

Chapter - 10 "Audit of Banks"

Part - I

Part - II

✓ (i) Banking operations

✓ (ii) Auditing Framework

✓ Auditor

✓ Audit Report

✓ Bank Audit Approach

- Conducting a Bank audit

- Assessing risk of fraud

(iii) Types and Classification of Advances

(iv) Computation of Drawing Power

(v) Audit of Advances

(vi) " " Revenue Items (Incomes)

(vii) " " " " (Expenses)

I. Banking operations:

(a) Types of Banks:

→ Commercial Banks

→ Regional Rural Banks

→ Co-operative Banks

→ Payment Banks

→ Development Banks

→ Small Finance Banks

(Reading from book)

(b) Regulatory Body and its function: RBI

(c) Banking operations: are carried at Branch level.

(d) Regulatory Framework:

Imp:

(e) Peculiarities of Banking operations:

(i) Voluminous and complex transactions.

(ii) Extensive use of technology.

(iii) Wide spread network of branches/offices.

(iv) Diversified and large range of products and services

(v) strict vigilance and compliance requirements.

(f) Form and context of F.S: 3rd Schedule of Banking Regulation Act, 1949.

Form A - B/S ; Form B - P&L A/c.

II. Auditing Framework:

(A) Auditor: (i) Eligibility: Auditor of a Banking Company shall be duly qualified as per the requirements of Sec. 141 of Companies Act, 2013.

Imp.

- (ii) Appointment
- Banking Company: at the AGM (with approval of RBI).
 - Nationalised Bank: Appointed by bank through BOD (with approval of RBI).
 - State Bank of India: by CAG in consultation with C.G.
 - Regional Rural Bank: by bank with approval of C.G.

(iii) Remuneration:

- Banking Company: shall be determined as per Sec. 142 of Companies Act, 2013
- Nationalised banks including SBI: RBI in consultation with C.G.

(iv) Power w.r.t. access to books, accounts, documents and vouchers:
same as that of Company Auditor.

(B) Types of Audit Report:

(i) Statutory Audit Report in case of nationalised Banks: To be made to C.G.

and state the following:

- F.S. - true and view of affairs | Info. and explanations - provided/satisfactory.
- whether transactions - within the power of bank;
- whether returns received from branches are adequate for audit purposes;
- whether P&L A/c - true and fair view of Profit or loss for the period.
- Any other Matter which auditor considers to be brought to notice of C.G.

(ii) Format of Report: should be in compliance with Standards on Auditing.

- Info. as to no. of unaudited branches is to be specified in audit report.

Audio
O.K.:
Refer

- Reporting requirements of S 143(3) and Rule 11 of CAAR, 2014 are applicable in case of Audit of banking company.
- Reporting under CARO, 2020 - not applicable.

(iii) Additional reports to be issued by statutory auditor:

(Learning + Noting - How) - Any four points.

- IFC - adequacy and op. effectiveness of S 143(3)(i)
- LFAR
- Compliance with SLR Requirements
- " " IRAC Norms
- Treasury operations
- Serious Irregularities
- Ghosh / Kilari Committee
- Adverse Credit - deposit Ratio.

(iv) LFAR: - LFAR has to be furnished by auditor in addition to main report.

- Matters to be reported in LFAR - specified by RBI.
- LFAR is to be submitted before 30th June Every Year.
- auditor should make proper plan for timely submission of LFAR.
- While LFAR does not require any executive summary of observations, auditor may consider providing the same to bring out the key observations from the whole document.

(v) Reporting of fraud to RBI:

- Circular issued by RBI regarding "liability of accounting and auditing Profession" states that if an accounting professional, during the course of internal or external audit finds anything suspicious or fraudulent activity or act of excess power, he should refer the matter to the regulator (RBI).

- Any deliberate failure on part of auditor shall render him liable for action.
- Reporting is required in case of all Scheduled Commercial Banks.
- While reporting such matters, auditor need to consider the requirements of SA-250 "Consideration of Laws and Regulations in Audit of F.S.".
- SA-240 also requires the auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements, whether caused by fraud or error.

(C) Bank Audit Approach:

- (i) Drawing an audit plan
- (ii) Control Environment at Bank

- heading from book -

Imp's (iii) Engagement Team Discussion:

(A) Matters to be discussed among ET:

(B) Benefits of discussion:

(Learning and Noting - H.W.)