Audit in Computerised Environment, Reporting in Jilani & Ghosh Committee Recommendations

Presented at seminar organised by WIRC on

**BANK AUDIT**

By

Nitant P. Trilokekar

Email: nitanttrilokekar@yahoo.com
Internet: nptbanking.blogspot.com
Jalani Committee Recommendations

An attempt to strengthen Internal Control of Banks especially in the Computerised Environment
OUR COMPUTERS ARE DOWN, SO WE HAVE TO DO EVERYTHING MANUALLY...
Background

- Management is responsible for the implementation of Jilani committee recommendations, the statutory auditor is responsible to verify and report on the status of implementation of these recommendations. The results of the verification carried out by the statutory auditor and his comments would be given in separate report.

- The Implementation form is divided into 25 points, 10 of them are applicable on a Bank branch.
Categorization on Implementation basis

- EDP Environment In Banks
- Inspection/Audit In Banks
- Misc. Functions of A Bank

Recommendations
Compulsory recommendations

1 of 10

- Follow up on major/serious irregularities detected during concurrent audit to be immediately taken up with the H.O. A time bound action programme for rectification to be drawn up and closely monitored. Fraudulent transactions to be reported to vigilance/Chief of inspection/audit etc.

- Volume of persisting section should be low

- Immediate corrections though reported should be identified as corrected on the spot.

- System of ‘Special letters’ (SOL) or ‘Flash Letters’ should be in place and USED.
Compulsory recommendations

2 of 10

- Smaller/medium sized branches to rectify irregularities pointed out during inspection/audit within 4 months.

- Date stamp serious pending irregularities to ensure this is followed up by analysis of age of persisting irregularities.
Compulsory recommendations
3 of 10

- Inspectors and auditors to get majority of irregularities rectified during their stay at the branches concerned and guide them as well.

- Definition of audit – immediate rectification
- Concurrent auditor expected need to give suggestions.
Compulsory recommendations

4 of 10

- Immediate action to be taken to plug gaps in serious irregularities/revenue leakages which have surfaced due to loopholes in existing procedures/norms in consultation with the departments concerned by issue of fresh guidelines.

- Reaction of the head office by way of circulars or special letters to the branch
Compulsory recommendations

5 of 10

- Appropriate control measure should be devised and documented to prevent the computer system from attacks of unscrupulous elements. All aspects of security, reliability and accessibility are ensured, introduction of EDP application in place of manual system by having parallel runs.

- Reaction of the head office by way of circulars or special letters to the branch
Compulsory recommendations
6 of 10

- Various tests to be carried out to ensure that EDP applications have resulted in consistent and reliable system for inputting processing and generation of output of data.

- EDP department’s effort at quality control
  - Processing Validation tests – initial – landmark
    - periodic
  - Periodic System audits/snap system audits
Entire domain of EDP activities be brought under scrutiny of inspection and Audit including the underlying financial aspects.

Audit department should have authority to scrutinise the EDP department.

EDP to report progress of rectification to Audit department.

Audit department thus assumes the supervisory role as it should be!
Compulsory recommendations
8 of 10

In order to bring about uniformity of software used by various branches/offices, there should be a formal method of incorporating change in standard software and it should be approved by senior management. Such changes to be inspected and monitored continuously.

Modifications should be uniform and not unique to branch/business mix etc.
Banks should complete enquiries expeditiously and bring to book the delinquent staff to deter others from perpetuating frauds and malpractices. Internet vigilance machinery to be strengthened and its working to be reviewed by the Board every six months.

Vigilance department to be technology savvy.

Board to be updated every 6 months. – Period specified
Compulsory recommendations
10 of 10

- Regular checking by inspection/auditors to verify correctness of information compiled/furnished by branches regarding income recognition, assets classification, provisioning, and NPA quantification in conformity with prescribed norms. Discrepancy to be immediately brought to the notice of the branch Manager.

- AUDITORS to check: (certify)
  - Income recognition norms
  - Asset classification & Provisioning
  - NPA Quantification
High level Committee on fraud and malpractice in banks under chairmanship of Shri A. Ghosh ex deputy governor

Enquire into various aspects of frauds and malpractices in bank
make recommendations to reduce such incidence.

Committee submitted report in June, 1992

The report is divided into Groups A, B, C, D with A, B and D having 2 parts each, Group C having one part.

Out of 97 Recommendations 27 required to be reported exclusively at Branch level, 43 exclusively at RO/ZO/HO level and 27 at both levels.
Categorization of recommendations

Ghosh Committee

- Applicable to branches
- Applicable to controlling office like regional and zonal office
- Applicable to treasury operations
- Applicable to head office
Categorization on Implementation basis

Recommendation

- **Group A**: to be implemented immediately
- **Group B**: requiring RBI approval
- **Group C**: requiring approval of Government of India
- **Group D**: requiring further examination in consultation with IBA
Objectives

Proper system exists to ensure:

- Safety of assets
- Compliance with laid down policies and procedures
- Accuracy and completeness of accounting and other records
- Proper segregation of duties and responsibilities of staff
- Timely prevention and detection of frauds and malpractices
• Joint custody and dual responsibility of cash and other valuables
• Rotation of staff/duties
• Designation of one of the officers as compliance officer
• Financial and administration powers of officials to be laid down
• Exercise of caution at the time of opening of new deposit of all types
• Precautions against theft of cash
• Precautions in writing of drafts/mail transfers
• Precautions for averting frauds in letter of credits, guarantees
• Screening/selection of employees in EDP cell, computer area
• Standards for fully computerized branches

Group A to be implemented immediately

…..contd.
Group B

requiring RBI approval

- Banks to introduce portfolio inspection in critical areas such as credit, investment, off balance sheet item etc
- Periodical movements between bank officials and investigating officials of CBI/Police
- Six months prior to retirement officials should exercise their sanctioning powers jointly with next higher authority
- Paper used for cheque/drafts should be such that any use of chemical for making material alterations in instrument should be visible to naked eye
Group B

Requiring RBI approval

…..contd.

- Banks to introduce portfolio inspection in critical areas such as credit, investment, off balance sheet item etc
- Periodical movements between bank officials and investigating officials of CBI/Police
- Six months prior to retirement officials should exercise their sanctioning powers jointly with next higher authority
- Paper used for cheque/drafts should be such that any use of chemical for making material alterations in instrument should be visible to naked eye
• Chief vigilance officer should directly refer to CVC, cases having vigilance angle involving CMD
• Fraud cases up to Rs. 25,000 having involvement of an insider should not be reported to police where recovery is not doubtful
• Introduce a return of staff members to ensure strict submission of information of assets and liabilities and proper scrutiny thereof.
1. BRs should not be outstanding for more than 7 days
2. Obtain photographs of depositors at the time of opening of accounts

Requiring further examination
In consultation with IBA
Q & A?

Thank you