

# AANKIT KUMAR JAIN & CO

## CHARTERED ACCOUNTANTS

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### GUIDELINES FOR REVENUE AUDIT OF INDIAN OVERSEAS BANK

(AUDIT PERIOD: 01/01/2011 TO 31/12/2011)

#### DOCUMENTS TO BE ASKED FOR / TO BE READ THROUGH :

1. Profit and Loss Account for the audit period. (It may not be available as a single statement due to system issues so collect it as Jan to Mar, April to Sept and Oct to Dec - “Comparative Statement”)

*Note :* @ Scope of audit is restricted to items of revenue and expenditure only i.e. Banks major operations of Accepting Deposits and Lending.

2. Balance Sheet as on 31.12.2011
3. Concurrent Audit Report (Prepared Monthly as well as Quarterly), so first ask for quarterly and if not prepared quarterly then ask for the monthly reports of the audit period.

*Note :* The concurrent audit reports give a lot of data regarding the banks operations. So do read it well before proceeding.

*For E.g.: 1.* It gives details of accounts where limits or drawing powers have been exceeded therefore such accounts are required to be charged with overdue interest.

2. Whether Godown inspections are undertaken, if yes, whether revenue from this source is being collected.
4. Last year’s revenue audit report.

## GUIDELINES FOR CHECKING VARIOUS ITEMS :

### REVENUE:

#### 1. Interest on Advances :

- ❖ Obtain List of Cash Credit (CC) Accounts, Term Loan Accounts and any other assets of the bank that generate interest revenue.
- ❖ Obtain Security wise break up of advances. (This can be generated from their system) (Note: This report is important as it helps at many places.)
- ❖ Interest rates are pegged to the **Base Rate** .Therefore interest rates on loans are expressed as “**Base Rate + xx.xx %**”. The base rates have been revised during the year as follows:
  - 13.12.2010 - 31.01.2011 @ 9 %
  - 01.02.2011 - 05.05.2011 @ 9.5 %
  - 06.05.2011 - 30.06.2011 @ 10.00 %
  - 01.07.2011 - 31.07.2011 @ 10.25 %
  - 01.08.2011 - till now @ 10.75 %
- ❖ Our purpose is to ensure that the revenues relating to advances such as ***Interest, Godown inspection charges, Processing Fees, Penal Charges, Overdue Interest, Commitment Charges, Incidental Charges and any other charges*** have been duly collected / debited from /to the customer’s account.
- ❖ On test check basis select customer’s accounts and obtain the file of the customer which will contain the details required such as Sanction letter, loan documents, credit limits, drawing power, stock statement etc.
- ❖ Now proceed by first checking the interest rate and interest calculation.
  - On the system the “***Interest Worksheet***” (Name of the report) will give day - wise detailed working of interest for the customer. Ensure that the interest rate as per sanction letter has been charged to the customer.
  - **Note (IMP)**: The interest rates had changed during the year four times (given above) and therefore check if the revised interest rates were applied to the loan accounts with

immediate effect. Any delay here would be a loss of revenue to the bank.

- ❖ Subsequently View the ledger of that customer on the system and check if other charges such as overdue charges, Processing Charges, Penal Charges have been debited to the accounts as per terms provided in the sanction letter.

*This may help! : Since the security wise break up of advances is available, checking those advances which are secured against book debts and stock will help in verifying whether the above mentioned charges have been appropriately collected.*

- ❖ Instances may be observed where interest charged to the customer is more than the rate as per sanction letter. The amount excess charged should also be noted and included in the report.
- ❖ Interest on Term Deposits: Ensure that the prevailing interest rates have been applied.

## 2. COMMISSION

- ❖ Identify the various heads of commission income.
- ❖ Obtain from the bank the slab rates for charging of commission.
- ❖ Identify a few customers on test check basis and ensure that the commission has been correctly charged.
- ❖ Look out for any debits in these ledgers as they may represent waiving off of commission, reversal of commission earlier charged, excess charged previously and now reversed etc. These debits represent loss of revenue to the bank and therefore the causes of the debits have to be known.

## 3. EXCHANGE ON DD/TT/MT

- ❖ Obtain from the bank the slab rates for the various charges
- ❖ Identify a few customers on test check basis and ensure that the charges have been duly collected.
- ❖ Look out for any debits in these ledgers.

## 4. LOCKER RENT

- ❖ Can be checked from Locker Register.

❖ Obtain List of Arrears of Locker Rent - Required for “Summary C” of Audit Report.

5. **Any other service charges** that may have been charged by the bank can be verified to ensure whether the same have been rightly charged and collected.

**EXPENSE:**

1. Interest on Savings Account, Fixed Deposits, FCNR Accounts, NRE Accounts

❖ Ensure that the prevailing rates of interest are applied to the customer’s accounts. Any delay here would be amount “short paid” and shall form part of audit report.

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