

PAGE

I-3

Syllab	nmended hus ter-heads	Reading	I-5 I-7 I-11
MOI	DULE A	: INTRODUCTION AND TYPES OF A	JDIT
II.	NIT 1 ITRODU(UDIT	CTION TO AUDITING AND TYPES OF	
1.1	Object	ives	5
	1.1.1	Introduction	5
	1.1.2	Origin and Evolution	6
	1.1.3	Definition of Auditing	8
	1.1.4	Features of Auditing	9
	1.1.5	Why is it important to have an audit?	10
	1.1.6	What is the main purpose of an audit?	10
	1.1.7	Scope of Audit	10
	1.1.8	Objectives of Auditing	11
	1.1.9	Advantages and inherent limitations of Audit	14
1.2	Types o	of Audit	16
1.3	Distinc	ction between Accounting and Auditing	21
1.4	Distino	ction between Auditing and Investigation	22
1.5	Let us 3	Sum up	23

Foreword

			PAGE
1.6	Key We	ords	23
1.7	Check	Your Progress	24
1.8	Answer	rs to Check Your Progress	25
	NIT 2 ANK AU	IDIT AND VARIOUS TYPES OF	-
A	UDITS II	N BANKS	
2.0	Object	ives	29
2.1	Bank A	audit	29
	2.1.1	Meaning	29
	2.1.2	Introduction	29
	2.1.3	Emergence of Risk-based Internal Audit and its significance	31
2.2	Types o	of Bank Audits	31
	2.2.1	Concurrent audit	32
	2.2.2	Internal Audit/Information Systems Audit	35
	2.2.3	Statutory Audit	41
	2.2.4	Various types of audit undertaken by Banks (other than Concurrent Audit, Internal Audit & Statutory Audit)	44
2.3	Let us S	Sum up	52
2.4	Key Wo	ords	52
2.5	Check	Your Progress	52
2.6		to Check Your Progress	54
U	NIT 3		_
	ISK-BASI PPROAC	ED SUPERVISION - A NEW	
3.0	Object	ives	57
		Introduction	57

	CONTENTS	
		PA
3.1.2	Definition	
3.1.3	Objectives of RBS	
3.1.4	Focus of RBS	
3.1.5	Reasons for switch over to RBS	
3.1.6	Supervisory Tools	
	used Supervision - A Supervisory nme for Assessment of Risk & Capital C)	
3.2.1	SPARC Framework	
3.2.2	Salient Features of SPARC	
3.2.3	Stages in SPARC	
3.2.4	Risk Discovery Process (RDY)	
Integra Model	ted Risk and Impact Scoring(IRISc)	
3.3.1	Scope	
3.3.2	Functioning of IRISc Model	
3.3.3	Supervisory Rating and Action/Intervention matrix	
3.3.4	Supervisory Capital Prescription	
3.3.5	Supervisory Stance/Intervention	
3.3.6	Revised Prompt Corrective Action Framework	
Let us s	sum up	
Key Wo	ords	
Check?	Your Progress	
Answer	s to Check Your Progress	



4.0 Objectives

79

		PAGE
4.1	Internal Audit	<i>79</i>
4.2	Evolution of Internal Audit	80
4.3	Role of Internal Audit	82
4.4	Facets of Internal Audit	83
4.5	Latest Developments - Indian Scenario	83
4.6	Internal Audit as an invaluable source to the Management and Audit Committee in Corpo- rate Governance Mechanism	87
4. 7	Let us Sum up	87
4.8	Key Words	88
4.9	Check Your Progress	88
4.10	Answers to Check Your Progress	90
5.0	SK-BASED INTERNAL AUDIT IN BANKS Objectives	95
	,	
5.1	Introduction	95
5.2	What is risk-based auditing?	96
5.3	Need for adoption of Risk Based Internal Audit in Banks	97
5.4	Objectives of Risk-based Internal Audit	98
5.5	Scope of Risk-based Internal Audit	98
5.6	Comparison of RBIA with Traditional Internal Audit	100
5. 7	Reserve Bank of India (RBI)/Ministry of Finance, Govt. of India (MOF, GOI) Guidelines	103
5.8	Implementation of RBIA	104
5.9	Standards for Internal Auditors	117
5.10	Skills needed to perform Risk Based Internal Audit	117
5.11	Code of Ethics	118

		CONTENTS	S
			PAGE
5.12	Confid	entiality	118
5.13	Benefit	s and drawbacks of RBIA	118
5.14	agemer	nce between Functions of Risk Man- nt Department (RMD) and Role of Risk Internal Audit (RBIA)	120
5.15	Let us S	Sum up	121
5.16	Key We	ords	121
5.17	Check	Your Progress	121
5.18	Answer	rs to Check Your Progress	123
U RI	NIT 6 SK BAS	ED INTERNAL AUDIT PROCEDURES	-
6.0	Object	ives	137
6.1	The In	ternal Audit Process - Theory Part	137
	6.1.1	Planning Process (Three stages)	138
	6.1.2	Planning Process - Procedure Part	138
	6.1.3	Execution Process - Theory Part	140
	6.1.4	Execution Process - Procedure Part	143
6.2		ased Internal Audit (RBIA) Policy for Audit (Domestic)	143
	6.2.1	RBIA documentation	144
	6.2.2	RBIA Procedure Document	144
	6.2.3	RBIA - Five Dimensions	145
	6.2.4	The methodology and the parameters used for the assessing the risk rating of Branches	147
	6.2.5	Usage of Risk Score	153
	6.2.6	Audit Prioritization/Updation of Risk	153

			PAGE
	6.2.7	Developing an Internal Audit Plan and obtaining Approval of the Audit Committee	153
	6.2.8	Submission of RBIA Reports	154
	6.2.9	Compliance and Follow up for Compliance of Audit Report, Updated Risk Profile	155
	6.2.10	Level of Authority for closure of Audit Reports	156
6.3	Role of	Audit Committee of the Board	157
6.4	Internal	tackle difficult situations faced by the Auditors during the course of Internal ssignment?	158
	6.4.1	Modern Approach	162
	6.4.2	Case Study on Root Cause Analysis	163
6.5	Analytic	cal Procedures	167
	6.5.1	Nature and purpose of Analytical Procedures	168
	6.5.2	Use of "data analytics" on the audit front	169
6.6	The Wa	y Forward Future of Audit	170
6. 7	ICAI's S	Standards on Internal Audit (SIA)	173
6.8	Let us S	Sum up	177
6.9	Key Wo	ords	178
6.10	Check Y	Your Progress	178
6.11	Answers	s to Check Your Progress	180
	NIT 7 SK MAN	IAGEMENT	
7 .0	Objecti	ves	199
7.1	,	on of Internal Auditing & Risk Manage-	199

			IIBF
			PAGE
7.2	Relatio Manag	nship between Internal Audit and Risk ement	201
7.3	Risk M	anagement Architecture	202
	7.3.1	An effective risk management system - Requirements	202
	7.3.2	Risk focused approach	208
7.4		FInternal Audit in Risk Management and ng areas on Management of Risks	208
	7.4.1	Internal Auditor's Role	209
	7.4.2	Internal Audit Process	210
	7.4.3	What is the Organization's 'Risk Maturity'?	211
7.5	Let us S	Sum up	216
7.6	Key We	ords	216
7. 7	Check	Your Progress	217
7.8	Answer	rs to Check Your Progress	218
D		IALYTICS AND CONTINUOUS S MONITORING	-
8.0	Object	ives	223
8.1	Introdu	action	223
8.2	Data aı	nalytics for business decision making	224
	8.2.1	Business side of Analytics	225
	8.2.2	Audit side of Analytics	227
8.3	Compu	iter aided audit techniques (CAATs)	227
	8.3.1	Data analytics matrix	232
	8.3.2	The different types of CAATs	233

CONTENTS

			PAGE
	8.3.3	Three types of General Audit Software for Data Analysis	234
	8.3.4	Benford's Law of Digital Analysis - Law of expected digital frequencies	234
8.4	Contin	uous Controls Monitoring and Continuditing	236
	8.4.1	Need for Continuous controls monitor- ing and Continuous auditing	237
	8.4.2	How to best implement continuous auditing to benefit the organization?	238
	8.4.3	Difference in Continuous Monitoring and Continuous Auditing	238
	8.4.4	Benefits of Continuous Monitoring and Continuous Auditing	239
8.5	Let us S	Sum up	240
8.6	Key Wo	ords	241
8.7	Check T	Your Progress	241
8.8		rs to Check Your Progress	242
МО	DULE C	: AUDIT IN COMPUTERISED ENVIRONMENT	
.	JNIT 9		
		COMPUTERISED INFORMATION SYSTEM IRONMENT - AN INTRODUCTION	
9.0	Objecti	ives	255
9.1	,	tanding CIS Environment	255
	9.1.1	Introduction	255

Definition and Meaning of Terminology used

257

9.1.2

3 **CONTENTS PAGE** Difference between Data and Informa-258 9.1.3 tion 259 9.1.4 Relationship between Systems 9.2 CIS Auditing Objectives 259 Scope of Audit in CIS Environment/Impact of 9.3 259 CIS on Auditing 9.4 Impact of changes on Business Process (Due to 264 Automation) Impact of changes on data processing, sharing & 9.5 266 storage/file system and organizational structure & Internal Control base 9.6 Impact of changes in business process, data pro-271 cessing & storage/file system on auditing Audit Approach in CIS Environment 272 9.7 **Auditing Standards** 9.8 275 Let us Sum up 9.9 279 Key Words 9.10 280 9.11 Check Your Progress 280 Answers to Check Your Progress 9.12 282 UNIT 10 **AUDIT IN COMPUTERISED ENVIRONMENT** 10.0 **Objectives** 285 10.1 Introduction 285 Types of Computer Systems 10.1.1 286 Classification of Computer Systems and 286 10.1.2 its description Effects of Computers on Internal Control and 10.2 291 Auditing Effects of Computers on Internal Con-10.2.1 291 trol Effects of Computers on Audit 10.2.2 295

		PAGE
10.3	Internal Controls in a CIS/Computerised Envi-	296
	ronment	
	10.3.1 Consideration of Controls Attributes by the Auditors	298
10.4	Internal Control Requirements under CIS/Computerised Environment	299
10.5	Approach to Auditing in a CIS/Computerised Environment	302
10.6	The Control concerns arising from use of IT by Banks	303
10.7	RBI guidelines on conduct of is Audit suitable to the IT environment	305
10.8	Various Circulars issued by RBI on matters pertaining to Risk Management & Controls in CIS environment	306
10.9	Let us Sum up	307
10.10	Key Words	307
10.11	Check Your Progress	308
10.12	Answers to Check Your Progress	309
MOD	ULE D: AUDIT ASPECTS OF FINANCIAL STATEMENTS OF BANKS	1
	NIT 11 JDIT ASPECTS OF ADVANCES	
11.0	Objectives	317
11.1	Introduction	317
	11.1.1 Amounts disclosed in the Balance Sheet under the head 'Advances'	317
	11.1.2 Balance Sheet Disclosure	318

			iibr j
			PAGE
	11.1.3	Classification of Advances as per RBI Prudential Norms	320
11.2	Audit o	f Advances - Audit Approach in general	321
	11.2.1	Gist of areas covered by auditors	321
	11.2.2	Audit procedures generally adopted by the auditor in case of Audit of Advances	321
	11.2.3	Substantive Procedures	324
11.3	Audit o	f Agriculture Advances	325
	11.3.1	Type of Agriculture Advances	325
	11.3.2	NPA Norms - Agricultural Advances	326
	11.3.3	Agriculture Advances affected by Natural Calamities	327
	11.3.4	Audit approach for Agriculture Advances	327
11.4	Audit o Advance	of Advances - Other than Agriculture	329
	11.4.1	Nature & Type of advances (other than Agriculture)	329
	11.4.2	Regulatory Aspects	331
	11.4.3	Audit of advances (other than Agriculture Advances) procedures	336
	11.4.4	How to Plan comprehensive coverage of advances	337
	11.4.5	Computation of Drawing Power/Limits in respect of stocks hypothecated	338
	11.4.6	Long Form Audit Report (LFAR)	339
	11.4.7	Examining the validity of Recorded Amounts	340
	11.4.8	Examination of Loan Documents	340
	11.4.9	Review of operation of account	341

			PAGE
	11.4.10	Inter Bank Participation Certificates (IBPCs)	342
	11.4.11	Verification of Security against Advances	342
	11.4.12	Examination of Advances classified as 'Secured'	345
	11.4.13	Verification of different types of securities against advances generally accepted by Banks	346
11.5	Verificat assets	tion of Provision for Non-performing	347
	11.5.1	Asset Classification	347
	11.5.2	Drawing Power Calculation	350
	11.5.3	Lending under Consortium Arrangement/Multiple Banking Arrangements	350
	11.5.4	Retail Assets	351
	11.5.5	Restructuring of cases	351
	11.5.6	Audit procedure for accounts falling under CDR Programme	353
	11.5.7	Scheme for Sustainable Structuring of Stressed Assets (S4A)	354
	11.5.8	Resolution of Stressed Assets - Revised Framework	354
	11.5.9	Non-applicability of the guidelines on revised framework for resolution of stressed assets issued by RBI on 12/02/2018	357
	11.5.10	Sale/Purchase of NPAs	357
11.6	Let us S	um up	358
11.7	Key Wo	rds	359
11.8	Check Y	Your Progress	360
11.9	Answers	to Check Your Progress	362

UNIT 12



PAGE

ST	UDIT ASPECTS OF BANK'S FINANCIAL TATEMENTS - ASSETS SIDE (OTHER THAN DVANCES)	
12.0	Objectives	367
12.1	Disclosure requirement under Banking Regulation Act, 1949	367
	12.1.1 Introduction	367
	12.1.2 Balance Sheet Disclosure	368
	12.1.3 Balances with RBI and with other Banks	369
	12.1.4 Money at call and short notice	370
	12.1.5 Fixed Assets	370
	12.1.6 Other Assets	371
12.2	Audit Approach/Procedures	372
12.3	Let us Sum up	386
12.4	Key Words	386
12.5	Check Your Progress	387
12.6	Answers to Check Your Progress	389
A	NIT 13 UDIT ASPECTS OF CAPITAL, RESERVES & JRPLUS AND BORROWINGS & DEPOSITS	
13.0	Objectives	393
13.1	Introduction	393
13.2	Balance Sheet Disclosure	393
13.3	Contents of Schedules 1 and 2 (Capital and Reserves & Surplus)	396
13.4	Audit Approach and Procedures	405
13.5	Let us Sum up	410
13.6	Key Words	410

			PAGE
13.7	Check Y	Your Progress	410
		s to Check Your Progress	412
ı Ul	NIT 14		
A	JDIT AS	PECTS OF OTHER LIABILITIES & NS AND CONTINGENT LIABILITIES	-
14.0	Objecti	ves	417
14.1	Other l	iabilities and provisions and contingent	417
	14.1.1	Introduction	417
	14.1.2	Balance Sheet Disclosure	418
14.2	Contentication then tication and the second terms of the second te	ts of Schedules 5 and 12 and their aution	418
	14.2.1	Schedule 5 - Other Liabilities and Provisions	418
	14.2.2	Schedule 12 - Contingent Liabilities	420
		Bills for Collection	422
14.3	Audit A	approach and Procedures	423
	14.3.1	Schedule 5 - Other Liabilities and Provisions	423
	14.3.2	Schedule 12 - Contingent Liabilities	423
		Bills for Collection	427
14.4	Let us S	oum up	428
	Key Wo	-	428
14.6	Check Y	Your Progress	428
		s to Check Your Progress	430
Al		PECT OF TREASURY OPERATIONS - DERIVATIVE TRANSACTIONS	-
15.0	Objecti	ves	433

			IIBF
			PAGE
15.1	Overvie	ew of Treasury Operations in a Bank	433
	15.1.1	Core functions of Treasury Operations	433
	15.1.2	Increasing Regulation and Compliance	434
		Requirements	
15.2	Investm	nents (Schedule 8)	435
	15.2.1	Disclosure requirements	435
	15.2.2	Statutory and Regulatory Requirements	436
	15.2.3	Legal Requirements	438
	15.2.4	Guidelines of the RBI regarding transac-	439
		tions in Securities	
	15.2.5	Audit Approach and Procedures (Invest-	440
		ments)	
15.3	Classific	cation of Investments as NPI/Income Re-	445
	cognitio	on Norms	
	15.3.1	Non-Performing Investments (NPI)	445
	15.3.2	Classification of Govt. Guaranteed Investments as NPI	446
	15.3.3	Audit Aspects (NPI)	446
	15.3.4	•	447
15.4	Forex a	nd Derivatives	448
	15.4.1	RBI Guidelines on Derivatives	448
	15.4.2	Audit Approach (Forex & Derivatives)	450
15.5	CRRan	ad SLR requirements under B.R. Act, 1949	457
	15.5.1	Compliance with CRR and SLR require-	457
		ments	
	15.5.2	Audit Approach and Procedures	459
15.6	Let us S	Let us Sum up	
15.7	Key Wo	ords	461
15.8	-	Your Progress	461
15.9	Answers to Check Your Progress		463

	_
ı	
ı	an I
ı	
ı	IIBF
L	IIBF

			PAGE
u UI	NIT 16		
		PECTS OF PROFIT AND LOSS	-
	CCOUNT	Leto of India And Loop	
160	01: .:		407
	Objecti		467
16.1	Preparation of Profit and Loss Account in Prescribed Format		467
	16.1.1	Introduction	467
	16.1.2	Disclosures	467
	16.1.3	Accounting Policies/Accounting Standards	468
16.2	Conten	ts of Various Schedules to Form B	469
16.3	Audit A	approach and Procedures	470
	16.3.1	Audit procedures in case of income and expenditure	471
16.4	Let us S	Sum up	481
16.5	Key Wo	ords	481
16.6	Check Y	Your Progress	482
16.7	Answers	s to Check Your Progress	484
U	NIT 17		
	SCLOSUI	RE REQUIREMENTS IN FINANCIAL	_
17.0	Objecti	ves	489
17.1	Importance of 'Disclosures' in financial statements		489
	17.1.1	Introduction	489
	17.1.2	Classification of Disclosure Requirements	490
	17.1.3	Minimum Disclosures prescribed by RBI	490
	17.1.4	Disclosure Required under Accounting Standards (AS)	490

		CONTENTS	B IIBF
			PAGE
	17.1.5	Requirements of statutes	491
	17.1.6	Requirements of Listing Agreement	491
17.2	Presenta	ation (Schedules 17 & 18)	491
17.3	Audit A	pproach	496
17.4	Let us S	Sum up	497
17.5	Key Wo	ords	498
17.6	Check Y	Your Progress	499
17.7	Answers	s to Check Your Progress	501
A		PECTS OF CONSOLIDATION OF ACCOUNTS	-
18.0	Objecti	ves	505
18.1	Consoli	dation of Branch Accounts	505
	18.1.1	Introduction	505
	18.1.2	Process of Consolidation	506
18.2	Audit A	pproach	507
	18.2.1	Audit Approach at RO/ZO level	507
	18.2.2	Audit Approach to be followed by Financial Statements Consolidating Auditor	507
	18.2.3	Audit Approach to be followed by the Statutory Central Auditors	507
	18.2.4	Consolidation of Overseas Branches' Financial Statements	508
18.3	Let us Sum up		508
18.4	Key Wo	ords	509
18.5	Check Y	Your Progress	509
18.6			510

			PAGE
U	NIT 19		
		PECTS OF CONSOLIDATION OF L STATEMENTS	-
19.0	Objecti	ve	515
19.1	Guidelines on Consolidated Accounting/Consolidated Supervision		515
	19.1.1	-	515
	19.1.2	Consolidated Financial Statements (CFS)	515
	19.1.3	Components of Consolidated Financial Statements (CFS)	516
	19.1.4	Format of Consolidated Financial Statements (CFS)	516
	19.1.5	Responsibility of a Bank	517
	19.1.6	Responsibility of the Statutory Central Auditor	517
19.2	Audit A	approach and Procedures	518
19.3	Let us S	Sum up	520
19.4	Key Wo	ords	521
19.5	Check Y	Your Progress	521
19.6	Answers	s to Check Your Progress	522
U	NIT 20		
A	JDIT AS	PECT OF INTER-OFFICE TRANSAC-	_
TI	ONS		
20.0	Objecti	ves	527
20.1	Inter-O	ffice Transactions	527
	20.1.1	Introduction	527
	20.1.2	Major transactions which occur between Branches and HO	527

		CONTENTS	S)
			PAGE
	20.1.3	Major types of error in inter-Branch Transactions	528
20.2	Audit A	approach/Procedures	529
20.3	Let us S		532
20.4	Key Wo	ords	533
	•	Your Progress	533
		s to Check Your Progress	533
U	NIT 21		
	NG FOR	RM AUDIT REPORT OF BANK	-
21.0	Objecti	ve	537
21.1	LFAR		537
	21.1.1	Introduction	537
	21.1.2	Definition of LFAR	537
	21.1.3	Latest RBI guidelines on submission of LFAR by Concurrent Auditors	538
21.2	Audit A	pproach/Procedures	538
	21.2.1	Important aspects of LFAR which require special attention while reporting in Long Form Audit Report	538
	21.2.2	Do's and Don'ts in preparation of the LFAR	539
	21.2.3	Some Important Areas to be considered by the Branch Statutory Auditor at the time of compilation of LFAR	540
	21.2.4	Illustrative list/Information which is required for compilation of LFAR by Branch Statutory Auditor	541
	21.2.5		542

			PAGE
21.3	Let us S	oum up	543
21.4	Key Words		
21.5	Check Your Progress		
		s to Check Your Progress	544
■ UI	NIT 22		
		RM AUDIT REPORT OF HEAD OFFICE	
22.0	Objecti	ves	569
22.1	LFAR		569
	22.1.1	Need to obtain LFAR from the Statutory Auditors	569
	22.1.2	Importance of LFAR	569
	22.1.3	Coverage of LFAR & Audit Aspects	570
	22.1.4	Additional areas which needs to be considered by the Statutory Auditors	573
	22.1.5	Income Tax Liability	574
	22.1.6	Employee Benefits (AS 15)	574
	22.1.7	Off-Balance Sheet exposures	574
22.2	Ghosh	Committee Recommendations	574
	22.2.1	Implementation of Ghosh Committee Recommendations	574
22.3	Jilani C	ommittee Recommendations	575
	22.3.1	Implementation of Jilani Committee Recommendations	575
	22.3.2	RBI's Recommendations	576
22.4	Respon	sibility of Implementation of the Ghosh Jilani Committee Recommendations	576
	22.4.1	Responsibility of the Management	576
	22.4.2	Responsibility of the Statutory Auditors	577
	22.4.3	Audit Procedures	577

3 **CONTENTS PAGE** 578 22.5 Let us Sum up 22.6 Key Words 578 Check Your Progress 578 22.7 Answer to Check Your Progress 579 22.8 UNIT 23 **BASEL III REGULATIONS AND DISCLOSURES** 605 23.0 **Objectives** Need to have Capital Adequacy Norms 23.1 605 606 **23.1.1** Basel Capital Adequacy Norms 23.1.2 The major changes made in Basel III 606 over Basel II 23.1.3 Capital to Risk-weighted Assets Ratio 607 (CRAR) **23.1.4** Treatment of certain Balance Sheet items 608 **23.1.5** Credit agencies accredited for the purpose 608 of risk weighting the Banks' claims for Capital Adequacy purposes **23.2** Disclosure (Pillar 3) Framework 609 23.3 RBI Guidelines on Basel III - Capital Regulations 609 23.3.1 Role of Statutory Auditors of Banks 609 **23.3.2** Scope of Statutory Audit 610 **23.3.3** Role of Branch Statutory Auditors 610 **23.3.4** Role of Statutory Central Auditors 611 23.3.5 Illustrative Audit Checklist for Capital 611 Adequacy 615 23.4 Let us Sum up Key Words 616 23.5 616 23.6 Check Your Progress Answers to Check Your Progress 618 23.7