

Chapter 14A - "Audit of Banks"

Topics to be covered:

(A) Introductory topics

- ✓ Introduction and legal frameworks
- ✓ Conducting a Bank Audit
- Internal Control Procedures

(B) Verification

- ↓ of
- Investments
- Advances
- Other Assets
- Capital and liabilities
- Ratios (CRR, CRAR, SLR)

(C) Miscellaneous

- ↓
- Reporting Requirements
- Concurrent Audit

(I) Introduction and legal framework:

(A) Need for special audit considerations: arises due to

- Particular nature of risk associated with financial transactions undertaken by banks.
- Voluminous scale of banking operations and resultant significant exposure.
- Excessive dependence on IT System for processing of transactions.
- Effects of statutory and regulatory requirements.
- Continuing development of new products and services that do not match with development of Accounting Principles and Auditing Practices.
- Significant operational and financial risks due to evolution of technology and providing services through multiple channels like net banking, mobile etc.

(B) Acts governing Banking Operations : - Reading from Book -

(C) Audit of Accounts :

Sec. 30(1) of Banking Regulation Act : Balance sheet and Profit and loss account of a Banking Company should be audited by a person duly qualified to be appointed as auditor of a Company.

Appointment of Auditor :

Banking Company	- AGM of SH + Approval of RBI
Nationalised Bank	- Bank through its BoD + Approval RBI
SBI	- C&AG in consultation with C.G.
Regional Rural Bank	- Bank with approval of C.G.

No. of Auditors :

Statutory Central Auditors (SCA)	- ≥ 4 firms of CAs
" Branch " (SBA)	- Single firm of CAs

II. Conducting Bank Audit :

(A) Stages in Conducting Bank Audit :

Stage-1 - Initial Consideration

Stage-2 - Understanding of Bank, its Environment; Operational activities; Accounting System etc.

Stage-3 : Identify and Assess :

- Risk of Material Misstatement
- Risk of Fraud including Money laundering;
- Specific Risks
- Risk of Outsourcing financing activities.

Stage-4 Audit Execution

Stage-5 Reporting - Main Report; and Other Reports/Certificates

Requirements of Risk Management System in a Bank:

- (i) Involvement of Tcwg : for approval of Risk Management Policies.
- (ii) Identification, Measurement and Monitoring of Risk : that significantly affect the achievement of Bank Goals and objectives.
- (iii) Control Activities : like. Segregation of duties;
Approval of drawdowns;
Setting of limits;
Reporting of Exceptions etc.
- (iv) Monitoring Activities: Independent Risk Management Unit to be set up that regularly assess the methodologies, assumptions etc.
- (v) Reliable Info. system: must exist that provide adequate financial, operational and other information to Mngt. and Tcwg.

(B) Special Considerations in CIS Environment :

(i) Information to be shared by bank with the auditor :

- (a) IT Policy ; IT System - structure and Environment
- (b) Data Processing ; Data Interface ; Data Integrity ; Data Security
- (c) Business Continuity Plans ; Disaster Control Plan
- (d) Accounting Manual
- (e) Control Aspects - w.r.t. General IT Controls and IT application Controls
- (f) Reports generated through IT system - MIS Reports ; Exception reports etc.

(ii) Review of IT Environment and Policy : Will be at H.O. Level by SCA.

(iii) ^{Imp-} Key Security Control Aspects to be Considered by Auditor : LEARNING + NOTING

(H.W)

(C) Risks Based Internal Audit: Internal Audit that is conducted on the basis of:

(a) Risk Assessment; and

(b) Control Risk of Branches

Steps involved in Risk based internal audit are:

Step-1: Identification of Inherent business risk of activities undertaken by the branch. (Inherent Risk).

Step 2: Assessing Effectiveness of Control System of business activities of the branch. (Control Risk).

Step 3: Assessment of Level and Direction of each Risk area.

Step 4: Drawing up of Risk Matrix.

III. Internal Control Procedures:

(A) General Controls

(B) CASH

(C) Clearing

(D) Bills for collection

(E) Bills Purchased

V. Imp.

(F) Loans and Advances

(G) Demand Drafts

(H) Inter Branch Accounts

V.V. Imp.

(I) Credit Card Operations