, 2011 | Opening of "Small Account" | DBOD.AML.No. 77 /14.01.001/2010-11 |
| 62. | January 20, 2011 | Regulatory Capital Instruments – Step up option | DBOD.BP.BC.No.75/21.06.001/2010-11 |
| 63. | January 19, 2011 | Credit Support to Micro Finance Institutions (MFIs) | DBOD.BP.BC.No. 74 /21.04.132/2010-11 |
| 64. | January 14, 2011 | End use of funds – Monitoring | DBS.CO.PPD.BC.No. 5 /11.01.005/2010-11 |
| 65. | January 6, 2011 | Guidelines on the Base Rate | DBOD.No.Dir.BC. 73 /13.03.00/2010-11 |
| 66. | January 4, 2011 | Enhancing the scope of Speed Clearing | DPSS. CO. CHD. No. 1514 / 03.01.03 / 2010-2011 |
| 67. | December 31, 2010 | Investment in Non-SLR Securities- Non-Convertible Debentures (NCDs) of maturity up to one year | DBOD.BP.BC.No.72/21.04.141/2010-11 |
| 68. | December 31, 2010 | Prudential Guidelines on Capital Adequacy and Market Discipline -New Capital Adequacy Framework (NCAF) - Parallel Run and Prudential Floor | DBOD.BP.BC.No.71 /21.06.001/2010-11 |
| 69. | December 30, 2010 | Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002 | DBOD. AML. BC. No.70/14 .01.001/2010-11 |
| 70. | December 28, 2010 | Directions for opening and operation of Accounts and settlement of payment for electronic payment transactions involving intermediaries | DPSS.CO.OSD. No. 1448/06.08.001/ 2010-2011 |
| 71. | December 27, 2010 | Issuance and operation of Prepaid Payment Instruments in India – Auditor Certificate on the balances in Escrow account | DPSS.CO.OSD. No. 1445 /06.12.001/ 2010-2011 |
| 72. | December 27, 2010 | Directions for submission of system audit reports from CISA qualified Auditor | DPSS.CO.OSD. No. 1444 /06.11.001/ 2010-2011 |

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| 73. | December 23, 2010 | Housing Loans by Commercial Banks – LTV Ratio, Risk Weight and Provisioning | DBOD.No.BP.BC. 69 /08.12.001/2010-11 |
| 74. | December 22, 2010 | Use of International Debit Cards/ Store Value Cards/ Charge Cards/ Smart Cards by resident Indians while on a visit outside India | A.P. (DIR Series) Circular No. 29 |
| 75. | December 20, 2010 | Directions for opening and operation of Accounts and settlement of payment for electronic payment transactions involving intermediaries | DPSS.CO.OSD. No. 1381 /06.08.001/ 2010-2011 |
| 76. | December 15, 2010 | Swarnajayanti Gram Swarozgar Yojana (SGSY) - Group Life Insurance Scheme | RPCD.GSSD .BC.No.30 /09.01.01/2010 -11 |
| 77. | December 7, 2010 | Operation of bank accounts & money mules | DBOD. AML. BC. No. 65/14 .01.001/2010-11 |
| 78. | November 12, 2010 | Guidelines on Fair Practices Code for Lenders – Disclosing all information relating to processing fees / charges | DBOD. Leg. BC. 61 /09.07.005/2010 -11 |
| 79. | November 4, 2010 | Guidelines on Banks' Asset Liability Management Framework – Interest Rate Risk | DBOD. No. BP. BC. 59 / 21.04.098/ 2010-11 |
| 80. | November 4, 2010 | Accounting Procedure for Investments – Settlement Date Accounting | DBOD No. BP.BC. 58 / 21.04.141/ 2010-11 |
| 81. | October 28, 2010 | Introduction of Exchange Traded Currency Options – Permitting Banks to Participate in Currency Options on Recognized Stock / New Exchanges | DBOD.No.BP.BC.51 / 21.06.101 / 2010-11 |
| 82. | October 28, 2010 | Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs) | DBOD.Dir.BC.52 /13.03.00/2010-11 |
| 83. | October 25, 2010 | Credit/Debit Card transactions- Security Issues and Risk mitigation measures for Card Not Present Transactions. | RBI / DPSS No.914 / 02.14.003 / 2010-2011 |
| 84. | October 7, 2010 | Prudential Guidelines on Restructuring of Advances by Banks | DBOD.BP.No. 49/21.04.132/2010-11 |
| 85. | October 1, 2010 | Prudential Norms for Off-Balance Sheet Exposures of Banks – Bilateral netting of counterparty credit exposures. | DBOD.No.BP.BC.48 / 21.06.001/2010-11 |
| 86. | September 30, 2010 | Banks' Exposure to Capital Market - Issue of Irrevocable Payment Commitments (IPCs) | DBOD.Dir.BC.46 /13.03.00/2010-11 |
| 87. | September 29, 2010 | Prudential norms on Investment in Zero Coupon Bonds | DBOD No. BP.BC. 44 / 21.04.141/ 2010-11 |
| 88. | September 27, 2010 | Bank loans for financing promoters contribution | DBOD.No.BP.BC. 42 /21.04.141/2010-11 |
| 89. | September 21, 2010 | Items excluded from Capital Market Exposure | DBOD. No. Dir. BC. 41 /13.03.00/2010-11 |
| 90. | September 1, 2010 | Dishonour / Return of Cheques - Need to Mention the 'Date of Return' in the Cheque Return Memo | DPSS.CO.CHD.No. 485 / 03.06.01 / 2010-11 |
| 91. | July 27, 2010 | Section 24 of the Banking Regulation Act, 1949 Maintenance of Statutory Liquidity Ratio (SLR) | DBOD No. Ret. BC. 29 /12.02.001/2010-11 |
| 92. | July 23, 2010 | Section 23 of Banking Regulation Act, 1949 - | DBOD.No. BL.BC. 27 /22.01.001/2010-11 |

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| | | Mobile Branches and Mobile ATMs | |
| 93. | June 30, 2010 | Banks' Exposure to Capital Market – Loans extended by banks to Mutual Funds and Issue of Irrevocable Payment Commitments (IPCs) | DBOD.Dir.BC.116 /13.03.00/2009-10 |
| 94. | June 21, 2010 | Compromise/Negotiated/One Time settlement of Non Performing Assets | DBOD.BP.BC.No.112/ 21.04.048/2009-10 |
| 95. | May 6, 2010 | Working Group to Review the Credit Guarantee Scheme for Micro and Small Enterprises (MSEs) – Collateral free loans to MSEs | RPCD.SME & NFS. BC.No. 79 /06.02.31/2009 10 |
| 96. | May 6, 2010 | Levy of interest on clearing-related overdraft extended by Clearing House managing banks for settling clearing obligations of member banks | DPSS.CO (CHD) No. 2387 / 03.06.01 / 2009-2010 |
| 97. | April 26, 2010 | Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs) | DBOD.No.BL.BC. 99 /22.01.009/2009-2010 |
| 98. | April 23, 2010 | Prudential norms on Advances to Infrastructure Sector | DBOD No. BP.BC. 96 / 08.12.014/ 2009-10 |
| 99. | April 23, 2010 | Investment in Unlisted Non-SLR Securities | DBOD.No.BP.BC. 98/ 21.04.141/ 2009-10 |
| 100. | April 23, 2010 | Classification of investments by banks in Bonds issued by Companies engaged in Infrastructure activities | DBOD.No.BP.BC. 97/ 21.04.141/ 2009-10 |
| 101. | April 23, 2010 | Credit/Debit Card transactions- Security Issues and Risk mitigation measures for IVR transactions. | RBI / DPSS No. 2303 / 02.14.003 / 2009-2010 |
| 102. | April 20, 2010 | Conversion of term deposits, daily deposits or recurring deposits for reinvestment in term deposits | DBOD. No. Dir. BC. 91/13.03.00/2009-2010 |
| 103. | April 12, 2010 | Collateral Free Loans - Educational Loan Scheme | RPCD.SME&NFS.BC.No. 69/06.12.05 /2009-10 |
| 104. | April 9, 2010 | Guidelines on the Base Rate | DBOD. No. Dir. BC 88 /13.03.00/2009-10 |
| 105. | April 8, 2010 | Agricultural Debt Waiver and Debt Relief Scheme, 2008 | RPCD. No. PLFS.BC. 66 /05.04.02/2009-10 |
| 106. | April 7, 2010 | Prudential Guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) - Parallel run and prudential floor | DBOD. BP.BC.No.87/21.06.001 / 2009-10 |
| 107. | April 7, 2010 | Prudential Guidelines on Capital Adequacy - Implementation of Internal Models Approach for Market Risk | DBOD.No.BP.BC.86 /21.06.001 (A)/2009-10 |
| 108. | March 31, 2010 | Implementation of The Standardised Approach (TSA) for Calculation of Capital Charge for Operational Risk | DBOD. No. BP.BC. 84 /21.06.001/2009-10 |
| 109. | March 30, 2010 | Agricultural Debt Waiver and Debt Relief Scheme, 2008 – Prudential Norms on Income Recognition, Asset Classification, Provisioning and Capital Adequacy | DBOD.No.BP.BC. 82 /21.04.048/2009-10 |

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| 110. | March 30, 2010 | Classification in the Balance Sheet - Capital Instruments | DBOD.BP.BC No.81/ 21.01.002/2009-10 |
| 111. | March 26, 2010 | Know Your Customer (KYC) Norms/ Anti- Money Laundering (AML) Standards/ Combating of Financing of Terrorism (CFT) | DBOD. AML.No.16477/14.01.034/2009-10 |
| 112. | March 15, 2010 | Additional Disclosures by banks in Notes to Accounts | DBOD.BP.BC.No.79 /21.04.018/2009-10 |
| 113. | February 12, 2010 | Risk weights and exposure norms in respect of bank exposure to NBFCs categorised as 'Infrastructure Finance Companies' | DBOD. No. BP. BC. 74 /21.04.172/ 2009-10 |
| 114. | January 13, 2010 | Retail Issue of Subordinated Debt for Raising Tier II Capital | DBOD.BP.BC.No. 69 / 21.01.002/ 2009-10 |
| 115. | January 7, 2010 | Disclosure in Balance Sheet – Bancassurance Business | DBOD.No.FSD.BC. 67 /24.01.001/2009-10 |
| 116. | November 3, 2006 | Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks | DBOD.NO.BP. 40/ 21.04.158/ 2006-07 |
| 117. | April 30, 2004 | Information System Audit - A review of Policies and Practices | DBS.CO.OSMOS.BC/ 11 /33.01.029/2003-04 |
| 118. | October 21, 2002 | Certification of Borrower's Account by Chartered Accountants | DBOD.No.BP.BC. 33 /21.04.018/2002-03 |
| 119. | April 17, 2002 | Long Form Audit Report to the Management by Central Statutory Auditors of Banks | DBS.CO.PP.BC.11/11.01.005/2001-2002 |