“ A STUDY ON BANK AUDIT’’

A Project Submitted to
University of Mumbai for Partial Completion of the Degree
of Bachelor in Commerce (Banking and Insurance)
Under the Faculty of Commerce

By

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Under the Guidance of
‘ASST. PROF. DR. KISHOR CHAUHAN’

JNAN VIKAS MANDAL’S
Mohanlal Raichand Mehta College of Commerce
Diwali Maa College of Science
Amritlal Raichand Mehta College of Arts
Dr. R.T. Doshi College of Computer Science
NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)
Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

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CERTIFICATE

This is to certify that **Ms. Neha Lalchand Jaiswar** has worked and duly completed his Project work for the degree of Bachelor in Commerce (Banking and Insurance) under the Faculty of Commerce in the subject of Banking and Insurance and his project is entitled, **"A Study On Bank Audit "**. Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,

ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

DECLARATION

I the undersigned **Ms. Neha Lalchand Jaiswar** here by, declare that the work embodied in this project work titled **" A Study On Bank Audit "**,forms my own contribution to the research work carried out by me under the guidance of **ASST.PROF. DR. KISHOR CHAUHAN** is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

Name and Signature of Learner

Neha Lalchand Jaiswar

Certified by:

ASST. PROF. DR. KISHOR CHAUHAN.

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CHAPTER NO:1

INTRODUCTION

INTRODUCTION

Auditing means to inspect, examine, checking, investigate, scrutinize, company accounts. auditing is a systematic examination and verification of firms books of accounts, transactions records, other relevant documents and physical inspection of inventory by qualified accountants called auditors.

1.1 Origin

The term audit is derived from Latin word 'audire' which means to hear. Auditing is as old as accounting. It was used in all ancient countries such as Greece, Egypt, Rome, U.K, India.The main objective of auditing is to ascertain the accounts were true and fair and to detect and prevent errors and frauds.

The International Accounting Standard Committee and the Accounting Standard Board of the Institute of Chartered Accountants of India have developed standards accounting and auditing practices to guide the accountants and auditors in the day today work.

1.2 Definition

1. PROF.L.R.Dicksee, "auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions of which they relate."
2. R.K.Mautz,"auditing is concerned with the verification of accounting data determining the Accuracy and reliability of accounting statements and reports."

1.3 Functions:-

1. Study The Accounting System :- It is the basic function of auditing. In order to determine the nature, timing and extent of the audit procedures auditor should study the accounting system.

2. Internal Control System :- It is a process which determines that managementpolicies are carried out according the accounting principles. This system is very useful to safeguard the interest of the enterprise. The auditor determines the effectiveness of this system.

3. Vouching :- This function is essential to determine the accuracy of accounting record. Through audit those documents can be checked which support and prove the business transactions. all entries in books of accounts are made on the basis of relevant vouchers.

4. Verification Of Assets :- It is the function of auditing that it should verify the assets of the business. It is concerned with the determination of value, ownership and possession of business asset. The auditor can check the existence of asset

5. Legal Requirement :- It is the function of auditing to verify that statements are prepared Under the legal requirements or not. There are various laws like company and income tax Ordinance which are introduced by the govt.

6. Liabilities Verification :- The liabilities of the business can be verified from the books of Accounts. The auditor can write a letter to the creditors for the verification of liabilities. The Auditor must receive the certificate from the management in this regard.

7. Capital And Revenue :- Auditing should make difference between capital and revenue items.The capital items are compared to note the financial position of the business. The revenue items Are compared to determine the income. The income and expenses related to many years can be Divided in current and coming year.

8. Valuation Of Liabilities :- Through auditing value of liabilities can be checked from the Books of accounts and other papers. The auditor can also confirm the value from outside sources. The value of liabilities is given in the balance sheet by the management but it is the function of Auditing which confirms this value.

9. Valuation Of Assets :- The management gives the value of assets and auditor can apply the Accounting principles to assess the value of assets. The auditor critically examines and takes help From the expert

10. Reporting :- Auditing important function is reporting. Auditor is an independent person and It is his duty to submit his report in writing. If he is satisfied he can present clean report Otherwise he can give qualified report.

1.4Types of Bank Audit

There are many types of bank audits: risk-based internal audit, statutory audit and tax audit, stock audit, credit audit, RBI inspection system audit, forensic audit, concurrent audit, snap audit, and foreign exchange.

➢ Risk-based internal audits provide reasonable assurance to top management and the Board about the effectiveness and adequacy of the risk management and control framework in the institutions' operations.

➢ A statutory audit is carried out by chartered accountants instructed by a statute or law to ensure that the books of accounts presented to different regulators and the public are fair.

➢ RBI inspection of bank branches empowers the Reserve Bank of India to supervise and inspect commercial banks.

- ➢ Credit audit can bring out the spaces in the processing and sanctioning loans and monitoring loan accounts and wrong documentation.
- ➢ According to the bank's stock audit policy, the bank's external auditors shall inspect assets charged to the bank once or twice a year as desired by the bank.
- ➢ A forensic audit examines a company's financial records to derive evidence from them and use it in a court of legal proceedings.

➢ The forensic auditor's report can help prosecute the parties involved in embezzlement, fraud, or other financial misappropriations.

1.5 ADVANTAGES & LIMITATIONS OF BANK AUDITING

Advantages of Bank Audit

With the constant evolution of the financial industry, banks and financial institutions face a wide range of challenges, including changing regulations, increasing competition, and evolving technology. In this context, internal audit procedures provide a crucial tool for banks to manage risks, ensure compliance, and enhance their overall performance.

1.Compliance With Regulations And LAW

Internal audit procedures help banks to comply with various regulations and laws that govern the banking industry. By conducting regular audits, banks can ensure that they are adhering to all relevant laws and regulations, thereby avoiding legal and financial risks. Internal audit procedures also provide banks with the necessary information to make any necessary changes to their operations to remain compliant with changing regulations.

Detection And Prevention of Fraud And Financial Crimes

It can help banks to detect and prevent fraud and financial crimes, such as money laundering, terrorist financing, and embezzlement. By conducting regular audits, banks can identify potential fraud risks and weaknesses in their internal controls, which can then be addressed to prevent fraudulent activities from occurring. Internal audit procedures also provide banks with an opportunity to educate their staff on the risks of fraud and financial crimes, helping to build a culture of compliance and integrity.

3. Operational Efficiencies And Cost Savings

It can help banks to identify operational inefficiencies and recommend improvements to increase efficiency and reduce costs. By reviewing the bank's processes, it can identify areas where automation or streamlining can be implemented to increase efficiency and reduce costs. By improving operational efficiencies, banks can improve customer satisfaction and profitability.

4. Enhanced Reputation And Customer Trust

It provides independent assurance to customers and stakeholders that the bank’s operations And internal controls are effective. This helps to build trust with customers and enhances the bank’s Reputation. By conducting regular audits, banks can demonstrate their commitment tomaintaining High standards of integrity and transparency, thereby building confidence in the bank’s ability to Manage risks and provide reliable financial services.

5.Assurance to the Owners/Investors

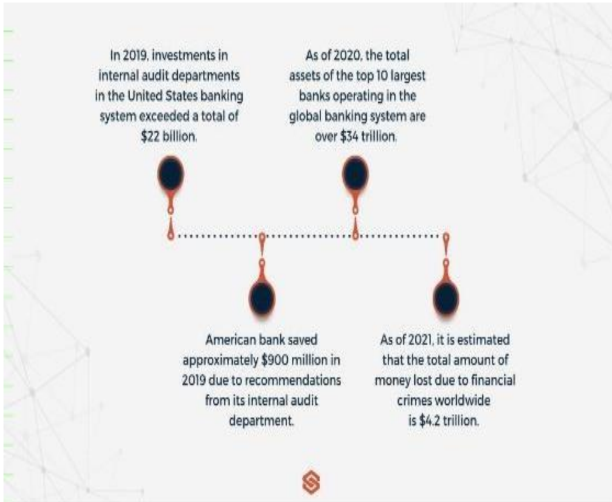
One of the biggest advantages of auditing is that it offers assurances to the owners, Investors, shareholders etc. The owners of the business will be assured about the accuracy of their Books of accounts. They will be satisfied with the workings of their various departments and the Overall efficiency and profitability of their business operations. It is the same case with investors, Who will find assurance in the books of accounts after auditing.

6.Errors and Frauds

An error is something that is done without the intention to fraud the company, it is an Innocent mistake. Fraud, on the other hand, is deliberate. During the process of auditing, both Errors and frauds are discovered. Auditing also helps prevent such errors and frauds. It creates a Fear of being detected.So auditing helps us minimize the risks of errors and frauds in our books of Accounts but does not eliminate the risk entirely. There is always the chance that the error may go Unnoticed, and the fraud is very cleverly hidden so may go undetected.

7.Moral Check

One of the other advantages of auditing is that the staff and the workers of the company do Not try to steal or defraud the company. They are under constant scrutiny since they know that the Accounts will be audited. Any irregularities can be identified during such an audit, and they will Be caught eventually. This helps the staff in being honest and responsible at all times



Limitations of Bank Audit

1] Cost Factor:

A very thorough and detailed audit would be a costly affair. It is not cost effective. So the auditor has to limit the scope of his audit and use techniques like sampling and test checking.

2] **Time Factor:**

Auditors generally work on a very specific timeline. Sometimes this is due to statutory requirements. This means he has to audit a whole year's accounts in a few weeks. Hence insufficient time is one of the main limitations of auditing.

3] **Inconclusive Evidence:**

Generally, the audit evidence the auditor collects is persuasive in nature, not conclusive in nature. So there is never cent percent conclusive evidence in most cases while auditing .This is one of the major limitations of auditing. There also a lot of use of estimates in accounting. The auditor cannot measure or comment on the exact accuracy of these estimates. He has to rely on his knowledge.

4] **Chances of Uncertainty in the Report:**

There can be cases where errors can be found in audit reports if the staff involved is not careful or inexperienced and biased. The report helps in the future planning for the business entity, so any mistake may turn out to be a disaster.

5] **Lack of Participation:**

The planning of an audit program does not include participation in terms of suggestions by efficient and competent staff. So this prevents their application of knowledge and caliber.

Instead, turns into their harassment in a way.

6]**Ignorance of Technology:**

In modern times, the use of technology has been introduced in the process of accounting. The audit process still depends on manual examinations and ignores the internal control based on the particular technology used in the firm. The difference in technology creates a problem, but this audit system does not include prevention measures for these issues.

7**]Less Guaranteed**:

The report does not disclose any details about the data or figures involved in the analysis. So the report does not guarantee any explanations. Most of the components are based on information and disclosures made by departmental personnel of concerned departments.

1.6 Fundamental Principles Governing an Audit:

SA-200 depicts the nine essential rules that administer the method of auditing. It rattles off the

Roles and obligations of the evaluator or auditor and his overall set of accepted rules while

Conducting an audit or review.

A] **Integrity, Independence, and Objectivity:**

The inspector must be candid while during the audit process; he can't be inclining toward the Association. He should stay objective all through the entire cycle, and his trustworthiness should Not permit any negligence. Another significant rule is autonomy or independence, and the Examiner can't have any interest in the association he is inspecting, which permits him to be Autonomous and fair-minded consistently.

B] **Confidentiality:**

The auditor comes across a great deal of sensitive monetary data of the association. It is Significant that he regards the classified genre of such data and archives.He can't uncover any Delicate data to any outsider except if it is a necessity by law. What's more, he should likewise Be extremely cautious with archives, authentications, and so forth that the association shares with Him.

C] **Skill and Competence:**

The examiner should be capable and prepared in the strategies of auditing, for example, he Should be qualified as an examiner. Furthermore, as an expert, he should be aware and upgrade On the latest changes, declarations, rules, and so forth.In the event that is important, he can go Through preparing and prepare to keep up to date with the new accounting and auditing Methodology. For instance, after GST was presented, auditors needed to refresh their insight.

D] **Work Performed by Others:**

The extent of an audit on occasion can be extremely immense. So an auditor can utilise his

Representatives, delegates, and others who work under him.Be that as it may, the reviewer will Keep on being completely liable for the work done by these individuals working for him. So the Evaluator should cautiously oversee and audit such work and be sensibly certain of the precision Of such work.

E] **Documentation:**

Much of the time, the examiner keeps a review notepad, a review or audit plan, and an evaluating Document or an audit file. It is significant the auditor tracks significant reports for his review Work, as it is proof of the work the evaluator has completed. Also, the customer is leaned to these Reports and records, assuming he wishes to examine the work.

F] **Planning:**

A review plan permits the inspector to arrange his work and empowers him to be more proficient And ideal. Each review plan is distinctive as it must be redone as indicated by the type of Association, the sort of business they lead, the extent of the review, the productivity of the inside Controls, and so forth.

G] **Audit Evidence:**

The auditor should gather sufficient proof to help him in his last assessment. This assortment of Such proof is finished by substantive and consistency systems. There are two origins of this proof .

– Inward or internal and outer or external. Likewise, external resources of proof are, in every Case, more dependable

H] **Accounting Systems and Internal Controls:**

The inspector needs to guarantee that the records of the association are exact and address a valid and reasonable image of the monetary status of the organisation. Likewise, the examiner should guarantee that all material data has been recorded in the accounting records. Testing the inside controls framework is likewise significant as it decides something very similar.

I] **Audit Conclusions and Reporting:**

After the examiner gathers all proof, he should now shape his viewpoint based on the accompanying standards:

- All applicable bookkeeping guidelines were applied consistently.
- Budget reports are consistent with all guidelines and legal prerequisites.
- All material data has been revealed.

1.7 THE OBJECTIVE OF AN AUDIT

The objective of an audit is to form an independent opinion on the financial statements of the audited entity. The opinion includes whether the financial statements show a true and fair view, and have been properly prepared in accordance with accounting standards.

A misconception is that auditors are required to identify all misstatements. However, they are responsible for identifying material misstatements, not all misstatements

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The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. The objective of an audit of financial statements is to enable an auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with International Financial Reporting

Standards or another identified financial reporting framework. The auditor's opinion is expressed in by using the phrase 'give a true and fair view' or 'present fairly, in all material respects'. The auditor and the client's management have separate and distinct responsibilities. The auditor is responsible for forming and expressing an opinion on the financial statements. The client's management, on the other hand, bears responsibility for preparing and presenting the financial statements. Management's responsibilities are not relieved by the fact that the statements are audited. An auditor must comply with general principles of an audit. These require an auditor to: 1) comply with the 'Code of Ethics for Professional Accountants' issued by the IFAC (or a national Code of Ethics, where appropriate); 2) conduct an audit in accordance with International Standards on Auditing (ISAs) (where applicable); and 3) plan and perform the audit with an attitude of professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated.

1.8 Window Dressing

What is Window Dressing?

"Window dressing" is commonly used to refer to the way a pedestrian facing the window of a retail business is presented to make their goods look most appealing. However, when it is referenced by the finance world, the term means something slightly different. In finance, window dressing refers to the efforts taken to make the financial statements of a business look better before they are publicly released.

Significance of Window Dressing

For a company, window dressing is important because every business wants its financial information to look as appealing as possible. It is what attracts new business opportunities, investors, and even consumers.

The downside to window dressing is that, on the whole, it’s looked at with skepticism. Window dressing comes with at least a slightly negative connotation. This is because it can – and sometimes does – involve making unethical or even illegal changes to numbers, charts, timelines, orders, etc., to make the financial picture of a company look the most appealing to outsiders.

Final Word

Window dressing is a short-term strategy used by companies and funds to make their financial reports and portfolios look more appealing to clients, consumers, and investors. The goal is to attract more people and more money, hopefully boosting the next reporting period’s bottom line.

Window Dressing and Mutual Funds

Window dressing is often performed heavily with mutual funds. At the end of a reporting or financial period, mutual funds often quickly sell stocks in their portfolio that are not performing well. The money generated from the sales is then used in a quick turnaround to buy shares of stocks in the high-performance range. The end-of-period "rebalancing" of the fund's assets is designed to make the fund appear better than it actually is at selecting winning stocks.

Through window dressing, mutual fund owners and managers are making the fund look more promising. Potential investors see the fund full of high-performing stocks – and don't see the poorperforming stocks that were recently dumped – and are, thus, much more likely to invest in the fund. Such a practice is the primary goal of window dressing – to attract investors and add more income to the investment pool.

Example of Window Dressing

To get a clear picture of what window dressing may look like, consider the following example:

Company ABC is in the process of generating its financial reports for the end of the reporting period. It is looking to make the company appear as attractive as possible to draw in new shareholders and investors. To this end, Company ABC window dresses by suddenly "acquiring" and holding substantial cash to make their company look more liquid – easily able to make loan payments, hand out dividends, or use their substantial cash flow to invest in expanding the business.

The company also tweaks its sales projections, stating them as significantly higher than they probably are in reality. The ultimate goal is to change anything they possibly can to drive their stock price higher and make potential investors more interested.

Window dressing doesn't typically involve making genuinely false representations that will violate the law. It's usually more of a matter of bending but not breaking the truth. For example, Company ABC can make itself appear flush with cash flow by selling a major asset just before the end of the accounting period. They may be neglecting to reveal to investors that they actually need the asset to operate and, therefore, will be buying it right back in the next accounting period.

The company's future sales projections may not be technically false – just a matter of selecting the most optimistic among many estimates arrived at through using several different projection metrics.

1.9 Inconveniences of Auditing:

- The reports of the review go about as proof to roll out significant improvements in the records of the circulation of profits.
- The progressions are adjusted, and it causes the representatives to feel pestered.
- Since the standards and guidelines of business differ every now and then, it influences the aftereffect of the review. o Since the review report is endorsed, there are opportunities for the organisations to carry out misrepresentation, and eventually, it will compel the auditors to perpetrate wrongdoings beyond the review.
- More modest worries that are not considered during auditing are significant but continue with normal exchanges.
- The auditing report is arranged dependent on the data concurred by the customers; thus, it isn't ensured.
- Auditing includes a profound assessment of records, which winds up in additional expenses for the organisation.

1.10 Features of Auditing:

i. Its fundamental target is to discover any mistakes, errors, and frauds in the monetary records. ii. It is directed either by the auditors who have inside and out information on bookkeeping methodology and lawful customs. iii. It guarantees the reality and decency of the fiscal reports in case it mirrors the specific status of the situation of the business. iv. It likewise guarantees that the statements keep the bookkeeping guidelines.

v. It is a precise methodology of analysing the monetary records of an association.

1.11 Statutory Audit of Bank

Statutory audit of banks can be defined as an audit to ensure that the financial statements and books of account presented to the regulators and the public are fair and accurate. It is an audit that is prescribed by a different statute such as Income tax,Reserve Bank of India Companies Act and so on. The Statutory Audit of Banks is mandatory and, the RBI in association with the ICAI appoints Statutory Auditors for the same. At the end of every financial year, a rigorous statutory audit is conducted in every branch of a bank. This article talks about the various essentials of the

Statutory Audit of Banks.

Statutory Audit Process

It is vital that Statutory Auditors ensure that the audit reports issued by them are compliant with the requirements prescribed in following standards.

- Standard of Auditing 700: Forming an Opinion and Reporting on Financial Statements (Revised)
- Standard of Auditing 705: Modifications to the Opinion in the Independent Auditor's Report. • Standard of Auditing 706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised).

Statutory Auditors are generally given a time frame within which they are required to undertake the audit of the bank's branches that are allocated to them. An auditor must accept the appointment immediately and send a formal intimation to the management of the branch and inquire about the information necessary to conduct an audit.

The assigned auditor would have to ensure that their report includes the qualification of deposits, advances, interest income and interest expenses. The essential elements to verify in a statutory audit of a bank are the following.

- Cash Verification Procedure
- Tax-Related Items
- Verification of Loan Accounts

Cash Verification Procedure

A statutory auditor must verify the cash balance at the branch of a bank by the 31st of March of every year. Below is the checklist for cash verification that an auditor must follow.

- ❖ Whether the branch is being opened at the time as indicated in the guidelines and the branch manager is present at the branch when it is being opened.
- ❖ Whether the Joint Custodians are opening the cash safe/ cash vault.
- ❖ If any unrecorded security documents or objects are placed in the cash safe.
- ❖ If the branch is maintaining a record when a currency is accepted from the public. This would also include the records of receiving mutilated notes.
- ❖ If the burglar alarm system is functioning properly.
- ❖ If all the other entrances to the bank and the ones within the bank are locked at the time of opening the cash room.
- ❖ Ensure that any weapon stays outside the cash room when it is being opened or closed.
- ❖ If the cash is being carried from the cash room to the counter and vice versa in a locker box.
- ❖ Ensure that the UV lamps and the cash counting machine are in a working condition.

Loan Accounts Verification

The assets of most banks majorly comprise of loan accounts. A statutory auditor is required to review the loan accounts with extra care.The verification of loan accounts is split into three parts.:-

- ❖ Preliminary Check.
- ❖ Disbursement.
- ❖ Post Disbursement Inspection.

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Preliminary Check

Banks are vested with the responsibility of conducting a preliminary check of all the accounts prior to considering the project for evaluation. A statutory audit must review the documents below for evaluating the bank's preliminary process.

- ❖ Prescribed Application form.
- ❖ Loan Application.
- ❖ KYC Compliance.
- ❖ Latest Audited Financial Statements.
- ❖ Project Report, Projected P&L, Balance Sheet and Cash Flow Statement.
- ❖ Board Resolution for Availing the Credit Facilities.
- ❖ All the Government Department's Registration.
- ❖ Technical Review.

Disbursement

A statutory auditor has the responsibility to check the disbursement and if it happens under the fulfilment of all the terms and conditions of the sanction letter. It should also be ensured that an acceptance letter for the same has also been acquired.

Post Disbursement Inspection

The bank maintains a proper review of the active documents. A statutory auditor has the responsibility to check the following essential elements.

- ❖ There must be an acceptance letter that is duly acknowledged by the borrowers concerning all the loan accounts.
- ❖ There should be a proper execution of the loan documents and records as indicated by the terms and conditions of the sanction letter.
- ❖ All the original documents must be held in safe custody which is fire resistant.
- ❖ Proper maintenance of Confidential Reposts and NOCs from existing bankers.
- ❖ The bank should check the CIBIL Report and Score for any adverse comments.
- ❖ External & Internal Credit Rating
- ❖ Valuation of Securities

- ❖ Due Diligence Certificate
- ❖ Verification of the drawing power of the accounts are calculated precisely, and a margin is maintained according to the sanction letter.
- ❖ Verification of any adverse comments on the audited balance sheet or stock audit reports.
- ❖ Verification of the schedule of payments according to the sanction letter is initiated. Verify the approval document for the same, if any.

The statutory auditor must inspect for any Non-Performing Assets (NPA). Every account must be treated as NPA if they are overdue or stops to generate any income for the bank for 90 days continuously.

Audit Report

A statutory auditor has to submit an audit report after conducting a thorough audit of the bank's branch. An auditor has the responsibility to create a report in which the following has to be stated, as mentioned in the engagement letter.

- ❖ If the balance sheet shows a fair and accurate view of all the essential particulars required to exhibit an honest and right view of affairs within the bank.
- ❖ If the profit and loss accounts display the correct balance for a period covered by such an account.
- ❖ If there were any transactions carried out by the branch which does not come within the power of a bank's branch.
- ❖ Any other issue that the statutory auditor feels that has to be brought to the notice of the Statutory Central Auditor.

Long Form Audit Report (LFAR)

The terms and conditions of Public, Private and Foreign Sector Banks required the branches of the bank to be audited by a statutory auditor and furnish a Long Form Audit Report (LFAR). This LFAR must be issued apart from the standard audit report that is required as per regulatory requirements. The Reserve Bank of India prescribes the matter of the bank that the auditors have to check.

The LFAR of a bank's branch must be submitted before the 30th of June of every year. This means that an auditor has to plan the audit for submitting the LFAR without any delay. An auditor may submit an executive summary of the LFAR if they feel it is required.

1.12 Internal Audit of Banks

Indian banking sector is witnessing major changes in recent years, as a result of which new regulations are being brought into practice. With the implementation of Basel III requirements, more importance is given to risk-based bank audits. With more guidance and circulars from RBI for regulating the banking business in the country, bank's management is focused to bring about a robust framework which will identify, assess and manage the financial risks. In order to achieve this target, the internal audit of banks is necessary.

A periodic Internal audit is required to monitor the bank's system of internal control and procedures. Good internal audit process helps the management in the effective discharge of its responsibilities. It gives them the assurance of the risk and operational performance of the bank. Based on the volume and value of its transactions, every bank should conduct an internal audit to fulfil its responsibilities and to achieve its objectives.

Scope of Internal Audit

Generally, the scope of any bank's internal audit revolves around the following:

I. Evaluating the effectiveness of the internal control systems and monitor its application
II. Review the adequacy of the risk management procedures and methodologies
III. Checking the efficiency of routine operations of the bank
IV. Evaluate the reliability and accuracy of the financial records and reports

V. Review the management information system and the efficiency of the electronic banking services

VI. Implementation of policies and procedures and ensure its effectiveness

VII. Ensure that the procedures comply with the legal and regulatory requirements

VIII. The undertaking of fraud investigations, if required

IX. Ensuring the adequacy of procedures to safeguard the bank's assets

X. Monitoring the bank's Non-Performing Assets (NPA) and alarming the management when required

Independent Functions of Internal Audit

- Bank's internal audit function must be independent of the other audit activities – concurrent audit and control process
- Internal audit team must be given the appropriate authority to carry out their functions with objectivity and must be free to report its findings.
- Internal audit team head should have the authority to communicate findings directly to the board of directors, external auditors, audit committee, etc.
- Internal audit function has to be impartial i.e. it should perform its functions free from bias and interference.
- Internal audit compensation scheme must be consistent with the objectives of the audit and they should be free from any conflict of interest with that of the bank

General Functions of Internal Audit

Audit Plan

Internal audit function begins with the audit plan drafted by the audit team in consultation with the management. This audit plan includes the timing and frequency of the internal audit work to be carried on and it is based on control risk assessment. Risk assessment examines all the bank's activities and internal control system which exhibits the probable degree of risk present in these activities. The audit plan must be realistic and should take into account future developments and expected innovations. Audit plan should also state the time to be assigned for special investigation if any to be undertaken and other activities as and when required. The plan should cover the resources required for carrying out the audit activities in terms of personnel and other resources. Such an audit plan established by the internal audit team has to be approved by the bank's management.

Basel III requirements

Reserve bank of India has already instructed the implementation of Basel III requirements in the banking sector and all the banks are in the process of enhancing their reporting system accordingly.

Some of the Basel implementation steps are listed below:

- Calculation of capital adequacy ratio and regulation of the economic capital
- Improve the supervisory framework
- Validate the internal rating models
- Improving risk management and credit approval methods
- Rigorous bank supervision and broader disclosure in the financials, etc.

With the volume of increasing bank frauds, RBI is bringing in more stringent controls to mitigate the risk involved in the banking sector. Internal audit function is undergoing major changes with the assimilation of international internal audit standards to the banks. It is important for the internal audit team to be vigilant and ensure all related risks are captured carefully.

Benefits of Internal Audit

Listed below are some of the benefits of having a good internal audit system in banks:

a) Overall operational and control environment of the bank is improved
b) Regular internal audit system increases the accountability of the employees
c) Strong internal audit process enables early detection of fraud or probable fraud
d) Identifies redundant procedures and recommends improvement which increases the operational efficiency
e) Constant monitoring of the policies and procedures helps in reducing financial risks

f) Surprise cash verification by the internal auditors will ensure all the cash transactions are accounted for correctly
g) Ensures compliance with statutory law and regulations
h) Systematic Internal audit assures the head office that all the banking procedures and rules are adhered to
i) Good control over the bank's non-performing assets
j) Regular internal audit at banks gives better comfort and assurance to the statutory auditors too.

Ghosh Committee recommendations on internal inspection and audit

The Reserve Bank of India had constituted a High Level Committee, under the chairmanship of Shri A. Ghosh, the then Deputy Governor of RBI, to enquire into the various aspects relating to frauds and malpractices in banks. The Committee made a number of recommendations and suggested precautions to be taken to avoid incidence of frauds and malpractices in the banks. Reserve Bank of India had examined these recommendations and some of the recommendations relevant to the primary (urban) co-operative banks recommended for adoption by them are indicated below

Internal Audit Machinery

Banks should introduce a sound system of internal audit. With a view to strengthening the credibility of the inspection system in detecting cases of frauds/malpractices, steps need to be taken to gear up the inspection/audit machinery and to improve the quality of officers of the inspection department. The head of the inspection department at the Head Office should be a sufficiently senior person and should report directly to the Chairman. If the bank has Regional Offices, there should be an audit machinery under an official of sufficient seniority as the Regional Office Chief to conduct the periodic audit of branches under its jurisdiction. The officers posted to this department should have sufficient experience and exposure and the department should be headed by an official of sufficient seniority and proven integrity. In order to attract competent staff to the department, minimum, continuous experience of three years in Inspection Department should be made as a prerequisite for promotion to senior level.

Periodicity of Internal Audit

The periodicity of the internal audit of the branches should be at least once in every 12 months, which should be really of surprise character.

Coverage of Internal Audit

The coverage of such inspections should also be made more comprehensive, inter alia, to include a thorough examination of the internal control system obtaining at the branches including the various periodical control returns submitted to the controlling offices. The internal inspection report should specifically comment, on the position of irregularities pointed out in the inspection report of Reserve Bank of India. The inspection/audit officials should also critically analyse and make in-depth study of the corruption/fraud prone areas such as appraisal of credit proposals, balancing of books, reconciliation of inter-branch accounts, settlement of clearing transactions, suspense accounts, premises and stationery accounts during the course of inspections leaving no scope for any malpractices/irregularities remaining undetected.

The internal inspector should scrutinise the suspense account during inspection / visit and give specific instructions for early reversal of entries.

The banks should ensure that the system evolved for recording the details of off-balance sheet transactions are properly followed by all branches. These records should be periodically balanced and internal inspectors should verify the same and offer critical comments.

Proper inventory of dead stock articles, stationery should be maintained and subjected to surprise check at periodical intervals by the officials of the branch as also internal inspectors.

Compliance with Prudential Norms

Internal auditors should bring out non-compliance with the prudential norms relating to income recognition, asset classification and provisioning for taking suitable action in the matter.

Cheque Purchase Transactions

The internal inspectors should verify all the cheque purchased/discounted beyond the sanctioned limit. They should be asked to conduct a sample checking of transactions.

Supplementary Inspections/Audit

The annual internal inspection may be supplemented by surprise short inspections, revenue audit, credit portfolio audit etc. in larged sized banks. Surprise short inspection may be carried out by officials at appropriate higher levels to ensure that branch officials are not indulging in malafide practices.

Revenue Audit

The reasons of leakage of income unearthed during such audit should be examined in-depth and action taken against the officials responsible for the lapses.

Credit Portfolio Audit

A system of exclusive scrutiny of credit portfolio with focus on larger advances and group exposures at regular intervals may be introduced in large sized UCBs. A special scrutiny of high value accounts shifted to the bank along with executives/officials including General Managers/ Chief Executive Officer/ Managing Directors transferred from other banks should be done. Similarly the accounts transferred from other branches along with the officials should be subjected to thorough scrutiny during the internal inspection. The summary of the important findings may be submitted to the Committee of the Board.

1.13Other Areas of Importance

Investment Portfolio Audit

Primary (urban) co-operative banks are required to include the following measures in respect of investment portfolio audit:

The reconciliation of the balances of SGL transfer forms as per bank's books should be periodically checked by the internal audit department.

In view of the possibility of abuse, purchase and sale of government securities etc. should be separately subjected to audit by internal auditors (and in the absence of internal auditors by

Chartered Accountants out of the panel maintained by the Registrar of Co-operative Societies) and the results of their audit should be placed before the Board of Directors once every quarter.

The audit should scrutinise that:

- Adherence to the aggregate upper contract limit for each of the approved brokers is within a limit of 5% of total transactions (both purchase and sales) entered into by the bank during a year.

- That disproportionate part of the business is not transacted through only one or a few brokers and that aggregate contract limits for each of the approved brokers are not exceeded. The limit should cover both the business initiated by the bank and the business offered/brought to the bank by broker. The business put through any individual broker or brokers in excess of the limit of 5% of total transactions entered into by the bank during the year with the reasons therefor, should be covered in the half-yearly review to the Board of Directors; and

- The deals have been undertaken in the best interest of the bank.

1.14 Concurrent Audit System

Ghosh Committee had recommended introduction of concurrent audit at large and exceptional.
large branches of banks to serve as administrative support to branches, help in adherence to prescribed systems and procedures and prevention and timely detection of lapses/irregularities. Concurrent Audit which was introduced in all scheduled and other primary (urban) co-operative banks with deposits over Rs.50 crore was extended to all UCBs based on the recommendations of the Joint Parliamentary Committee (JPC), which enquired into stock market scam and matters relating thereto.

The concurrent audit system is to be regarded as part of a bank's early-warning system to ensure timely detection of irregularities and lapses, which helps in preventing fraudulent transactions at branches. It is, therefore, necessary for the bank's management to bestow serious attention to the implementation of various aspects of the system such as selection of branches, coverage of business operations, appointment of auditors, appropriate reporting procedures, followup/rectification processes and utilisation of the feed-back from the system for appropriate and quick management decisions.

The Board should once in a year review the effectiveness of the system and take necessary measures to correct the lacunae in the system,

It is basically for the individual banks' managements to decide the details of the concurrent audit system. However, a note indicating the broad features of concurrent audit system is given in Annex 1 for the guidance of the banks. The note broadly defines the concept and scope of concurrent audit, such as converge of business/branches, types of activities to be covered during the audit reporting system. The note also details the broad suggestions in respect of various aspects of concurrent audit.

It is expected that the suggestions in the note would ensure some uniformity in the systems to be introduced by different banks. While framing a concurrent audit system, the banks may clearly spell out the linkages between different forms of internal inspections and audits already in existence and the proposed concurrent audit.

The concurrent auditors shall certify that the investments held by the bank as on the last reporting Friday of each quarter as reported to the Reserve Bank of India are actually owned / held by it as evidenced by physical securities or the custodians statement. The certificate should be submitted to the Regional Office of the Reserve Bank of India, having jurisdiction over the bank, within thirty days from the end of the relative quarter.

The concurrent auditors should specifically verify compliance to the instructions contained in our circular UBD.BPD.SUB No.5/09.80.00/2003-04 dated 28 April 2004 regarding transactions in Govt. Securities.

Serious irregularities brought out in the concurrent audit report should be immediately reported to the Regional Office concerned of this department.

Chartered Accountants / audit firms associated with the bank for internal / concurrent audit assignments should not undertake statutory audit assignment during the same period. The firms associated with internal / concurrent audit should relinquish the internal / concurrent audit before accepting the statutory audit assignment during the year.

Scope of Concurrent Audit

Concurrent audit is an examination, which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is an emphasis in favour of substantive checking in key areas rather than test checking.

A concurrent auditor may not sit in judgement of the decision taken by bank/branch Manager or an authorised official. However, the auditor will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office/Board of Directors, they do not violate the instructions or policy prescriptions of the Reserve Bank of India and that they are within the delegated authority and in compliance with the terms and conditions for exercise of delegated authority.

1.15 Audit for Electronic Data Processing System:

Primary (urban) co-operative banks which have partially / fully computerised their operations should introduce EDP audit system on perpetual basis. The EDP audit cell should be constituted as part of their Inspection and Audit Department in banks having an independent Inspection and Audit Department and other primary (urban) co-operative banks, which do not have an independent Inspection & Audit Department, should create a dedicated group of persons, who can perform functions of an EDP Auditor. Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit Department. The overall control and supervision of these EDP Audit Cells should be vested in the Audit Committees. Financial outlay as well as activities to be performed by EDP department should be reviewed by senior management at periodical intervals.

Primary (Urban) Co-operative Banks may comply with following guidelines while carrying out EDP Audit.

A team of competent and motivated EDP personnel may be developed in order to take care of a possible exodus of key personnel. EDP auditors' technical knowledge should be augmented on a continuing basis through deputation to seminars/conferences, supply of technical periodicals and books etc.

Duties of system programmer/designer should not be assigned to persons operating the system. System person would only make modifications /improvements to programs and the operating persons would only use such programs without having the right to make any modifications. In order to bring about uniformity of software used by various branches/offices there should be a formal method of incorporating change in standard software and it should be approved by senior management. Inspection and Audit Department should verify such changes from the view-point of control and for its implementation in other branches in order to maintain uniformity. Major factors which lead to security violations in computers include inadequate or incomplete system design, programming errors, weak or inadequate logical access controls, absent or poorly designed procedural controls, ineffective employee supervision and management controls. These may be plugged by: strengthening physical, logical and procedural access to system ;introducing standards for quality assurance and periodically testing and checking them; and screening employees prior to induction into EDP application areas and keeping a watch on their behavioral pattern. putting in place appropriate control measures to protect the computer system from attacks of unscrupulous elements.

Replacement of manual procedures by computer applications should be done after a parallel run of the system and ensuring that all aspects of security, reliability and accessibility of data.

In order to ensure that the EDP applications have resulted in a consistent and reliable system for inputting of data, processing and generation of output, various tests to identify erroneous processing, to assess the quality of data, to identify inconsistent data and to compare data with physical forms should be introduced.

The bank should make a formal declaration of system development methodology, programming and documentation standards to be followed, compliance should be verified by EDP Auditors.Contingency plans/procedures in case of failure of system should be introduced/ tested at periodic intervals. EDP auditor should put such contingency plan under test during the audit for evaluating the effectiveness of such plans.

While engaging outside computer agencies, banks should ensure to incorporate the "clause of visitorial rights" in the contract, so as to have the right to inspect the process of application and also ensure the security of the data/inputs given to such outside agencies.

Information System (IS) Audit

UCBs have adopted technology and have been offering electronic banking, tele banking, electronic clearing/funds transfer, electronic money, smart cards etc to its customers. In view of the above and having regard to risks emanating from adoption of technology, there is a need to introduce IS Audit in UCBs. It is, therefore, advised that

UCBs may adopt an IS audit policy, if not already done, appropriate to its level of operations, complexity of business and level of computerization and review the same at regular intervals in tune with guidelines issued by RBI from time to time.

i. UCBs may also adopt appropriate systems and practices for conducting IS audit on annual basis covering all the critically important branches (in terms of nature and volume of business).

ii. Such audits should be undertaken preferably prior to the statutory audit so that IS audit reports are available to the statutory auditors well in time for examination and for incorporating comments, if any, in the audit reports.

iii. iii. IS audit reports should be placed before the board and compliance should be ensured within the time frame as outlined in the audit policy.

iv. The above instructions may be implemented during the current accounting year beginning from April 1, 2014 to March 31, 2015.

1.16 Audit Committee of Board (Apex Audit Committee)

The Reserve Bank of India has, from time to time, emphasised the need on the part of the directors of the primary (urban) co-operative banks to ensure timely review and action on the findings of statutory inspection/audit reports and submission of the compliance reports thereto. Yet, in most of the banks, there is no proper system to examine and follow-up the observations and suggestions made in the inspection reports of Reserve Bank of India, statutory auditors and those submitted by the internal inspection department, vigilance cell and internal auditors. Timely follow-up action on the findings of inspection reports and guidelines, circulars etc. issued by RBI as also the internal audit/inspection, etc. is considered desirable to tone up the overall functioning and operational efficiency of the banks.

In order to ensure and enhance the effectiveness of internal audit/inspection as a management tool, it is considered necessary that an Apex Audit Committee should be set up at the Board level for overseeing and providing direction to the internal audit/inspection machinery and other executives of primary (urban) co-operative banks. The Audit Committee of the Board of Directors (ACB) may consist of the Chairman and three/four Directors, one or more of such Directors being

Chartered Accountants or persons having experience in management, finance, accountancy and audit system, etc. This also implies that the banks need to constitute, wherever necessary, their Boards with an adequate number of such professionals.

The Audit Committee of the Board should review the implementation of the guidelines issued by RBI and submit a note thereon, to the Board at quarterly intervals.

The other duties/ responsibilities of the Audit Committee of Board (ACB) are as follows:

ACB should provide direction and oversee the operations of the total audit function in the bank. The total audit function will imply the organization, operationalisation and quality control of internal audit and inspection within the bank and follow-up on the statutory audit of the bank and inspection of the Reserve Bank.

As regards internal audit, ACB should review the internal inspection/audit function in the bank - the system, its quality and effectiveness in terms of follow up. It should review the follow up action on the internal inspection reports, particularly of "unsatisfactory" branches and branches classified by the bank as extra large branches. It should also specially focus on the follow up on:

- Inter-branch adjustment accounts.
- Unreconciled long outstanding entries in inter-branch accounts and inter-bank accounts.
- Arrears in balancing of books at various branches.
- Frauds.
- All other major areas of housekeeping.
- Compliance with the Statutory Audit Reports/Concurrent Audit Reports/RBI inspection reports.
- Omission on the part of internal inspecting officials to detect serious irregularities should be viewed seriously.
- Periodical review of the accounting policies/systems in the bank with a view to ensuring greater transparency in the bank's accounts and adequacy of accounting controls.

Coverage of Business/Branches

The suggested coverage may be as under:
The Departments/Divisions at the Head Office dealing with treasury functions viz. investments, funds management including inter-bank borrowings, bill rediscount, in stock invest scheme, credit card system and foreign exchange business are to be subjected to concurrent audit. In addition, all branch offices undertaking such business, as also large branches and dealing rooms have to be subjected to continuous audit.

The problem branches, which are continuously getting poor or very poor rating in the bank's annual inspection/audit and where the house keeping is extremely poor may be covered.

Banks may also include additional branches at their discretion on the basis of need; that is their professional judgement about the overall functioning of the branches.

Types of Activities to be Covered

The main role of the concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down. In particular, it should be seen that the transactions are properly recorded/documented and vouched. The concurrent auditors may broadly cover the following items:

- Cash
- Daily cash transactions with particular reference to any abnormal receipts and payments. ▪ Proper accounting of inward and outward cash remittances.
- Proper accounting of currency chest transactions (if any), its prompt reporting to Reserve Bank of India
- Expenses incurred by cash payment involving sizeable amount.
- Investment

In the case of areas such as income and expenditure items, inter-bank and inter-branch accounting, interest paid and interest received, clearing transactions, and deposit accounts, the check can be restricted to 10 to 25 per cent of the number of transactions.

- Where any branch has poor performance in certain areas or requires close monitoring in housekeeping, loans and advances or investments, the concurrent auditors may carry out intensive checking of such areas.
- Concurrent auditors may concentrate on high value transactions having financial implication for the bank rather than those involving lesser amount, although number-wise they may be large.
- If any adverse remark is required to be given, the concurrent auditors should give reasons therefore.
- Concurrent auditors may themselves identify problem areas at branch level/bank and offer their suggestions to overcome them.

1.17Appointment and Remuneration of Auditor

The option to consider whether the concurrent audit should be done by the external auditors (professionally qualified Chartered Accountants) or its own staff may be left to the individual banks. In case bank decides to appoint external auditors for the purpose, the terms of their appointment and remuneration to be paid may be fixed by the banks within the broad guidelines approved by the Board and/or by the Registrar of Co-operative Societies of the State concerned.

The audit firms will be responsible for any omissions or commissions in respect of transactions seen by them. In case any serious act of omission or commission is noticed in the working of the concurrent auditors (external), the bank may consider terminating their appointment and a report may be made to the Institute of Chartered Accountants of India for such action as they deem fit under intimation to RBI/RCS.

In case the bank prefers to entrust the audit to its own officers, the bank has to ensure that these officers are well experienced and of sufficient seniority in order to exercise

18 Reporting System

The concurrent auditors may report the minor irregularities, wrong calculations etc. to the Branch Manager for an on-the-spot rectification and reporting compliance.

If these irregularities are not rectified within a reasonable period of time say a week, these may be reported to the head office. If the auditors observe any serious irregularities, these should be straight away reported to Head Office immediately. The auditor will have to lay emphasis on the propriety aspect of the audit. Banks may institute an appropriate system of follow-up of the reports of the concurrent auditors. There must be a system of annual review of the working of concurrent audit.

How It Works?

Although there are many types of audits, in the context of corporate finance, an audit typically refers to those conducted on public or private corporations. Government agencies, such as the

Securities and Exchange Commission (SEC), require publicly listed companies to conduct an independent audit to validate their annual financial reporting.

For private companies, audits are not legally required but are still conducted to provide investors, banks, and other stakeholders with confidence in the company's financial position. During an audit, different financial statements are examined, such as the income statement, cash flow statement, and balance sheet.

The audit provides stakeholders and regulatory agencies with information on how money is earned and spent throughout the fiscal year. Depending on the size of the company, an audit can span a few months to an entire year. At the end of the engagement, the auditor provides a professional opinion on the accuracy of the financial reporting done.

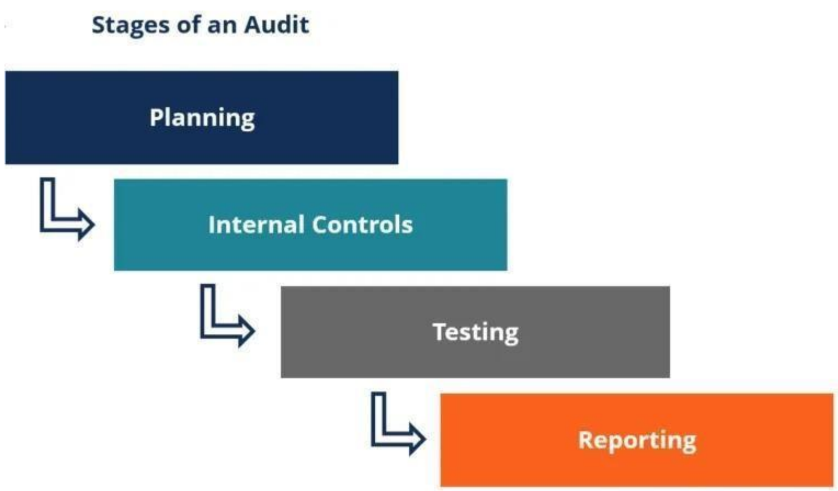
1.19 Internal vs. External Audits

Internal audits are performed by employees within the company. The audits tend to focus less on the financial statements, and greater emphasis is placed on a company's operations and corporate governance.

Internal audit reports are not available to the public but are provided to a company's executives and audit committee to provide an overview of the organization's performance across different areas. The areas can include risk management, internal controls, and compliance.

External audits involve independent auditors hired to express an opinion on the accuracy of a corporation's financial reporting. For public companies, the results of an external audit are reported to the public and are conducted following the Generally Accepted Audit Standards (GAAS).

Most large companies engage with one of the Big Four accounting firms to conduct an audit of their financial statements. To put it into perspective, the Big Four firms audit more than 99% of the S&P 500 companies.



1.20 Stages of an Audit

How an audit is conducted can differ depending on the size of the corporation and the complexity of the case. However, an audit usually has four main stages:

- ✓ The first stage is the planning stage. In this stage, a corporation engages with the auditing firm to establish details, such as the level of engagement, procedures, and objectives.
- ✓ The second stage is the internal controls stage. In this stage, auditors gather financial records and any other information necessary to conduct their audits. The information is necessary to evaluate the accuracy of the financial statements.
- ✓ The third stage is the testing stage. In this stage, auditors examine the accuracy of the financial statements using various tests. It may involve verifying transactions, overseeing procedures, or requesting more information.
- ✓ The fourth stage is the reporting stage. After completing all the tests, the auditors prepare a report that expresses an opinion on the accuracy of the financial statements.

1.21 Levels of Audit Engagement

Many companies choose to engage with internal and external auditors in the preparation of their year-end financial statements. However, the depth of the auditor’s investigation may vary depending on the type of engagement and the assertion level required.

In a full audit engagement, the auditor conducts a complete and thorough investigation of the financial statements, including verifications of income sources and operating expenses. For example, the auditor may compare reported account receivables with receipts from actual customer orders.

At the end of the engagement, the auditor will provide an opinion on the accuracy of the financial statements. A full audit engagement also provides investors, regulators, and other stakeholders with confidence in a corporation's financial position.

In a review engagement, an auditor only conducts limited examinations to ensure the plausibility of the financial statements. In contrast with an audit, the review engagement only assures that the financial statements are fairly stated, and no further examinations are conducted to verify the accuracy of the statements. Therefore, a review engagement does not provide the same level of confidence in the accuracy of the financial reporting relative to an audit.

In a notice to reader engagement, the role of the auditor is solely to help a company compile its financial information into presentable financial statements. No further examinations are performed, and no opinions are expressed on the accuracy of the financial reporting. Notice to reader engagements is typically only utilized by small corporations without any obligations to external stakeholders.

What Is A Bank Audit?

A bank audit is a formal process in which the services, information systems, financial records, and/or procedures of a bank, credit union, or other financial institution are reviewed and summarized in a report.

Every financial service company has a legal requirement to undergo audits regularly to comply with laws and regulations, as well as industry standards.

What Do Bank Auditors Do?

Bank audits are performed by a kind of accounting specialist called a bank auditor.
There are two types of audits:

- An employee of the financial institution can conduct an internal audit.

- An independent auditor under the direct guidance of a certified public accountant (CPA) can conduct an external audit.

What Is The Purpose of a Bank Audit?

Bank audits serve many purposes.
Here are a few common areas and metrics that a bank audit will evaluate within a financial institution:

i. Security and risk management, including operational, strategic, reputation, credit, compliance, and IT and cyber risk
ii. Liquidity and monetary flow
iii. Financial transactions, including bank wires and automated clearing house (ACH) networks
iv. Company financials and regulatory reports
v. Whether a financial institution is correctly following its own policies and/or operating in compliance with internal controls, and legal and best-practice standards
vi. Whether there is any evidence of law violations, money laundering, fraud, and any other anomalies

Above all else, the main goal of an audit is to make sure a financial institution is operating in line and above board with all industry and local regulations.

How Long Does A Bank Audit Take?

Bank auditors will typically spend about three months investigating a bank's financial activities, risk management processes, systems, and procedures to make sure that all related information is complete, timely, and accurate.

What Happens After The Bank Audit Is Finished?

Once auditors have had the chance to test and evaluate their findings, they can compile an audit report or audit opinion that outlines any feedback or corrective steps that a bank needs to take in order to remain in compliance.

If an external auditor completed the audit, the results will be shared with stakeholders and creditors.

As you can see, bank audits are important for ensuring the integrity of a financial institution and its practices.

Undergoing audits and responding to the feedback generated by audits protects not only a financial institution's management, but also its shareholders, creditors, lenders, and clients.

While bank audits can certainly be stressful experiences, they can be made more streamlined through the use of auditing software and related services.

The Importance of Auditing

Credibility and Reliability

With an internal auditing system, your business can create accurate and reliable financial reports through which you can gain insights on which segments or product lines are performing best and how to properly allocate resources. Additionally, regular auditing will make your shareholders trust that your accounts are true and fair and that it's safe to invest in your business.

Preventing Fraud

If the government audits your financial statements and finds that your business has been manipulating its financial health, or hiding revenue and losses, you'll likely deal with severe fees and legal punishments. Your business will also acquire a bad reputation, and you will most likely lose reliability in the eyes of your customers and stakeholders.

Recurring internal audits by a professional auditor or accountant of the company play an important role in detecting these fraud cases before they become substantial and problematic. Having a rigorous auditing system set in place alone prevents and scares employees or vendors from attempting a scheme to defraud your business in the first place.

1.22 Auditing tips

a. When conducting an internal audit, make sure that you have a clear goal about what you're looking to achieve. Ask yourself why you're conducting the audit, and what actions you're going to take depending on the result.

b. Internal auditing involves reviewing a huge pile of information. To avoid wasting time, prioritize processes that require immediate auditing, based on the audit's goal.

c. Make sure you've claimed valid business deductions. Keep all of your expense receipts, and don't mix up your expenses as business deductibles.

d. Know your accounting cycle. The accounting cycle is the multi-step process that analyses and records your financial data, and translates them into financial statements. By following it accordingly, you're keeping accurate, up-to-date journal entries of your transactions, complying with federal regulations, and avoiding government audits.

e. Use the right tools. A great way to do this is by streamlining your processes with cloudbased accounting software like Deskera. With Deskera, you can automate most of your accounting tasks like journalizing transactions, calculating payments, or generating financial statements. Say goodbye to most of your typical accounting errors, eliminate fraud, and fear nothing in case you're ever audited by the government. Try the software out yourself right away, with our completely free trial.

Main Points covered

- Auditing is the process of reviewing and confirming your financial reports.
- Audits verify that you've created accurate and reliable financial reports and that no fraudulent activities are happening within the business.
- There are three main types of audits: internal, external, and government or IRS audits.
- Internal audits are made by qualified auditors within the business, external audits are conducted by external third parties, whereas government audits are tax reviews by the IRS.

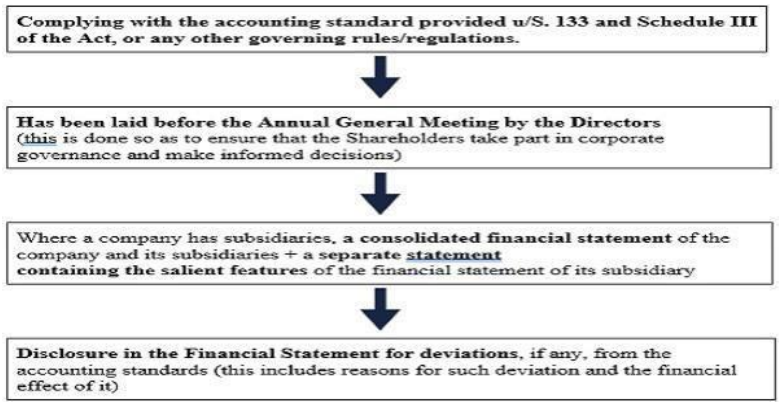
1.23 Significance of "True & Fair View" In Accounting: The Role of Auditor

Accounting is an essential part of every business regardless of its size, nature or scope. The purpose of accounting is to communicate the financial position of the company and assist the shareholders, investors, creditors, and all other stakeholders in decision making. While it is mandatory for management to have a standard accounting practice in place, there are some crucial points that must be complied with and cannot be omitted unless under special circumstances. By virtue of Section 128 of the Companies Act, 2013 ("Act") it becomes a statutory obligation for every company to prepare and keep at its registered office, books of account and other relevant books and papers. The section further requires that these books of account shall reflect the "true and fair" view ("TFV") of the company's affairs. But what exactly should be "true" and what shall be "fair"? We shall try to understand the meaning of both these terms through this article.

Menu Income Tax Budget S.Tax Company Law Excise Customs GST CA CS CMA DGFT RBI SEBI Finance Corp.Law User Menu Company LawArticles Significance of 'True and Fair View' in Accounting: The Role of Auditors Angelina George| Company Law - Articles| Download PDF 08 Jun 2023 12,720 Views 0 comment Accounting is an essential part of every business regardless of its size, nature or scope. The purpose of accounting is to communicate the financial position of the company and assist the shareholders, investors, creditors, and all other stakeholders

in decision making. While it is mandatory for management to have a standard accounting practice in place, there are some crucial points that must be complied with and cannot be omitted unless under special circumstances. By virtue of Section 128 of the Companies Act, 2013 (“Act”) it becomes a statutory obligation for every company to prepare and keep at its registered office, books of account and other relevant books and papers. The section further requires that these books of account shall reflect the “true and fair” view (“TFV”) of the company’s affairs. But what exactly should be “true” and what shall be “fair”? We shall try to understand the meaning of both these terms through this article. The concept of true and fair view has not been defined anywhere under any law. However, based on various judicial precedents, we are able to make out some inferences to these terms. In ordinary sense, the word “true” can be interpreted as requiring accuracy in detail, whereas “fair” requires the accuracy of overall impression, not derived for unjust advantage. A “true and fair view” of the company’s affairs is not an additional requirement for accounting standards. It is the whole esse of accounting, which allows the measurement of economic performance of the company to the stakeholders who can then analyze the financial position and prevent the economy from being paralyzed. A plain reading of Section 129 of the Act lists out the following requirements for a financial statement to be considered “true and fair.” These are:

The section provides exception to certain companies from complying with the TFV requirement mandated in this section. These include Banking companies, Insurance Companies, Companies engaged in the generation or supply of electricity, or Companies governed by any other law. The reason for this exception is that these companies have their own special legislation governing them, and under which they are incorporated. So long as this governing legislation does not require a



matter to be disclosed by that law, the financial statements of such company shall not be treated as not disclosing a true and fair view of the state of affairs of the company. The Companies Act, 2013 creates a dual obligation on the Auditors and the Directors of the Company to ensure that this "true and fair view" of the financial statements are presented to the stakeholders. Section 143

(2) of the Act states that while preparing the audit report, the Auditor shall ensure that the information being presented by him is to the best of his information and knowledge, and gives a true and fair view of the state of the company's affairs. On the other hand, Clause (5) of Section 134 sets down that the directors shall select and apply such accounting policies and make reasonable and prudent judgments such that it gives true and fair view of the state of affairs of the company and of the profit and loss of the company at the end of the financial year.

Accordingly, once the financial statements are prepared by the management, the statutory auditor and the auditing committee is entrusted with the responsibility of inspecting and examining the records to the best of their knowledge. Once audited, it is then forwarded to the Board of Directors for their approval at the Board Meeting, which is subsequently presented at the Annual General Meeting. It should be noted that what is required by law is a "true and fair view" and not "true and correct view." This is because assuring a "correct" view implies that there is absolutely no error in the Books of Account or Financial Statements. Every transaction recorded in such case, and every arithmetic calculation are all deemed to be free from error. This however is not humanly possible as humans are bound to err even if it is a minute inacuracy. Additionally, this would also create a substantial liability on the auditor for the inspection of accounts presented to him by the management. Hence the whole purpose of having the TFV concept is so that the burden on the auditor is reduced and he only attests to the fact that every information presented to him is true to his knowledge which was exercised with due care and diligence. In the case of J.K. Industries Ltd.

v. Union of India (2007), it was stated that "a true and fair view is one which requires the Auditor to look at the substance rather than pure legal form." So the Accounting Standards should place importance on the Substance being presented over the Form in which it is presented. When a company adheres to the principle of "substance over form," its financial statements will reflect the economic substance of the organisation rather than just reflecting the record of transactions.

Therefore, based on our understanding so far, we conclude that "true" means presentation of the accounting information in a factually correct manner, where all underlying statutory requirements are complied with and "fair" means to have an unambiguous and unbiased presentation of the financial transactions.

1.24 Reporting Under Specific Clauses

The following are the broad guidelines for verification And reporting under specific clauses **Cash**

i. The branch is expected to maintain the cash Balance within the limit prescribed by the Controlling authority. This is called the retention Limit for the cash. In case the branch holds cash In excess of the retention limit, the auditor should Report the same.

ii. The auditor should count the cash including the Cash in ATM and see whether it tallies with the Books.

iii. The excess balance should also be reported to the Controlling authority within the prescribed time frame. The reasons for such excess cash balance should be inquired into. iv. Normally, the global Insurance Policy for cash-in-custody or cash-in-transit is taken at the head office level. The head office of the bank normally sends confirmation to that effect to the branches.

iv. The branch should hold cash in joint custody of the cashier and the Branch Manager. The Branch Manager is also expected to verify the cash periodically and put his signature to that effect. The auditor should report whether these directions are followed properly or not. vi. Apart from answering the questions in the LFAR format the auditor should comment on identification and disposal of soiled notes, counterfeit notes, stapling of notes, use of ultra violet lamps, Note counting machines, etc.

Balances with RBI, SBI and Other Banks

In case the branch maintains the account with RBI, SBI or any other bank, the auditor should see whether the reconciliation statement for the year-end balances is prepared or not.

He should peruse the reconciliation statement and find out the long outstanding entries in the statement. An explanation from the branch for pending entries should be obtained. In case any revenue item is required to be adjusted or written off in the accounts, the same should be reported in the LFAR.

The auditor should give the details of entries outstanding in the Reconciliation statement which are outstanding for more than six months, with specific details of outstanding entries for more than one year. The auditor may ask the bank to compile such information and verify the same before giving it in the LFAR.

The continuous failure of the branch to obtain the balance confirmation certificates and/or preparing reconciliation statements should also be reported in the LFAR.

Money at call and short Notice

- Normally, money at call and short Notice are accounted for at the treasury department, Head office. However, in case such transactions are located at the branch, the auditor should examine the balances held at the branch with reference to the general or specific authority and instructions/guidelines from the controlling authority. The cases of non-compliance of relevant instructions should be reported, including unauthorised deposits or deposits in excess of authorised limit.

- It is also important to see whether the income has been booked properly or not.
- The yearend balance should be confirmed with the third party confirmation.

Investments

- There are separate questionnaires for the branches in India and for branches outside India. Though the reporting is to be done separately, the points to report are more or less the same.

- The auditor should obtain a certificate from the branch regarding investments held by the branch on behalf of the head office. The auditor should verify the security physically. In case the security is not available physically, the holding certificate/confirmation to that effect should be obtained. The income on investment should be reported to the head office. The auditor should see that accounting of such income is done properly.

- The matured investments should be encashed and the RBI guidelines for valuation should be followed properly. In case of any deviation, the auditor should report the same. For valuation of investment, the auditor should refer to the master circular on "Prudential Norms for Classification, Valuation and Operation of Investment portfolio by banks" issued by the RBI.

- The auditor should find out the unserviced investment and report the same, whether it could be considered as non performing investment (NPI).

Advances

The reporting under advances is to be done under four broad categories viz. Credit Appraisal, Sanctioning and Disbursement, Documentation, Review/Monitoring and Supervision. Since this topic is dealt separately, the aspects of verification and reporting on Advances are not elaborated in this article.

Other assets

The Balance Sheet of the bank contains residual items about the assets which are not specified above, such as Stationery and Stamp, Sundries, Suspense A/c etc.

In case of stationery and stamps the auditor should check the control on custody and issue of stationery items, stamps etc. The auditor should review the process and registers for the same. Stationery items will also include Term deposit receipts drafts, pay orders, cheque books, traveler cheques, Gift Cheques etc. The auditor should offer the suggestions for better control in maintenance and use of stationery.

The instances of lost or missing stationery should also be mentioned in the report.

In case of Sundries and Suspense Accounts, the auditor should obtain the details of age wise analysis of pending entries in the account, inquire about reason for entry being pending for

unreasonable period and assess the position of recoverability of the amount. The auditor should exercise his judgment about making necessary provision against such amounts.

In case any unusual items are notices while perusing the account, the auditor should report the same.

The auditor should not restrict his checking only to the pending entries, but he should also look into the entries which are squared off during the audit period.

Liabilities – Deposits

• A deposit accepted from the public is a liability for the bank. Inoperative deposit accounts could be viewed as one of the fraud prone areas. Therefore, there are certain guidelines for operations in inoperative accounts. The auditor should see whether operations in inoperative accounts are carried out as per the guidelines issued. In case the guidelines are not followed, the details of deposits should be given viz. name of the party, the amount due, the due date, the nature of the deposits etc.

- The auditor should also review the deposit accounts both operative and inoperative to find out whether there are any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year end. In such situation, the explanation from the branch management should be obtained. The movements without proper explanation should be reported in LFAR.
- The auditor should obtain a list of overdue/matured deposits at the end of the year. The amount of overdue/matured deposits should be mentioned in LFAR.

Other Liabilities – Bills payable, Sundry Deposits etc.

- The auditors should obtain age wise details of pending entries in bills payable, sundry Deposits Accounts from the branch management.
- The details obtained should be scrutinised to find out whether there exists any unusual items or material withdrawal/debits; The auditor should take appropriate view on such items.

Contingent Liabilities

- The auditor should see that there exists a system which gives a reasonable assurance that all contingent liabilities are identified and properly disclosed.
- The auditor should mention the list of major items of contingent liabilities (Other than constituent's liabilities such as guarantees, Letters of Credit, acceptances, endorsements, etc.) not acknowledged by the branch.
- The auditor should also obtain representation from branch management that all contingent liabilities have been disclosed and that the disclosed contingent liabilities

do not include any contingencies which are likely to result in a loss and which therefore, require consequent adjustments of assets and liabilities.

Profit and Loss Account

- The auditor should review the system at the branch to compute the discrepancy in interest, discounts or commission and for timely adjustment thereof. The Auditor should see the guidelines of controlling office in this regard.
- The interest and commission should be checked on test check basis to find out whether there exists proper system to compute them correctly.
- The income recognition Norms issued by the RBI should be followed at the branch. The auditor should report any deviation in that regard.
- The report should also mention whether there is a system to estimate and provide interest accrued on the overdue/matured deposits.
- The auditor should carry out the analytical procedure to find out whether there are any divergent trends in major items of income or expenditure. A suitable explanation should be asked for any divergent trend from the branch management. In case the auditor is not satisfied with the explanation he should mention the same in his report with proper details for the said divergent trend.

Books and Records

- In most of the situations, nowadays ,the books are maintained in the computerised environment.
- If the books are maintained manually, the auditor should peruse them to find out whether they are maintained properly. The balancing is done and it is properly inked out. The books are to be authenticated by proper signatory at the branch.
- In respect of computerised environment, the hard copies of certain accounts should be printed regularly.
- The auditor should also mention the extent of computerisation and adequacy of the access and data security measures and other internal controls.

- The auditor may review the process of creation of new logins, change of password the administrative control to access different files or reports through computerised system. There should be maker checker system.
- Updating of the master data should be under supervisory control. The modification in the master data should be registered to Branch Manager only.
- The auditor should also review the contingency and disaster recovery plan for the computer system. Timely backups, offsite backups, etc.should be reviewed to understand the backup procedure.
- The auditor should also mention any suggestion For efficient operation of the computer system.

Reconciliation of control and subsidiary Records

The auditor should see whether the subsidiary Records are tallied with the control accounts. In Case there are differences the same should be Reported. He should also mention the date upto Which the control and subsidiary records are Balanced.

Inter branch Accounts

Normally, the inter branch transactions are Passed through Head office account. The Balance in Head Office Accounts as shown in the Statement should be in agreement with the Head Office Account in General Ledger. In case of any Difference, the reconciliation statement should Be obtained. The pending entries should be Scrutinised to report whether there is a system Of responding the entry promptly.

The outstanding debit entries in the Head office Account should be mentioned. The items of double response in Head office Account should also be reported.

- The report will also give old/large outstanding debit entries as at the year end which remains unexplained.

Audits/Inspections

- The auditor should review the audit reports for concurrent audit, RBI inspection special audit, internal audit, credit audit, etc. and find out whether they are complied properly. While finalising the report the auditor should consider the major adverse comments arising out of these reports.

Frauds

- The auditor should peruse the fraud Register and report particulars of Frauds discovered during the year under audit at the branch.
- The auditor can also give suggestions to minimise the possibility of their occurrence.

Miscellaneous

- The auditor should mention about the adequacy of control and maintenance of records in relation to the Fixed Assets at the branch. The Fixed Asset Register should be updated.
- The calculation of depreciation should be checked properly and any deviation should be reported.
- The auditor should also check on the impairment of the assets.
- The auditor should report whether examination of accounts indicate possible window dressing. The auditor should review the transactions near to the balance sheet date to look into the possibility of window dressing in the account.
- The auditor can also mention any other matter which he would like to bring to the notice of the management or Central Statutory Auditors.

Questionnaire Applicable to specialised branch

- Now a day the banks prefer to have branches on the basis of specalised functions such as branches having foreign exchange transactions, branches for large advances Asset Recovery, Management Branches, Service Branches, etc. The LFAR also provides separate questionnaire for audit of such specialised branches. The auditor is supposed to report additionally as per applicable questionnaire.
- While answering these questionnaires, the auditor should understand the functions and working of these branches properly and use his audit checks.

CHAPTER NO:2

RESEARCH METHODOLOGY

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability.

Research methodology is the path through which researchers need to conduct their research. It shows the path through which these researchers formulate their problem and objective and present their result from the data obtained during the study period. This research design and methodology chapter also shows how the research outcome at the end will be obtained in line with meeting the objective of the study. This chapter hence discusses the research methods that were used during the research process. It includes the research methodology of the study from the research strategy to the result dissemination.

For emphasis, in this chapter, the author outlines the research strategy, research design, research methodology, the study area, data sources such as primary data sources and secondary data, population consideration and sample size determination such as questionnaires sample size determination and workplace site exposure measurement sample determination, data collection methods like primary data collection methods including workplace site observation data collection and data collection through desk review, data collection through questionnaires, data obtained from experts opinion, workplace site exposure measurement, data collection tools pretest, secondary data collection methods, methods of data analysis used such as quantitative data analysis and qualitative data analysis, data analysis software, the reliability and validity analysis of the quantitative data, reliability of data, reliability analysis, validity, data quality management, inclusion criteria, ethical consideration and dissemination of result and its utilization approaches.

In order to satisfy the objectives of the study, a qualitative and quantitative research method is apprehended in general. The study used these mixed strategies because the data were obtained from all aspects of the data source during the study time.

Therefore, the purpose of this methodology is to satisfy the research plan and target devised by the researcher.

To address the key research objectives, this research used both qualitative and quantitative methods and combination of primary and secondary sources. The qualitative data supports the quantitative data analysis and results. The result obtained is triangulated since the researcher utilized the qualitative and quantitative data types in the data analysis. The study area, data 29 sources, and sampling techniques were discussed under this section.

2.1 RESEARCH DESIGN OF THE STUDY:

Marketing research can be defined as the systematic design, collection, analysis, and reporting of the data and finding relevant to a specific marketing situation facing the company. Research design is the basic plan which guides the researchers in the collection and analysis of data required for practicing the research product. In fact the research design is the conceptual structure with which research is conducted. It consist the blue print for the collection, measurement and analysis of the data that was followed

completing the study to ensure that study is relevant to the problem and will follow the predetermined and set data.

The main data feature of "Research Design" is that it specifies population to be studied. The main them of the chapter is to know the source of the data the researcher has collected. Data are raw facts of observation, typically about physical phenomenon.

2.2 METHODOLOGY:

Collection of the data for the study can be drawn from following methods for study.
Sources of the data:
After determining the objectives of study and research design, the next important step is data is step collection method. The information has to be collected from the retailers. During the process of the study the data is collected from the target segment that is customers, dealers and distributors with help of a structured well designed questionnaire.

Data is collected from **Primary data**
Secondary data

Primary data
It was collected through questionnaire prepared contains relevant questions that are both close ended and opened. Individual and group interviews also under taken with difference consumers,I have collected mainly the Primary Data for my study by utilizing the questionnaire and interview methods.

Secondary data
These data are collected from published sources such as Magazines, NEWS papers, several books, and also from the help of web site www.hdfcsl.com. Desk review has been conducted to collect data from various secondary sources. This includes reports and project documents at each manufacturing sectors (more on medium and large level). Secondary data sources have been obtained from literatures regarding OSH, and the remaining data were from the companies' manuals, reports, and some management documents which were included under the desk review. Reputable journals, books, different articles, periodicals, proceedings, magazines, newsletters, newspapers, websites, and other sources were considered on the manufacturing industrial sectors.

The data also obtained from the existing working documents, manuals, procedures, reports, statistical data, policies, regulations, and standards were taken into account for the review.

2.3 Importance of Research Methodology in Research Study

Methodology is simply the means by which we collect and analyze data. Thus, how we arrive at results is just as important as the results alone. The importance is associated with not only the validity of the research itself but also the means by which others can replicate what we've done in the research. It is necessary for a researcher to design a methodology for the problem chosen. One should note that even if the method considered in two problems is same the methodology may be different. It is important for the researcher to know not only the research methods necessary for the research under taken but also the methodology. For example, a researcher not only needs to know how to calculate mean, variance and distribution function for a set of data, how to find a solution of a physical system described by mathematical model, how to determine the roots of algebraic equations and how to apply a particular method but also need to know

Which is a suitable method for the chosen problem?, What is the order of accuracy

of the result of a method?, What is the efficiency of the method? And so on.

Consideration of these aspects constitutes a research methodology

As it is indicated in the title, this chapter includes the research methodology of the dissertation. In more details, in this part the author outlines the research strategy, the research method, the research approach, the methods of data collection, the selection of the sample, the research process, the type of data analysis, the ethical considerations and the research limitations of the project.

(A) Sampling plan of the study: Sample size: Sample size refers to number of elements to be included in the study several qualitative factors should also be taken into consideration when determining the sample size. These include the nature of research, number of variable, and nature analysis, sample size used in similar studies incidence rates, completion rates, and resources constraints.

During the process of the study, survey has been conducted on 100 respondents.

Sampling method:

The researcher had choice between probability and non probability sampling methods. In this study a simple non probability method namely convenience sampling was adopted.

NON PROBABILITY METHOD – CONVENIENCE SAMPLING METHOD

CHPT. 3 Review of literature

Reviewing the literature on bank auditing reveals a multifaceted landscape, encompassing various topics such as audit quality, audit fees, auditor independence, regulatory compliance, and theimpact of auditing on financial stability. Studies often examine the effectiveness of auditing practices in detecting and preventing fraud, assessing risk management, and ensuring the reliability of financial reporting in the banking sector. Additionally, there is significant research focusing on the role of auditors in enhancing governance mechanisms within banks, including the relationship between audit committees and external auditors. Moreover, with the advent of new technologies and evolving regulatory requirements, recent literature explores the implications of digitalization and data analytics on bank auditing processes, highlighting the need for innovation and adaptability in audit methodologies. Overall, the literature underscores the critical importance of bank auditing in maintaining transparency, accountability, and trust in the financial system, while also recognizing the ongoing challenges and opportunities for improvement in audit practices within the dynamic banking environment.

A comprehensive review of the literature on bank audit reveals a rich and multifaceted landscape that delves into various aspects of auditing within the banking sector. This body of research encompasses a broad range of topics, including audit quality, audit fees, auditor independence, regulatory compliance, and the impact of auditing on financial stability.

One prominent area of study focuses on audit quality and its determinants. Scholars have examined factors influencing the effectiveness of auditing practices in the banking industry, such as auditor expertise, experience, and independence. They have investigated the relationship between audit quality and financial reporting reliability, as well as its role in mitigating the risk of fraud and error in banks' financial statements. Moreover, there is ongoing research into the measurement and assessment of audit quality metrics, aiming to provide insights into the efficacy of auditing procedures and their implications for stakeholders.

Another critical area of inquiry revolves around audit fees and their determinants in the banking sector. Researchers have explored factors influencing audit pricing, including bank size, complexity, risk profile, and regulatory requirements. They have also examined the impact of auditor specialization and market competition on audit fees, shedding light on the dynamics of fee negotiation between banks and their auditors. Moreover, there is growing interest in understanding the relationship between audit fees and audit quality, as well as the implications of fee structures auditor independence and objectivity.

Auditor independence is a perennial topic of interest in the literature on bank audit. Scholars have investigated various dimensions of auditor independence, including financial, personal, and behavioral independence, and their implications for audit quality and credibility. They have examined regulatory frameworks and professional standards aimed at safeguarding auditor independence, as well as the challenges and limitations associated with maintaining independence in practice. Furthermore, there is ongoing debate regarding the effectiveness of regulatory interventions and enforcement mechanisms in preserving auditor independence within the banking industry.

Regulatory compliance is another prominent theme in the literature on bank audit. Researchers have analyzed the impact of regulatory frameworks, such as Basel III, Dodd-Frank, and the Sarbanes-Oxley Act, on audit practices within the banking sector. They have examined the role of auditors in assessing banks' compliance with regulatory requirements, as well as the challenges and complexities of auditing in a rapidly evolving regulatory environment. Moreover, there is increasing emphasis on the need for auditors to adapt their methodologies and techniques to address emerging regulatory risks and requirements effectively.

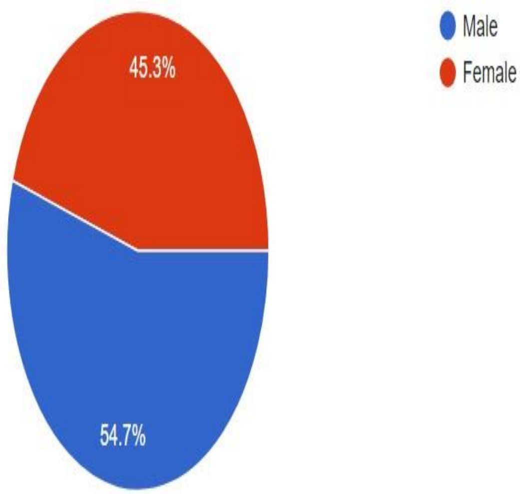
The literature also explores the broader implications of auditing on financial stability and systemic risk in the banking sector. Scholars have examined the role of auditors in identifying and mitigating risks associated with bank failures, as well as their contribution to enhancing market confidence and investor protection. They have analyzed the impact of audit failures and regulatory lapses on systemic stability, as well as the role of auditing in promoting accountability and transparency within the financial system.

In recent years, there has been growing interest in the implications of digitalization and data analytics for bank auditing. Researchers have explored the potential of technology-driven audit approaches, such as continuous auditing, artificial intelligence, and machine learning, in enhancing audit efficiency, effectiveness, and risk assessment. They have also examined the challenges and opportunities associated with integrating data analytics into traditional audit processes, as well as the implications for auditor skills, training, and professional judgment Overall, the literature on bank audit underscores the critical importance of auditing in maintaining trust, transparency, and accountability in the financial system. It reflects a dynamic and evolving field of study, characterized by ongoing debates, emerging challenges, and opportunities for innovation. As the banking industry continues to evolve in response to technological advancements, regulatory changes, and market dynamics, the role of auditing is likely to remain central to ensuring the integrity and stability of the financial system

CHPT.4 DATA ANALYSIS & INTERPRETATION

1. GENDER ;-

NUMBER OF RESPONDENTS	MALE	FEMALE
	54.7%	**45.3%**

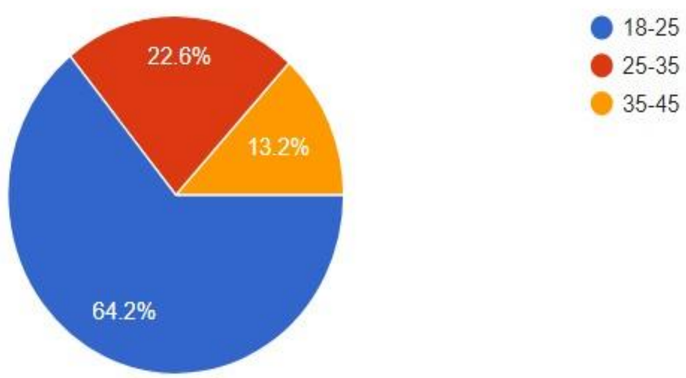


DATA ANALYSIS & INTERPRETATION

IN THIS ABOVE CHART, **54.7%** i.e 29 MALE GIVE RESPONSE & 24 FEMALE **45.3%** GIVE RESPONSE.

2. AGE

AGE	%
18-25	64.2%
25-35	22.6%
35-45	13.2%

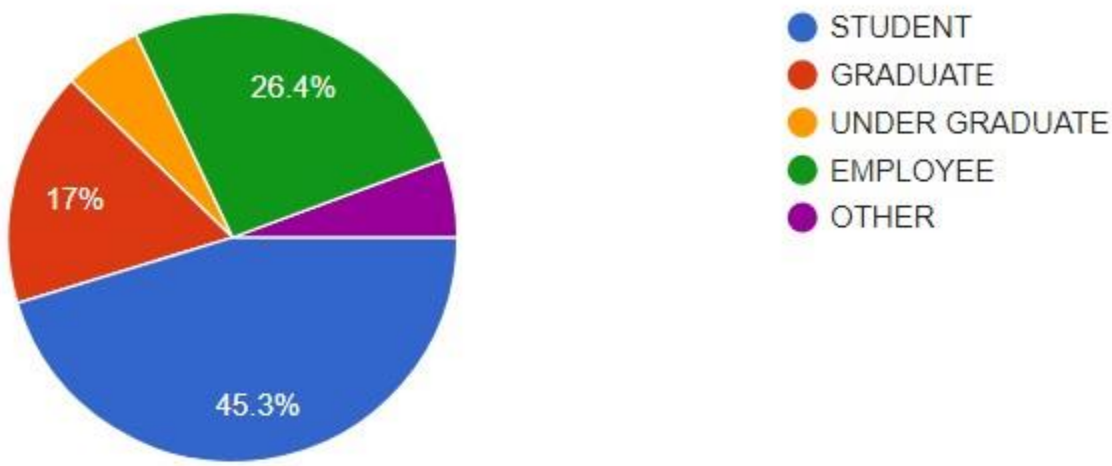


DATA ANALYSIS & INTERPRETATION

IN THIS CHART,**64.2%** PEOPLE ARE BETWEEN 18-25 i.e 34 response ,**22.6%** PEOPLE ARE BETWEEN 25-35 i.e 12 RESPONSE, **13.2%** PEOPLE ARE BETWEEN 35-45 i.e 7 RESPONSE .

3. **QUALIFICATION**

QUALIFICATION	%
STUDENT	**45.3%**
GRADUATE	**17%**
EMPLOYEE	**26.4%**
OTHER	**5.7%**

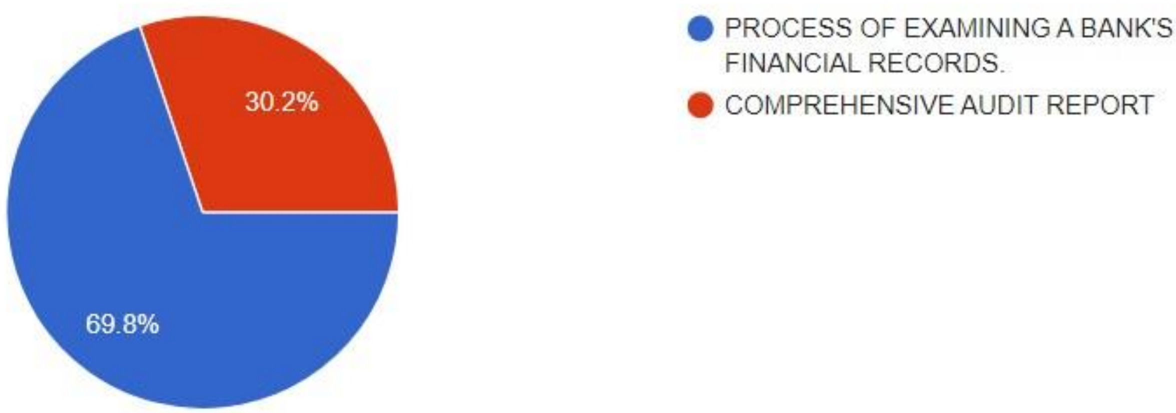


DATA ANALYSIS & INTERPRETATION

IN THIS ABOVE CHART ,**45.3%** PEOPLE ARE STUDENTS i.e 24 RESPONSE, **26.4%** PEOPLE ARE EMPLOYEE i.e 14 RESPONSE, **17%** PEOPLE ARE GRADUATE i.e 9 RESPONSE,**5.7** PEOPLE ARE OTHER i.e 3 RESPONSE.

4. WHAT IS BANK AUDITING ?

MEANING	**PROCESS OF EXAMINING A BANK’S FINANCIAL RECORDS**	**COMPRENSIVE AUDIT REPORT**
	69.8%	**30.2%**

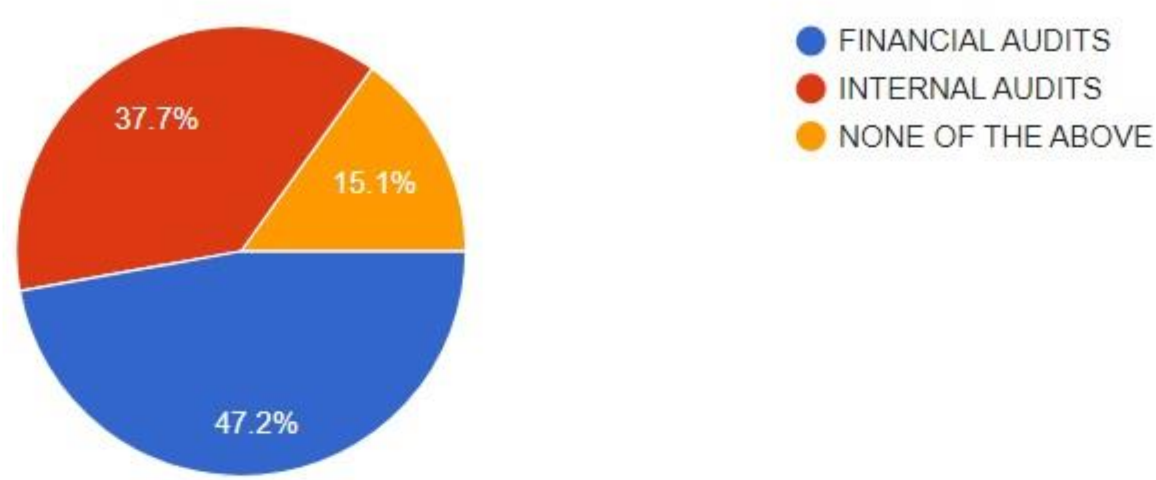


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM MEANING BANK AUDIT IS PROCESS OF EXAMINING A BANK’S FINANCIAL RECORDS, SO **69.8%** PEOPLE SELECT THIS CORRECT THIS OPTION, WHERE AS REMAINING **30.2%** PEOPLE SELECT COMPRENSIVE AUDIT REPORT AS A MEANING OF BANK AUDITING.

5. WHAT ARE THE DIFFERENT TYPES OF BANK AUDIT?

TYPES OF AUDIT	%
FINANCIAL AUDIT	47.2%
INTERNAL AUDIT	37.7%
NONE OF THE ABOVE	15.1%

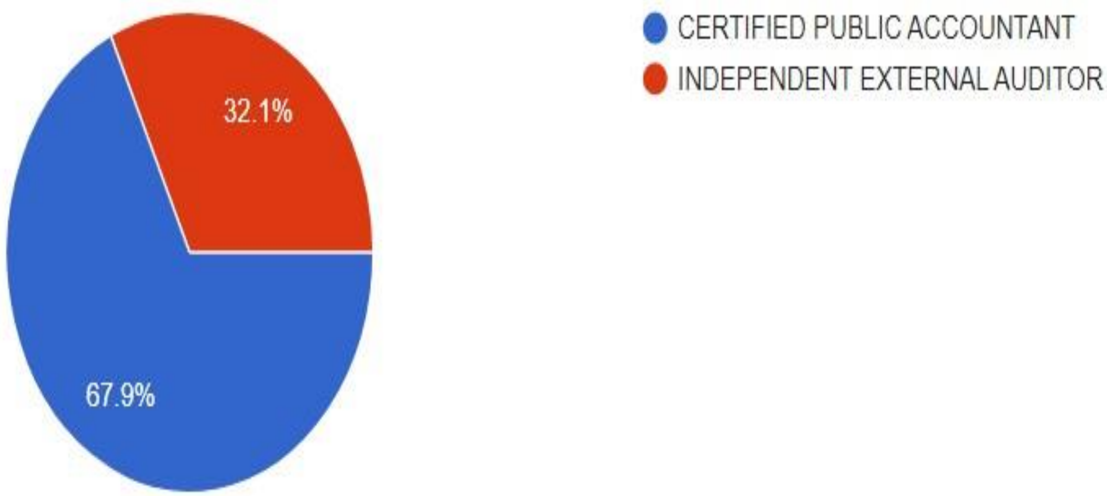


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE DIFFERENT TYPES OF BANK AUDIT IS INTERNAL AUDIT SO, **37.7%** PEOPLE SELECT THIS OPTION, BUT **47.2%** PROPLE SELECT FINANCIAL AUDIT.

6. **WHO CONDUNT BANK AUDIT ?**

WHO CONDUCT BANK AUDIT ?	%
CERTIFIED PUBLIC	67.9%
INDEPENDENT EXTERNAL AUDITOR	32.1%

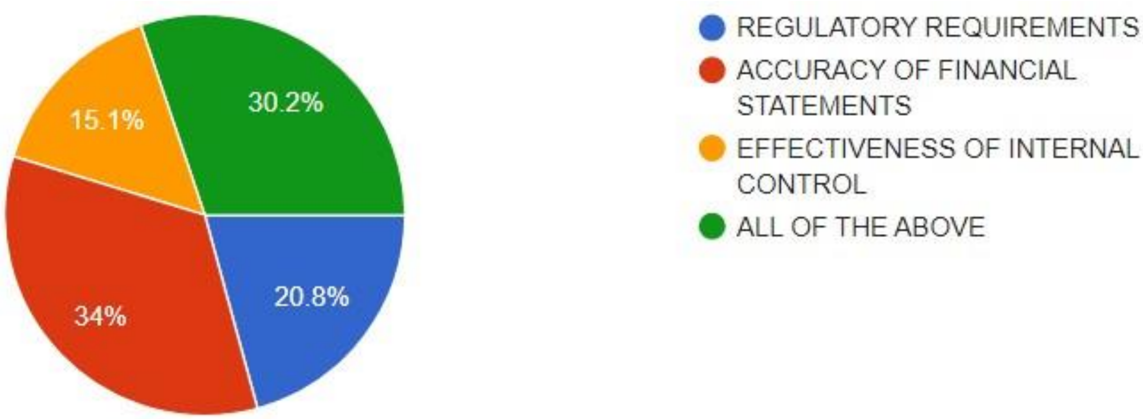


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE PERSON WHO CONDUCT BANK AUDIT IS INDEPENDENT AUDITOR SO, **32.1%** PEOPLE SELECTED INDEPENDENT EXTERNAL AUDITOR, BUT **67.9%** PEOPLE SELECT CERTIFIED PUBLIC ACCOUNTANT.

7. **WHAT ARE THE MAIN OBJECTIVES OF BANK AUDITING ?**

OBJECTIVES OF BANK AUDITING	%
REQULATORY REQUIREMENTS	20.8%
ACCURACY OF FINANCIAL STATEMENTS	34%
EFECTIVENESS OF INTERNAL CONTROL	15.1%
ALL OF THE ABOVE	30.2%

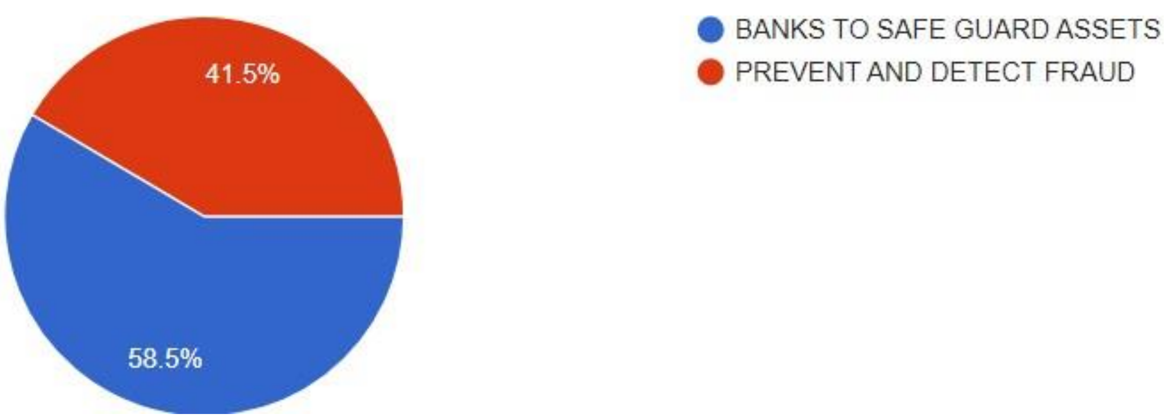


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE MAIN OBJECTIVE OF BANK AUDITING IS ALL OF THE ABOVE **30.2%** OF PROPLE SELECT THIS OPTION.

8. WHAT IS THE ROLE OF INTERNAL CONTROLS IN BANK AUDITING ?

ROLE OF INTERNAL CONTROL IN BANK AUDITING	%
BANKS TO SAFE GUARD ASSETS	58.5%
PREVENT & DETECT FRAUD	41.5%



DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE ROLE OF INTERNAL CONTROLS IN BANK AUDITING IS BANK'S TO SAFE GUARD ASSETS SO, **58.5%** PEOPLE SELECT THIS OPTION, BUT **41.5%** PEOPLE SELECT PREVENT & DETECT FRAUD THIS OPTION.

9. HOW DO AUDITORS ASSETS THE RISK ASSOCIATED WITH BANK ?

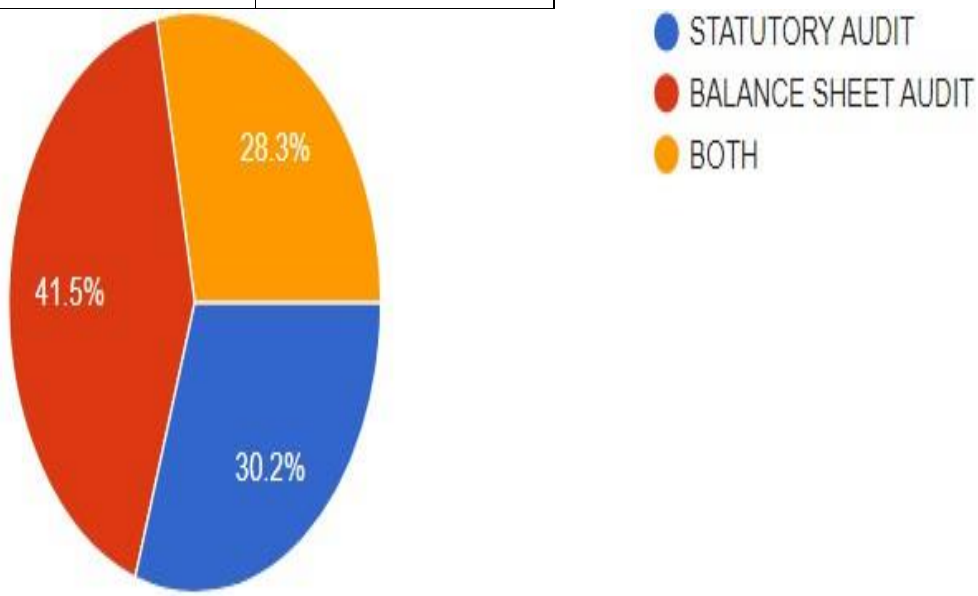
AUDITORS ASSETS THE RISK ASSOCIATED WITH BANK	%
ADEQUACY OF CAPITAL RESERVE	26.4%
CREDIT RISK MANAGEMENT	49.1%
FINANCIAL STABILITY	24.5%

DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE AUDITORS ASSETS THE RISK ASSOCIATED WITH BANK IS CREDIT RISK MANAGEMENT SO, **49.1%** PEOPLE SELECT THIS OPTION , **26.4%** PEOPLE SELECT ADEQUACY OF CAPITAL RESERVE THIS OPTION, **24.5%** PEOPLE SELECT FINANCIAL STABILITY THIS OPTION.

BANK AUDIT EXAMPLE	%
STATUTORY AUDIT	30.2%
BALANCE SHEET AUDIT	41.5%
BOTH	28.3%

10. AUDIT OF BANKS IS AN EXAMPLE OF ?

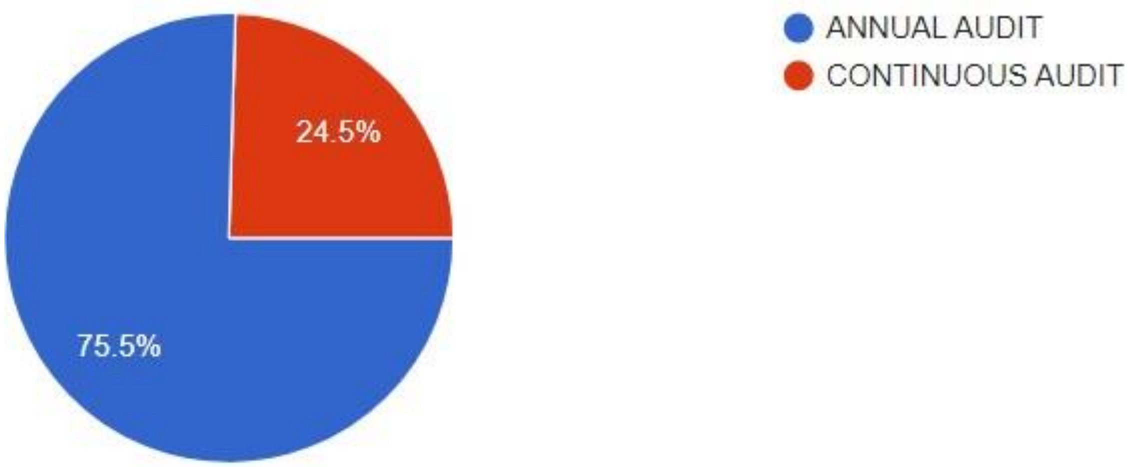


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE AUDIT OF BANK'S IS AN EXAMPLE OF STATUTORY AUDIT SO, **30.2%** PEOPLE SELECT THIS OPTION, BUT **41.5%** BALANCE SHEET AUDIT PEOPLE SELECT THIS OPTION,BUT **28.3%** BOTH PEOPLE ALSO SELECTT THIS OPTION.

11. IN INDIA BALANCE SHEET AUDIT IS SYNONYMOUS TO ?

BALANCE SHEET AUDIT	%
ANNUAL AUDIT	75%
CONTINUOUS	24.5%

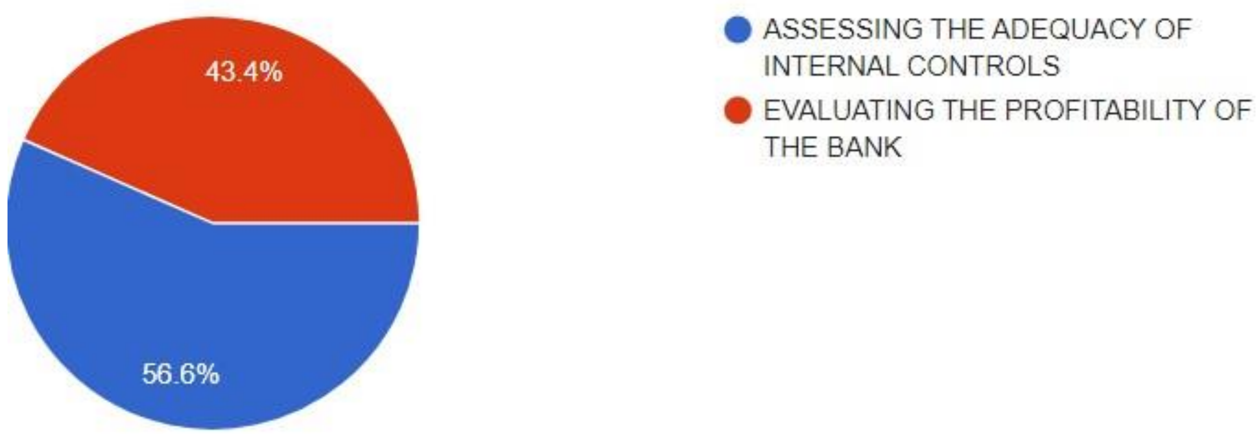


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM IN INDIA BALANCE SHEET AUDIT IS SYNONYMOUS TO ANNUAL AUDIT SO, **75.5%** OF PEOPLE SELECT THIS OPTION, BUT **24.5%** PEOPLE SELECT CONTINOUS.

12. **WHICH OF THE FOLLOWING IS NOT PRIMARY OBJECTIVE OF A BANK AUDIT ?**

PRIMARY OBJECTIVE BANK AUDIT	%
ASSESSING THE ADEQACY OF INTERNAL CONTROL	56.6%
EVALUATING THE PROFITABILITY OF THE BANK	43.3%



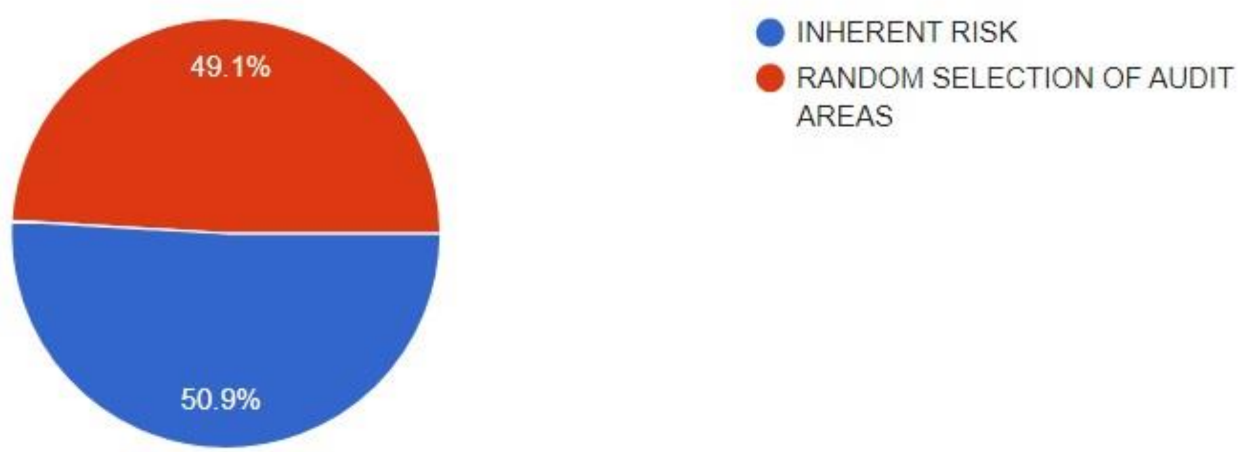
DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE ASSESSING THE ADEQUACY OF INTERNAL CONTROLS IS NOT A PRIMARY OBJECTIVE OF A BANK AUDIT, SO **56.6%** PEOPLE

SELECT THIS OPTION, BUT **43.4%** PEOPLE SELECT EVALUATING THE PROFITABILITY OF THE BANK THIS OPTION.

13. WHICH OF THE FOLLOWING IS A KEY COMPONENT OF RISK-BASED AUDITING IN BANK AUDITS ?

KEY COMPONENT	%
INHERENT RISK	**50.9%**
RANDOM SELECTION OFAUDIT AREAS	**49.1**

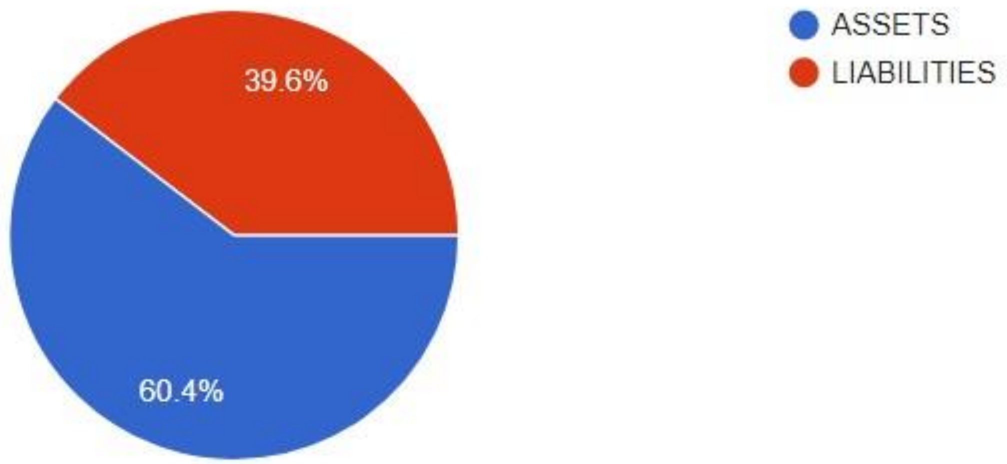


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM INHERENT RISK IS A KEY COMPONENT OF RISK-BASED AUDITING SO,**50.9%** PEOPLE SELECT THIS OPTION BUT, **49.1%** PEOPLE SELECT RANDOM SELECTION OF AUDIT AREAS THIS OPTION.

14. BALANCE SHEET AUDIT INCLUDES VERIFICATION OF ?

BALANCE SHEET AUDIT VERIFICATION	%
ASSETS	60.4%
LIABILITES	39.6%

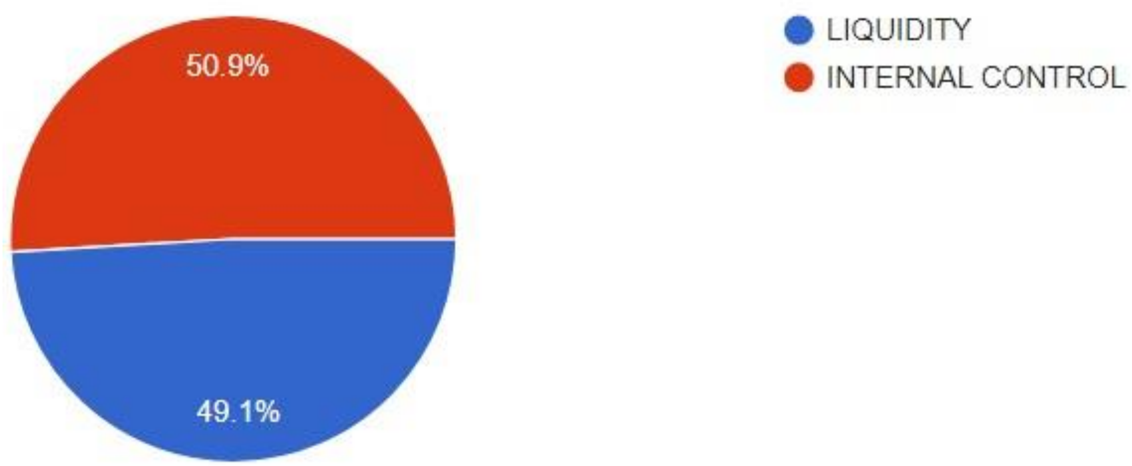


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM BALANCE SHEET AUDIT INCLUDES VERIFICATION OF ASSETS SO, **39.6%**OF PEOPLE SELECT THIS OPTION, BUT **60.4%** OF PEOPLE SELECT LIABILITIES THIS OPTION.

15. WHAT ARE THE KEYS EXAMINED DURING A BANK AUDIT ?

KEY AREAS EXAMINED	%
LIQUIDITY	49.1%
INTERNAL CONTROL	50.9%

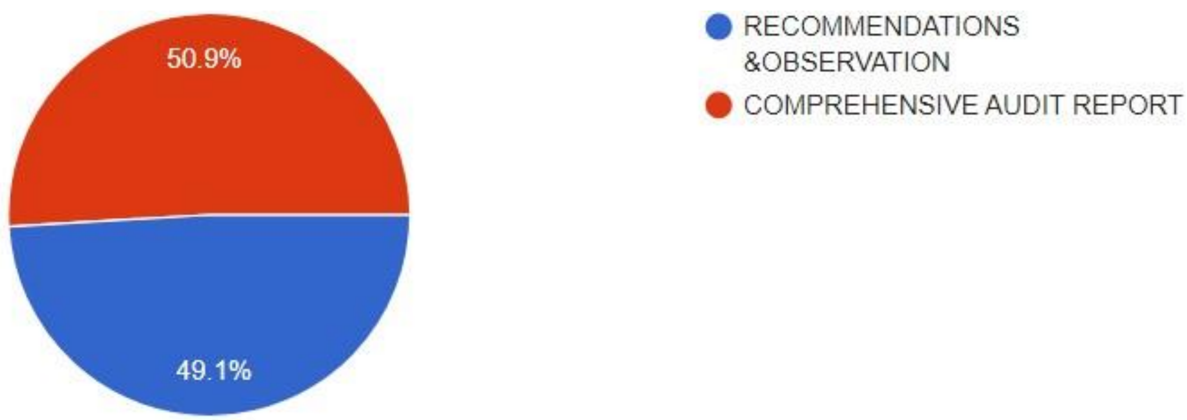


DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE KEYS EXAMINED DURING A BANK AUDIT IS LIQUIDITY SO, **49.1%** PEOPLE SELECT THIS OPTION, **50.9%** PEOPLE SELECT INTERNAL CONTOL THIS OPTION.

16. WHAT ARE THE REPORTING REQUIREMENTS AFTER COMPLETING A BANK AUDIT ?

REQUIREMENTS AFTER COMPLETING BANK AUDIT	%
RECOMMENDATIONS & OBSERVATION	49.1%
COMPREHENSIVE AUDIT REPORT	50.9%



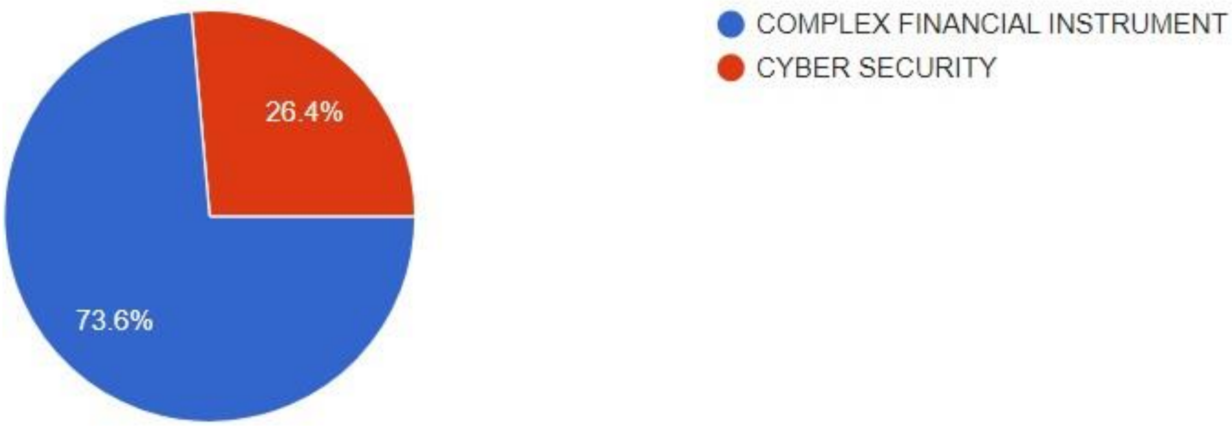
DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE REPORTING RREQUIREMENTS AFTER COMPLETING A BANK AUDIT IS RECOMMENDATIONS & OBSERVATION SO, **49.1%** PEOPLE SELECT THIS OPTION BUT, **50.9%** PEOPLE SELECT COMPRESENSIVE AUDIT REPORT SELECT THIS OPTION.

17. WHAT ARE SOME COMMON CHALLENGES FACED DURING BANK AUDIT ?

COMMON CHALLENGES	%
COMPLEX FINANCIAL INSTRUMENT	73.6%

CYBER SECURITY	**26.4%**



DATA ANALYSIS & INTERPRETATION

IN THE ABOVE DIAGRAM THE CYBER SECURITY ARE SOME COMMON CHALLENGES FACED DURING BANK AUDIT SO, **26.4%** POPLE SELECT THIS OPTION, BUT **73.6%** PEOPLE SELECT COMPLEX FINANCIAL INSTRUMENT THIS OPTIOIN.

CHPT.5 CONCLUSION

The conclusion on bank audit would typically summarize the findings of the audit process, highlight any areas of concern or compliance issues, and provide recommendations for improvement if necessary . It may also include an over all assessment of the bank’s financial health, risk management practices, and adherence to regulatory requirements. Ultimately, the conclusion should offer insights into the banks operations and help stakeholders make informed decisions about its performance and future direction.

The banking audit uncovers the breaching of laws and regulations of the financial institutions and their negligence in the following bank policies. Bank auditors focus on the cause of issues and make favourable recommendations for the institution. They document their findings and keep them on the file of the bank.

Bank audits are essential to ensure that the banks practices and good . The bank audits can be stress alleviating for the bank managers . Many audit software solutions can help the bank smooth out the stay compliant for an easy audit process.The aim of an audit of a banking company is rooted in compliance and can help the financial institution grow.

Enhancing efficiency and accuracy in bank auditing requires a holistic approach that combines technological innovation , collaboration , and risk management strategies. By leveraging advanced technologies , fostering collaboration ,and prioritizing compliance and risk management , banks can streamline auditing processes , enhance transparency ,and uphold the integrity of their operations in an increasingly complex and dynamic financial landscape.

Annexures play a crucial role in bank auditing by providing detailed information ,evidence , and analysis to support the audit process. By including annexures in the audit report , banks enhace transparency , accountability , regulatory compliance thereby frostering trust among stakeholders and ensuring the intergrity of financial reporting practices. It is essential for auditors and banking institutioins alike to recognize the significance of annexures and ensure their accuracy , completeness , and relevance in the audit process.

CHPT.6 SUGGESTIONS

Bank auditing plays a crucial role in ensuring financial institutions operate transparently and adhere to regulatory standards. With the increasing complexity of banking opertations and the evolving regulatory landscape , there's a growing need for banks to enhance the efficiency and accuracy of their auditing processes. This article explores various strategies and their and technologies that can be employed to streamline bank auditing procedures while maintaining high levels of accuracy and compliance.

1.UNDERSTANDING THE CHALLENGES:

- Complexity of banking operations: Banks engage in a wide range of financial activies ,including lending , investment , and trading, which can make auditing processes intricate. o Regulatory Compliance : Stringent regulations require banks to maintain comprehensive records and adhere to strict reporting standards , adding complexity to auditing procedures.

- Data Volume & Variety : Banks generate vast amounts of data from various sources, including transaction ,customers interactions , and market activites , making data management and analysis challenging for auditors.

- Risk Management : Auditors must assess nad mitigate various risk , including credit risk , market risk, and operational risk , to ensure the stability and intergrity of banking operations .

3. **LEVERAGING TECHNOLOGY FOR EFFICIENCY :**

* Automated Audit Tools : Implementing automated audit tools can streamline repetitive tasks such as data extraction, validation, and reconciliation, reducing the time and resources required for auditing.

* Data Analytics and AI : Utilizing advanced analytics and artificial intelligence (AI) techniques can enable auditors to identify patterns, anomalies,and trends in large datasets, enhancing detections capabilities and risk assessment.

* Blockchain Technology : Leveraging blockchain technololgy can improve the transparency and security of transactions ,enabling auditors to trace and verify transactions more efficiently.

* Cloud-Based Solutions : Adopting cloud-based audit solutions allows auditors to access data remotely, collaborate effectively, scale auditing processes as needed, enhancing flexibility and agility.

3. **ENHANCING COLLABORATION & COMMUNICATION** :

- Cross- Functional Teams : Establishment Cross-Functional audit teams comprising experts from various domains ,including finance ,technology ,risk managemen,fosters collaborations and ensures comprehensive audit coverage.

- Stakeholder Engagement : Engaging key stake holders , including regulators, board members, and senior management , throughout the auditing process promotes transparency ,accountability, alignment organizational objectives.

- ➢ Continous Traning and Development : Providing ongoing training and development opportunities for auditiors enables them to stay abreast of emerging trends, technologies and regulatory changes, enhancing their effectiveness and proficiency.

4. **ENSURING COMPLIANCE & RISK MANAGEMENT:**

- ✶ Robust Internal Controls: Implementing robust internal controls and governance frame works helps migitate risk and ensure compliance with regulatory requirements, fostering trust and confidence in banking operations.

- ✶ Proactive Risk Assessment : Conducting proactive risk assessments enables auditiors to identify potential risks and vulnerabilities early on, allowing for timely interventions and risk mitigations strategies.

- ✶ Continuous Monitoring : Implementing continuous monitoring mechanisms enables auditiors to detect and respond to emerging risks and compliance issues in real-time ,enhancing the resilience and agility of banking operations.

CHPT.7 ANNEXURE

BANKING AUDIT IS A CRITICAL PROCESS THAT ENSURES FINACIAL INSTITUIONS OPERATE WITHIN REGULATORY GUIDELINES, MAINTAIN SOUND FINACIAL

HEALTH, AND SAFE GUARD STAKESSSHOLDERS'INTEREST. AMONG THE VARIOUS COMPONENTS OF BANK AUDITING, ANNEXURES PLAY A PIVOTAL ROLE IN PROVIDING DETAILED INFORMATIONS AND SUPPORTING EVIDENCE FOR THE AUDIT PROCESS.

WHAT IS AN ANNEXURE ?

An annexure, in the context of bank auditing, refers to supplementary documents, schedules, or statements that accompany the primary audit report. These annexures contain additional information, analyses, or explanations that support the findings and conclusions presented in the audit report.

IMPORTANCE OF ANNEXURESIN BANK AUDIT:

1. Comprehensive Documentation: Annexures provided a detailed breakdown of financial transactions, accounts, and other relevant data, ensuring that auditors have access to all pertinent information during the audit process.

2. Evidence and Verification: Annexures serve as evidence to substantiate the assertions made in the audit report. They provide documentation of transactions, balances, and procedures, enabling auditors to verify the accuracy and validity of financial records.

3. Transparency and Accountability: By including annexures in the audit report, banks demonstrate transparency in their financial reporting practices. Stakeholders including shareholders, regulators, and investors, can review the annexures to gain a deeper understanding of the banks operations and financial performance.

4. Risk Assessment and Mitigation: Annexures aid auditors in identifying potential risks and vulnerabilities within the bank's operations. By analysing transactional data and supporting documents, auditors can assess the effectiveness of internal controls and recommend measures to mitigate risk.

5. Regulatory compliance: Annexures helps ensure that banks adhere to regulatory requirements and requirements and reporting standards. Auditors use these documents to verify compliance with laws, regulations, and accounting principles, thereby

TYPES OF ANNEXURES IN BANK AUDIT

1. Financial Statements: Annexures may include detailed financial statements, such as balances sheets, income statements, and cash flow statements, providing a comprehensive overview of the bank's financial position and performance.

2. Transactions Logs and Registers: Annexures often contain transactions logs, registers, or ledgers that record individual transactions, including deposits, withdrawals, loans, and investments. These documents facilitate the reconciliation of accounts and the tracing of specific transactions during the audit process.

3. Supporting Documentations: Annexures may encompass various supporting documents, such as bank statements, invocies, contracts, and correspondence, providing additional context and evidence for audited transactions and balances.

4. Audit Working Papers: Auditors prepare working prepare working papers as annexures to document their audit procedures, findings, and conclusions. These

working papers serve as a reference for audit documentations and provide a basis for audit quality review.

CHPT.8 REFERENCES

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