

INSPECTION & AUDIT

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IMAGE

Q-1

Basant Seth Committee recommendation led to setup of which of the following module

- A. DAMC
- B. ATOM
- C. OSMC
- D. LLMS

Ans- C

Q-2

Which functions as 'Third Line of Defence'?

- A. Inspection & Audit Department
- B. Branch
- C. Risk Management Department
- D. Compliance Department

Ans- A

Role of three lines of defence



Goal of combined assurance - To align assurance processes among all providers (including internal audit) to inform senior management and the audit committee about governance, controls, and risk management.

Q-3

Find out the incorrect statement with respect to the coverage of the Risk Based Internal Audit:

- A. All loan accounts sanctioned/renewed /restructured/disbursed from the date of last inspection/RBIA to the date of present RBIA
- B. Loan accounts where serious/critical irregularities viz., Incomplete security documents, defective / imperfect mortgage, dilution of security, diversion of fund, transgression of discretionary authority, non-compliance of terms of sanction, etc. were pointed out in the last RBIA/ Inspection Report/Special reports but not yet
- C. Top 100 borrowal accounts
- D. All standard loan accounts above Rs 10.00 lakhs sanctioned/ disbursed/ renewed/restructured four years prior to the date of inspection.

Ans- D

Q-4

No of unit visit to be conducted by the Inspector during RBIA

A. 3

B. 4

C. 5

D. 6

Ans- A

Transaction Testing

Transaction testing shall be done in respect of release of limits for advances sanctioned / reviewed or renewed with enhancement, from the date of previous audit to the current one.

- i. If the risk rating during the last audit of a particular segment is High -- 50% for that particular segment.
- ii. If the overall rating of the branch in previous audit is
 - i. High -- 50%
 - ii. Medium & increasing -- 50%
 - iii. Medium and decreasing or stable -- 40%
 - iv. Low -- 20

Q-5

%age of Transaction testing to be checked during the RBIA in High Risk Branch

- A. 20
- B. 40
- C. 50
- D. 25

Ans- C

Q-6

%age of Transaction testing to be checked during the RBIA in Medium Risk with risk being increasing from the previous inspection

- A. 40
- B. 20
- C. 50
- D. 25

Ans- C

Q-7

%age of Transaction testing to be checked during the RBIA in Medium Risk with risk being decreasing from the previous inspection

- A. 40
- B. 20
- C. 50
- D. 25

Ans- A

Q-8

Minimum %age of spot rectification to be ensured during the course of RBIA

- A. 20
- B. 30
- C. 35
- D. 25

Ans-B

Q-9

What is the minimum amount of Business (In crores) required for a Branch to be included under revenue audit (Other than top 100- business wise)

- A. 5
- B. 10
- C. 20
- D. 60

Ans- B

Revenue Audit

- Revenue & Expenditure audit is conducted to ensure accurate computation and charging of all interest and non-interest income due and verification of various expenditure including interest expenditure to identify and recover leakage of income and excess debits to expenditure.
- The inspector/auditor should scrutinize all expenditure heads, with emphasis on Expenditure BGLs where the increase over previous half year is more than 10%.
- Cent percent transaction audit to be done where the expenditure head shows an increase of more than 20% over the previous year
- Top 100 branches businesswise as on 30th September and 31st March every year will be subjected to Revenue and Expenditure audit by ICs.
- All branches (other than top 100-business wise) having total business of Rs 10.00 crores and above are subjected to revenue audit on half yearly basis as on 30th September and 31st March every year.

Zonal Office identifies such of those branches and revenue audit is arranged by them to find out the income leakage and abnormal expenditure in various head

For branches having total business of less than Rs. 10.00 crores, such exercise shall be carried out along with the regular audit of the branch, covering the period since last audit to the current audit. g. Revenue Audit of Zonal Offices, ICs & FGMOs will be conducted along with Management Audit.

Q-10

Periodicity to conduct thematic audit is

- A. 3 Branch per IC per Month
- B. 3 Branch per ZO per month
- C. 3 Branch per district per month
- D. None of the Above

Ans- A

Types of Audit

Snap Audit- Snap audit covers select branches with specific reference to house-keeping problems.

Respective IC Head may take a decision for Snap Audit of Branches based on the serious nature of the findings in the audit reports / based on the views Zonal Office/ the level of compliance/ the level of rectification of irregularities/ on occurrence of a fraud. Such audit may not exceed 3 days.

Bank shall have provision for undertaking snap audit under critical circumstances. Snap audits can be of areas considered to be of higher risk encompassing more than one branch/ location also like KYC non compliance, irregular lending, exposures to Corporate Sector, Credit exposures to capital market, accounts mobilization campaign, untallied accounts, group of potential unsatisfactory branches, verification of amounts under debt relief, write off etc.

Snap audits will also be conducted based on

- a. Signals from offsite risk assessment (from ZO/CO:CMC/RMO)
- b. Specific requests from controlling offices/Departments,
- c. Serious issues/ malpractices/ frauds noticed during other audits or based on information from other sources

Types of Audit

Compliance Audit: ICs / ZOs shall carry out compliance audit, after receipt of FRC (before acceptance for closure of report), covering the Extremely High and Very High Risk Rated and Branches rated as “HIGH” under control Risk, with specific reference to areas / weakness in control risk, which lead to the above rating for the branch.

In respect of repeated high-risk branches, rated high risk in 3 or more audits continuously, compliance audit will be conducted mandatorily, even though control risk may not be high.

Also, compliance audit shall be conducted at the instances of Zonal Office, IC and CO:I & A Department in case of unsatisfactory compliance level of any branch and other serious triggers warranting compliance audit

Q-11

Compliance Audit (with specific reference to weakness in control risk) is done for which of the following rated Branch

- A. HIGH
- B. VERY HIGH
- C. EXTREMELY HIGH
- D. ALL of the above

Ans- D

Q-12

What %age of number of proposal sanctioned (Fresh/review/renewal) needs to be checked during Management Audit of ZO if amoun of advance is above Rs 250 Lac and up to Rs 1000 Lac

- A. 10
- B. 25
- C. 50
- D. 100

Ans- B

Scope of Management Audit

Amount of advances (combined limits of the borrower including NFB limits)

Cut off of loan accounts for verification	Percentage on the number of proposals sanctioned (fresh / review / renewal)
Up to Rs 250 lakhs	10
Above Rs.250 lacs and up to Rs 1000 lakhs	25
Above Rs.1000 lakhs	100

While conducting the above exercise, it is to be ensured that top 50 borrowal accounts of the Zone are covered

Q-13

The business risk of a Branch is LOW and control risk is HIGH.
The Branch rating is RBIA Would be

- A. Medium
- B. Low
- C. Very High
- D. High

Ans- D

Q-14

The business risk of a Branch is MEDIUM and control risk is HIGH. The Branch rating is RBIA Would be

- A. Medium
- B. High
- C. Extremely High
- D. Very High

Ans- D

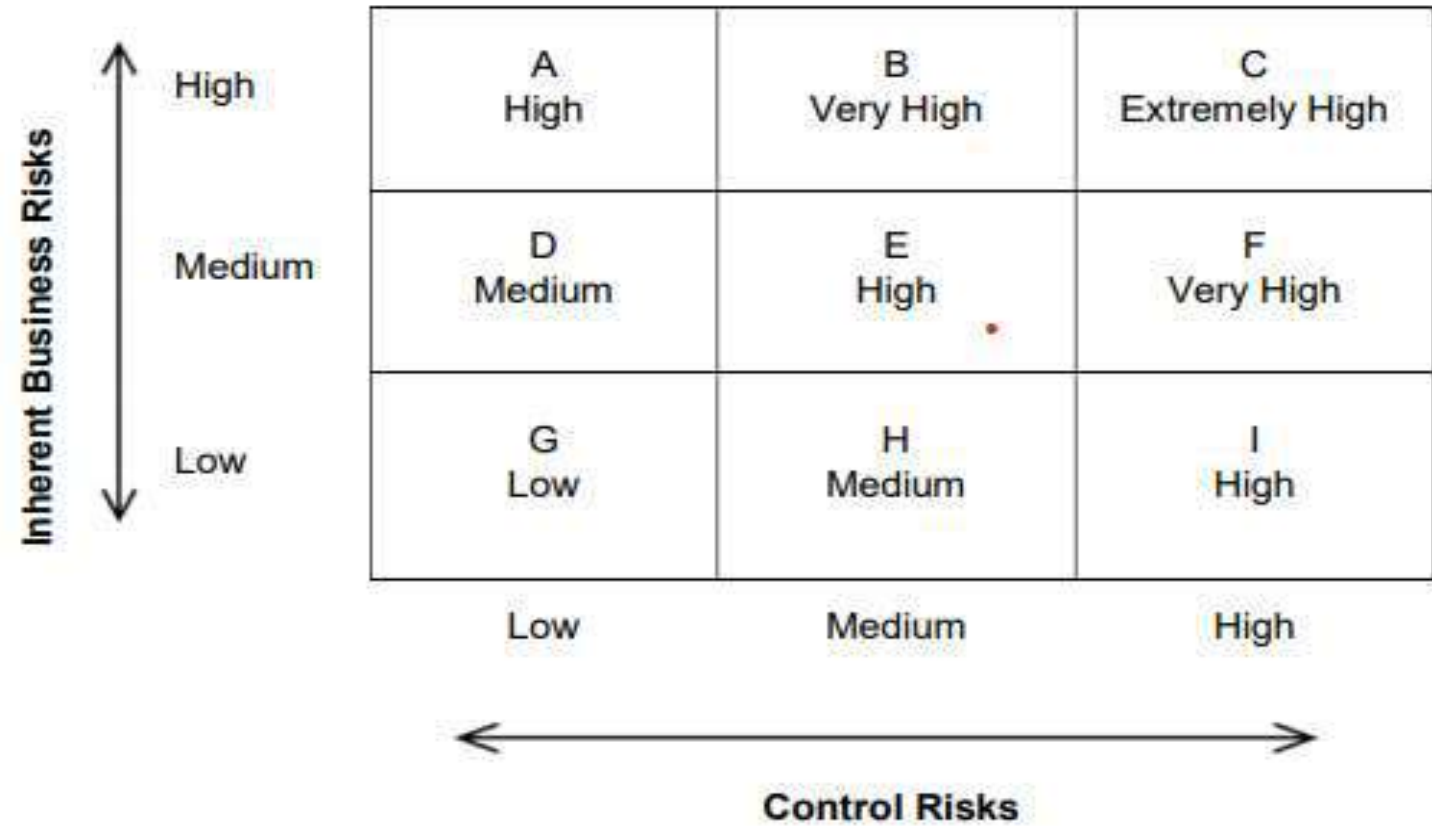
Q-15

The business risk of a Branch is Medium and control risk is Medium. The Branch rating in RBIA Would be

- A. Medium
- B. High
- C. Very high
- D. Extremely High

Ans- A

Rating Matrix



Q-16

Branch to be rated High Risk if leakage of Income identified is not recovered on the spot for Rural Branch

- A. >10 Lac
- B. >5 Lac
- C. >3 Lac
- D. >2 Lac

Ans- D

Q-17

Branch to be rated High Risk if leakage of Income identified is not recovered on the spot for Semi Urban Branch

- A. >10 Lac
- B. >5 Lac
- C. > 3 Lac
- D. > 2 Lac

Ans- C

Q-18

Branch to be rated High Risk if leakage of Income identified is not recovered on the spot for Metro/ Corporate Branch

- A. >10 Lac
- B. >5 Lac
- C. >3 Lac
- D. >2 Lac

Ans- A

Revenue Leakage (ZTA)

Branch to be rated High Risk if leakage of Income identified is not recovered on the spot:

S No	Branch	Leakage is
1	Metro / Corporate Branches	> Rs 10.00 lacs
2	Urban Branches	> Rs 05.00 lacs
3	Semi-Urban Branch	> Rs 03.00 lacs
4.	Rural Branches	> Rs 02.00 lacs

Q-19

Which of the following statement is true with regard to the monitoring of the transaction in staff accounts by concurrent auditor

- 1) Cash transaction 1 Lac and above
- 2) Transfer transaction of 1 Lac and above

- A. Statement 1
- B. Statement 2
- C. Both of them are true
- D. None of them are true

Ans- A

Q-20

Which is the competent authority to approve any change in OSMC alerts and threshold limit

- A. Audit committee of Executive
- B. Audit committee of Board
- C. GM Heading I & Audit
- D. ED Heading I & A

Ans- C

Q-21

IS Audit cell shall work in co ordination with following department for various operational and security guidelines covering various assets of Information and Communication Technology infrastructure used by the Bank. Relationship with other Departments **Which of the following is true?**

- A. CO : RMD
- B. CO : ISSD
- C. Both the option is true
- D. None of the option is true

Ans- B

Q-22

Which of the following is not a category of Zero Tolerance Areas?

- A. Aggregate fraud amount is more than 10 Lac
- B. Special report pending for closure
- C. Incomplete/Blank Document
- D. All of the above is correct

Ans- D

Zero Tolerance Areas

1. Non creation of EM/MOD / Non availability of legal opinion
2. Non creation of charge over securitiesCERSAI, ROC registration
3. Sanction exceeding discretionary powers
4. End use not verified, pre/post sanction visits to unit, EM visit to EM property not on record
5. Incidence of fraud due to weakness in internal control
6. Special reports pending for closure
7. Non reconciliation of Impersonal Heads of accounts, manual debit in BGL Heads.
8. Time barred DPNs.
9. Incomplete/blank documents, insufficient stamp duty
10. Non compliance of KYC, due diligence not complied for loan and deposit accounts
11. Reference to CIBIL/RBI defaulter list/SAL/ECGC restricted list not available.
12. Revenue leakages identified, pending recovery
13. Non submission of stock statements.

Description of ZTAs

7.1 i. **Non creation of EM / MOD** – Branch to be rated as High Risk if :

a). Mortgage is pending for any account having Limit of Rs. 50.00 lakhs and above.

b) Number of accounts pending for mortgage creation is more than 5 % of the total eligible number of accounts of the Branch, where mortgage is to be created during the relevant audit period.

ii. **CERSAI complied for all accounts** - Branch to be rated as High Risk if : Accounts pending for CERSAI registration in a Branch are more than 10 numbers.

iii. **Non availability of Legal Opinion** – Branch to be rated as High Risk if : Legal opinion is not available in any eligible account in a branch having limit of Rs. 10.00 Lakhs and above.

7.2. **Creation of charge over securities** (Lien of deposit receipts, Assignments & ROC registration) - Branch to be rated as High Risk if :

i. Creation of Charge /ROC Registration is pending for any account with limit of Rs.50.00 lakhs and above.

ii. Number of accounts pending for Creation of Charge / ROC Registration is more than 5% of the total eligible accounts of the Branch.

7.3. **Sanction exceeding Branch Manager's discretionary powers:** Branch will be treated as High Risk if there is any violation in exercise of discretionary powers.

7.4. **End use not ensured,** Pre /Post sanction visits of units / Mortgaged Properties not done, discrepancies of Legal Audit not rectified : Branch will be treated as Medium Risk if the number of fresh sanctioned accounts during the review period pending for non compliance of mentioned ZTAs are more than 5 % of the total number of advances of the Branch.

Description of ZTAs

7.5. Incidents of frauds. A branch will be classified as 'High Risk' on confirmation of classification of an incident in the branch as fraud by CO: Fraud Risk Management Cell, even though the branch has obtained a better rating as per the latest RBIA if:

- i. Weaknesses in internal controls in the branch have facilitated or led to the incident or there are sufficient reasons to show involvement of internal factors in such fraudulent incident,
- ii. More than three instances of frauds are reported in the branch during a financial year or
- iii. Aggregate fraud amount is more than Rs.10.00 lakh.
- iv. The Incidence of Fraud happened prior to 3 years but classified presently should not be considered to downgrade the risk rating of Branch.
- v. In case of Consortium / Multiple Banking Account, if the borrower has been declared as fraud observed by other Banks and if there is no fraud element in the accounts with respect to operations in our Bank, the risk rating need not be downgraded for reason of Fraud.

7.6. Special Reports if any pending for Closure.

7.7. Non Reconciliation of Impersonal Heads of accounts, Manual debit in BGL heads like interest, commission and operations in inoperative accounts not as per guidelines will make the branch rated as High Risk.

7.8. Time Barred Documents : i. High - If any account having limit Rs 50.00 lakhs and above is Time Barred. ii. Medium - Number of accounts time barred are more than 5 % of the total number of accounts of the Branch but, all such cases of less than Rs.50.00 lakhs.

Description of ZTAs

7.9. Incomplete /Blank documents, Required stamp duty not paid and Documents not properly maintained ,Special attention to be given by the Inspector to ensure 100% Spot rectification.

If the spot rectification is not done, Branch to be rated High Risk if :

- i. Spot rectification pending for any account with sanctioned limit of Rs.50.00 lakhs and above.
- ii. Number of accounts pending for rectification are more than 5 % of the total number of outstanding accounts of the Branch.

7.10. i. Non compliance of KYC norms / Due-diligence for loan and deposit accounts, Non availability of Photo and address proof with authentication.

ii. Non availability of Verification of genuineness of financial documents on which credit limits are assessed and approved.

iii. Address confirmation for issuance of cheque books not available.

For All the Above :

a. Special attention to be given by the Inspector to ensure 100% Spot rectification.

b. If the spot rectification is not done, Branch to be rated High Risk if :

I. Spot rectification pending for any account having sanctioned limit of Rs.50.00 lakhs and above.

II. Number of accounts pending for rectification are more than 5 % of the total number of accounts of the Branch.

Description of ZTAs

7.11. Reference to CIBIL /RBI defaulter list /SAL/ ECGC restricted list not made before sanctioning the loan. Non availability of such records taken, scrutinized and kept in the file : Branch to be rated as Medium Risk if:

Number of accounts pending for rectification are more than 5 % of the total number of accounts of the Branch.

7.12. Revenue leakages, if any, identified by the Concurrent Auditor / Revenue Auditor/HO Inspector/ZO Officials not recovered or duly recommended for waiver if eligible:-

Branch to be rated High Risk if leakage of Income identified is not recovered on the spot:

Branch to be rated High Risk if leakage of Income identified is not recovered on the spot:

S No	Branch	Leakage is
1.	Metro / Corporate Branches	> Rs 10.00 lacs
2	Urban Branches	> Rs 05.00 lacs
3	Semi-Urban Branch	> Rs 03.00 lacs
4.	Rural Branches	> Rs 02.00 lacs

7.13 Non submission of Stock statements in time : Branch to be rated High Risk if:

i. Submission of stock statement is pending for any account having sanctioned limit of Rs.50.00 lakhs and above.

ii. Number of accounts pending for submission of stock statements for more than 3 months are more than 5 % of the total number of accounts in the Branch

Q-23

What is the periodicity for rectification for Zero Tolerance identified during RBIA

- A. 30 days
- B. 15 days
- C. 45 days
- D. 60 days

Ans- C

Periodicity of Audit Cycle

SI No	Risk Rating of branches/units	Periodicity of audit from the date of previous inspection #	Extension permissible by GM (I&A)
1	Low Risk	18 months	3 months
2	Medium Risk	15 months	2 months
3	High Risk	12 months	1 month
4	Very High / Extremely High Risk	9 months	1 month
5	Newly opened	First inspection within 6 months from the date of opening	3 months
6	Low/Medium risk branches (i) Located in border areas of the country or (ii) total advances is Rs.100 crores & above (excluding LOD & JL) as on previous March	12 months	1 month
7	Large Corporate/SAM Branches	12 months	1 month
8	Foreign branches & Foreign Branches on Indian soil (like Gift City)	12 months	--

Periodicity of Management Audit

Auditee	Auditor	Frequency	Man-days
All ZOs & FGMOs	IC Head assisted by DZM (not below the rank of AGM)/ AGM from FGMO /Executives from CO	Annual	4-5 days
All CO Depts (incl ATMSC,CCC)	DGM from CO	Annual	3-4 days
Inspection Centres	AGM / CM from CO: I & A Dept	Once in 2 years	3 days
Treasury Branch	AGM with requisite exposure	Annual	3-4 days
IMAGE	AGM from CO	Annual	3 days
Subsidiaries	IC Head	Annual	4-5 days
Training Centres	Inspector from IC	Annual	2 days
Regional Rural Banks	IC Head	Once in 2 years	4-5 days

Q-24

As per I & A policy, Concurrent Auditor has to visit unit with total exposure (FB+NFB) of Rs 1 Crore and above once on every

- A. Fortnightly
- B. Monthly
- C. Quarterly
- D. Half Yearly

Ans- D

Q-25

Which of the following is true with respect to Concurrent Audit of the Branches

- a. Visit of Minimum 5 SHG per month in microstate Branches
- b. Visit of Minimum 5 SHG per month in other Branches where SHG business is more than 10 Crore

- A. Only A
- B. Only B
- C. Both
- D. None

Ans- C

Q-26

Who of the following can conduct the credit audit?

- a. Inspector of IC
- b. Concurrent Auditor

- A. Only A
- B. Only B
- C. Both
- D. None

Ans- A

Q-27

SPARC (Supervisory Program for Assessment of Risk & Capital) is related to which of the following?

- A. Inspection & Audit
- B. Risk Based Supervision
- C. Compliance
- D. None

Ans- B

Q-28

SPURT in advance is not to be investigated against which of the following?

- a. Branches which have not completed 3 years
- b. Spurt is due to LOD under MDL
- c. Spurt is due to sanction made at higher level

- A. 1 & 2
- B. 2 & 3
- C. 1 & 3
- D. All of the above
- E. None of the above

Ans- D

Spurt In advance

Spurt in Advances: Zonal Offices should place quarterly statement to ZACE with analysis for any spurt in advances of more than 10% by number / amount over the previous quarter and ZACE to take a call on further investigation.

ZACE may get the same investigated by an officer at Zonal Office or by an Inspector of Branches and the same shall be completed within 15 days from the date of the ZACE meeting. IC Head has to forward report of such investigation to CO:I & A Dept. The analysis done by CO RMD in this regard can also be shared with Zonal Office / Inspection Centre.

However, in respect of the following branches/ cases, this exercise need not be taken up:

- The branches which have not completed 3 years,
- Spurt in advances is due to loan against deposits sanctioned under MDL, and
- Spurt in advances is due to the sanctions made at higher level.

Q-29

During RBIA it is observed that legal audit rectification is pending in 50 accounts out of a total loan account of 2500. The rating of the Branch in this case will be

- A. High
- B. Low
- C. Medium
- D. Based on Risk Matrix

Ans- D

Q-30

During regular inspection, it is observed that Legal opinion is not obtained/available in following accounts:

- 1) A Loan account with limit of Rs 20.00 Lac
- 2) A Loan with limit Rs 50.00 Lac

Which of the above conditions will render the rating of the Branch as HIGH?

- A. Only 1
- B. Only 2
- C. Either of the above
- D. None of the above

Ans- C



THANK YOU