

# PRACTICAL HANDBOOK FOR PERFORMING BANK BRANCH AUDIT

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# PRACTICAL HANDBOOK FOR PERFORMING BANK BRANCH AUDIT

All banks perform various functions / activities in compliance with RBI Guidelines and Banking Regulation Act, 1949. Main activities of Bank are accepting deposits, granting loans and advances, payment and settlement and Treasury i.e. investment of surplus funds.

## Business Understanding

- Obtain understanding of activities carried out at the bank branch in line with SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".
- Core business and products offered at the branches.
- Check whether branch allotted is deposit oriented or advanced oriented.
- Special aspects to understand will include:
  - Fresh Loans and documentation and monitoring and classification of advance
  - Foreign Exchange Business,
  - FDI transactions,
  - ODI transactions,
  - Import Export and other current account transactions.
  - Loan against Gold or loan against securities/Shares or loan against property –
  - Operations of non-operative accounts
  - KYC updation process and controls – this has been a source of several frauds.
  - Issuance of Bank Guarantees
  - Issuance of inland and foreign LC
  - Authorisation of swift messages
  - Suspense account
  - Inter branch / HO balance reconciliation
  - Bills sent for collection
  - Bills discounted – whether supported by LC or not
- Understanding of compliances and guidelines of RBI and the Bank management will be very important
- Types of facilities provided to borrowers and the Standard Operating Procedures (SOP), or the product policies approved by the banks management should be studied
- Core banking solution used by the bank and the reports and exception reports which can be generated from them

- Soft data maintained by bank in respect of processing and monitoring of advances
- Role and responsibilities of the branch officials, internal controls and centralized /decentralized operations.

## Audit Planning

- Document audit plan in line with requirements of SA 300, "Planning an Audit of Financial Statements".
- Apply concept of Materiality in planning and performing audit of financial statements in line with SA 320.
- Obtain previous year/period's reports of the previous statutory auditor and its compliance status.
- Obtain Bank Closing Guidelines / Instructions
- RBI mandated Internal control on Financial Reporting (ICOFR) Reporting for Public Sector Banks from FY 2020-21. SCAs (Statutory Central Auditor) submits ICOFR report based on testing carried out by them. In case, SBAs selected for testing ICOFR, same should be included while planning.
- Make list of all annual returns / financial statements and certificates to be verified and certified as part of Branch audit.
- Third Schedule of Banking Regulation Act, 1949 and RBI Master Direction on "Financial Statements - Presentation and Disclosures" provides guidelines to the banks on the presentation of Financial Statements, regulatory clarification on compliance with AS and disclosures in notes to accounts.
- The Statutory Branch Auditors (SBAs) should report all the deficiencies noted by him in Long Form Audit Report (LFAR).
- List out specific representations on certain matters where auditor relied upon during course of audit for inclusion in the Management Representation Letter.

# Pre-commencement of Audit

- Communicate with Retiring Auditor to meet Ethical requirement
- Co-ordination with Branch Management is essential for an effective audit and timely completion. Branch Auditors (SBA) should send communication for accepting the appointment along with basic information that would be required in audit in line with SA 210 – Agreeing the Terms of Audit engagement and other info.
- Audit team to have basic understanding about RBI regulations and circulars governing specialized as well as normal branch and initiate the verification related to non-financial areas like documentation review, sanctioning terms, review of the supervision and monitoring terms, review of the concurrent/internal audit and inspection reports, etc.
- SBA should obtain basic information about nature and size of banking activities, sanctioning terms, supervision and monitoring terms, bank's closing circular, concurrent / internal / ICOFR (mandatory for Public Sector Banks from FY 2020-21) audit report.
- The Auditor should also seek a copy of Detailed list of advances as on 31st March and identify the Advances to be examined based on materiality criteria determined.



***[Refer Annexure 1- letter to Branch Management seeking initial information ]***

## Audit Documentation in Bank Branch Audit

- SBA should ensure that documentation meet the requirements of SA 230 “Audit Documentation” and specific documentation requirements of other SAs and regulatory norms.
- SBA should prepare audit documentation on a real time basis.
- Maintain Documentation w.r.t to planning & risk assessment (nature, timing and extent of audit), audit strategy (risk based, compliance driven, and data driven) for performing the audit, any special audit considerations for risks due to fraud and related party transactions, applicable legal and regulatory framework, materiality levels, results of audit procedures performed and significant matters arising during audit, conclusions reached and significant judgements made.
- Documentation includes, Audit plan and programs (assigning responsibility of conduct, review and final authorization), final working papers and analysis, Issue-Memorandum, summaries of significant matters discussed with branch management, letters of confirmations and representations, checklists, correspondences (including e-mail) concerning significant matters with the branch or central office.



***[Refer Annexure 2- Illustrative list of documents to be maintained in Bank Branch Audit specified under Chapter 3 of Guidance note on Audit of Banks (2026)]***

- Document checklist of SAs and remarks of signatory against each as to compliance to be maintained.

***[Refer Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]***

# Special Considerations in a CBS Environment

Core Banking Solution (CBS) works on the concept of centralized database and processing. Updating of data is on real time basis. Under CBS, back office of branches is considered as Service Outlets (SOL). SBA should call for reports of CBS in use at branch. SBA should scrutinize sample MIS reports and master data / parameters to assess the accuracy and adequacy thereof.

Bank should share information about key aspects of IT environment with SCA /SBA at regular intervals.

- This includes information about:
  - IT Policy, Structure and environment and changes thereof
  - Data processing, interface, integrity and security
  - Business Continuity and Disaster recovery plans
- Controls over key aspects such as account codes and mapping, e-banking and internet banking products or channels, manual interventions, etc.
- Audit logs/ trails for changes in master data, administrative privileges and backend access
- List of exceptions granted to system driven classification and authorization
- MIS and Major Exception reports
- Major IT related issues having bearing on preparation of financial statements
- Significant observation by Auditors on computerized accounting and overall IT systems
- Banks are required to get system audit done by Auditor who is CA and also a Certified Information System Auditor and registered with ISACA.
- **Classification of Advances:** As per RBI Circular on "Automation of Income Recognition, Asset Classification and Provisioning (IRACP) processes in banks", Banks should have system-based asset classification for down gradation and upgradation of accounts.

Banks should ensure that the asset classification status is updated as part of day end process and



able to generate classification status report at any given point of time with actual date of classification of assets as NPAs/NPIs.

**Manual intervention:** Banks shall not resort to manual intervention / over-ride in the system-based asset classification process. In any exceptional circumstance where manual intervention is required to override the system classification, it must have at least two-level authorisation.

**Auditors need to check all material cases and borderline cases about the transactions in last 2 weeks in the party ledger to identify any window dressing or manual intervention undertaken by bank.**

As per RBI Master Direction on "Frauds – Classification and Reporting by commercial banks and select FIs", banks should track Early Warning Signals (EWS) integrating with the credit monitoring process so that it trigger for any possible credit impairment in the loan accounts, given the interplay between credit risks and fraud risks. Most prominent EWS are suspicious related party transactions, financial statement and stock statement manipulations for enhanced loan eligibility and wrong IRAC classification due to manual interventions and subjective considerations in monitoring and restructuring processes.

- Chapter III of Master Directions RBI/DOS/2024-25/118 DOS.CO.FMG.SEC.No.5/23.04.001/2024-

# Special Considerations in a CBS Environment

25 dated July 15, 2024 on "Fraud Risk Management in Commercial Banks (including Regional Rural Banks) and All India Financial Institutions", banks are required to have a comprehensive Early Warning Signals (EWS) framework integrated with CBS

**FRAUD RISK on CBS :** When the letter of understanding (LOU) is issued, message for the credit transfer is conveyed by the sending bank to the overseas banks through SWIFT (Society for Worldwide Interbank Financial Telecommunication) system and this message through SWIFT is termed as sending bank's consent and guarantee to the overseas bank. The Sending bank official must log into its CBS system to route the transaction on SWIFT. Fraud on CBS occurs when SWIFT is not integrated with CBS and a perpetrator can easily send LOUs to overseas bank simply bypassing the CBS.

At branch Level, SBA should carry out test of controls and substantive checking of sample transactions through CBS. All major loan accounts with borrowing in excess of Rs 2 Crores. There is a need for examination by Auditors of Key security control. The Auditor need to ensure that:

- Authorised, accurate and complete data is made available for processing. In case of interruption due to power, mechanical or processing failures, the system restarts without distorting the completion of the entries and records.
- Segregation of duties while granting access controls
- Changes made in the parameters or user levels are authenticated.
- Manually calculated charges are properly accounted and authorised. **The interest calculation may need to be sample checked, as there could be bug in the system.**
- **Amendments in master data especially relating to interest rate need closer examination as there could be unauthorised manual intervention .**
- Exceptional transaction reports are being authorised and verified on a daily basis by the

concerned officials.

- Account master and balance cannot be modified except by the authorised personnel.
- All general ledger accounts codes authorised by Head Office are in existence in the system. General ledger balance tallies with the balance in subsidiary book.
- The EWS system should monitor transactional data, borrower financials, market intelligence, and borrower conduct, triggering investigations for potential fraud, with red-flagged accounts requiring completion within 180 days. Auditors must inquire about the bank's EWS implementation in the CBS/MIS and report identified EWS instances to top management and the Audit Committee of the Board.

***[Refer Annexure 4- Illustrative checklist of special purpose / reports in CBS prescribed under Chapter 5 of Guidance Note on Audit of Banks (2026)]***

## Audit of Cash

- Compliance with cash management policy of the bank
- Check adequacy of internal controls on custody of cash such as joint custody, rotation of duties for keys management, daily cash check etc.
- Proper system of Segregation of Duties for receipt, accounting & physical verification.
- Physically check cash at the branch, cash at the ATM forming part of branch and cash at CDM (Cash Deposit Machines) and reconcile the same with GL balances.
- If branch deposit a large portion of their cash balance with the RBI or the State Bank of India or any other bank on the closing day, verify sufficient appropriate evidence for the same
- Compliance with limit for cash holding by branch throughout the year.
- Adequacy of Cash insurance to cover cash-in hand and cash-in transit.
- Maintenance of Cash Reserve Ratio as per RBI Guidelines.

# Automation of Income Recognition, Asset classification and Provisioning process (RBI Guidelines)

- RBI has issued Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 on November 28, 2025 containing detailed framework and guidelines on automation. The said guidelines are based on Notification No. RBI/2020-21/37 Ref. No. DoS.CO.PPG./SEC.03/11.01.005/2020-21 Dt. September 14, 2020
- **Coverage of Automation-**
  - All borrowal accounts, including temporary overdrafts, irrespective of size, sector or types of limits, shall be covered in the automated IT based system ('System') for asset classification, upgradation, and provisioning processes. A bank's investments shall also be covered under the System.
  - Asset classification rules shall be configured in the System, in compliance with the regulatory stipulations.
  - Calculation of provisioning requirement shall also be System based as per pre-set rules for various categories of assets, value of security as captured in the System and any other regulatory stipulations issued from time to time on provisioning requirements.
  - In addition, income recognition / derecognition in case of impaired assets (NPAs / Non-Performing Investments [NPIs]) shall be system driven and amount required to be reversed from the income account should be obtained from the System without any manual intervention.
  - The System shall handle both downgrade and upgrade of accounts through Straight Through Process (STP) without manual intervention.
- **Exceptions to the Automation-**
  - Exceptions may be granted from System driven classification in certain circumstances, which are expected to be minimum and temporary. These exceptions shall be from automated classification and not from income recognition, asset classification and provisioning norms under these Directions and shall be subject to the conditions specified below.
  - A bank shall not resort to manual intervention / over-ride in the System based asset classification process.
  - In any exceptional circumstance where manual intervention is required to override the System classification, it shall have at least two level authorisation. Such delegation of powers for authorising the exceptions shall be as per the Board approved policy of the bank (by CEO, in case of unavailability of Board) and preferably be done from the centralised location and suitably documented. Further, any such intervention shall have appropriate audit trails and subjected to audit by concurrent and statutory auditors. Detailed reports of such manual intervention shall be placed before the Audit Committee / Audit Head (banks having no Board) regularly.
  - A bank shall maintain logs for all exceptions i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose / reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall also be stored for a minimum period of three years and not be tampered with during the storage period. These logs shall be system generated

***[Refer Annexure 5- Illustrative checklist for Review of Automation of Income Recognition, Asset Classification and Provisioning Processes under Chapter 5 of Guidance Note on Audit of Banks (2026)]***

# Audit of Balances with RBI, SBI & Other Banks (For Branches with Treasury Operations)

Applicable only if branch has kept cash balance with RBI, SBI & Other banks.

- Check balance confirmation certificates obtained from banks.
- Review Bank Reconciliation Statement.
- Check charges or outstanding interest have been considered.
- Check outstanding cheques and cheques returned unpaid, if any.
- Check bills or outstanding cheques sent for collection and outstanding as on the closing date have been credited subsequently.
- Examine Large transactions in inter-bank accounts.
- Check balance confirmation certificates obtained from banks in respect of outstanding deposits and interest on such deposits recorded on time proportion basis
- Verify balances with banks outside India and conversion thereof in Indian currency at the rate prevailing on Balance Sheet Date.

## Audit of Money at call and Short Notice (For Branches with Treasury Operations)

To maintain liquidity, banks invests/ lends and borrows fund for short term (14 days) through money market. Generally, this activity is handled by treasury department of Bank. If such operations exist at branch (confirm through trial balance), SBA should check:

- Obtain copy of communication between branch and treasury branch.
- Ensure entries pertaining to the branch are appropriately identified and passed in the books of accounts.
- Check compliance with instructions/ guidelines issued by the controlling authorities of the bank.
- Confirmation and reconciliation of year-end balances
- Proper recording of interest accrued upto the year-end
- The Treasury Department typically manages these transactions, such transaction does not appear in branch books. The auditor should confirm their absence in the Branch Trial Balance.
- If such transactions exist at the branch, the auditor must conduct due diligence and report accordingly.

## Audit of Investments (For Branches Outside India/Auditors of Treasury Operations)

Generally, such types of transaction not appear in branch books, except in case of branch handling treasury operation. However, branches outside India, carry out investment activity as well. In such cases, for investments appearing in branch trial balance, Auditor should:

- Verify (physical or based on custodian report) and reconcile investments with books.
- Check compliance with instructions/ guidelines issued by the controlling authorities for purchase and sale of investments
- Check mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located.
- Check matured or overdue investments which have not been encashed or not been serviced.
- Check classification of Investments as NPI and provision made if maturity amount not received or interest not served, for more than 90 days.

# Audit of Agriculture Advances

RBI has classified lending to the agriculture and allied activities under Priority Sector Lending (PSL). The categories under priority sector are as follows: (i) Agriculture (ii) Micro, small and medium enterprises (iii) Export credit (iv) Education (v) Housing (vi) Social infrastructure (vii) Renewable energy (viii) Others. Lending to Agriculture includes Farm Credit, Loan to corporate farmers, agriculture infrastructure, ancillary services, Kisan Credit Card, Small & Marginal Farmers, etc.

Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above lend 40 per cent of ANBC (Adjusted Net Bank Credit) to Priority Section. Method of computing ANBC specified under RBI Master Direction on "Priority Sector Lending (PSL) - Targets and Classification".

- Obtain written representation from Management about the scheme, its applicability and period of loan disbursed.
- Verify sanction is as per Bank guidelines framed by the bank. Check pre & post sanction visit records.
- Verify Classification, lending percentage and utilization is as RBI Master Direction on "Priority Sector Lending (PSL) - Targets and Classification".
- Examine documents evidencing the utilisation of loans for agricultural & allied activities.
- Credit Flow to Agriculture – Collateral free agricultural loans, the limit for collateral free agricultural loans including loans for allied activities has been increased from the existing level of ₹1.6 lakh to ₹2 lakh per borrower w.e.f. January 01, 2025. Further vide RBI circular no. RBI/2025-2026/66 FIDD.CO.FSD.BC.No.08/05.05.010/2025-26 dated July 11, 2025 it is clarified that loans against **voluntary pledge of Gold and Silver as collateral by borrowers, sanctioned by the banks up to the collateral free limit, as covered under the relevant Circular /Master Direction will not be construed as a violation of guidelines** as regards to collateral free loans.
- Interest subvention will be calculated on the loan amount from the date of its disbursement/drawal/renewal up to the date of actual repayment of the loan or up to the tenure/ due date/renewal of loans fixed by the banks/PACS, whichever is earlier, subject to a maximum period of one year.
- Verify source, nature and timing of credits coming in to service the agricultural loans.
- **Check accuracy of Interest** on Agricultural Advances was in line RBI Circular on "Charging of Interest at monthly rests – Agricultural Advances". Circular specifies charging/compounding of interest on agricultural advances linked to crop seasons. The State Level Banker's Committee of the respective State decides the crop season for each crop. "Long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops would be treated as "Short duration" crops.
- The RBI Circular on "**Modified Interest Subvention Scheme for Short Term Loans** for Agriculture and Allied Activities availed through Kisan Credit Card (KCC) during the financial years 2024-25 and 2025-26" provides limits and Interest subvention percentage (3%) on short term crop loans, short term loans for allied activities and in case of severe natural calamities".
- For interest subvention, Auditors have to submit a certificate of interest subvention along with annual accounts of the branch audited by them. Verify book credit entries for availing the interest subvention, list of eligible borrowers, limits, interest subvention rate.
- **NPA Quick identification:** The outstanding in advance accounts, if it is more than the sanctioned limit and interest for 18 months period, all such cases are likely to be NPA. This can be checked by excel calculation of Outstanding divided by sanctioned limit – calculate as a percentage.
- Ensure reporting requirements as per closing instructions of the bank.

# Audit of Advances and NPA related matters

Advances generally comprise of Money lent by bank to its customers including interest accrued and due, Debit balances in depositor accounts and Inter-Bank Participation Certificates. SBAs should acquaint themselves with the credit policy of the bank, advances portfolio composition, applicable RBI guidelines, relevant laws and regulations.

Fund-based facilities are term loans, cash credits and overdrafts while non-fund-based facilities are letters of credit, bank guarantees, letter of comfort/undertaking, etc. Non-fund-based facility

may turn into a fund-based facility on due date, if not paid by the borrower, for e.g., devolvement of bills under LC, invocation of bank guarantee, etc.



- Examine all large advances (where outstanding amount is in excess of 10% outstanding aggregate balance of fund based or non- fund based advances of the branch or Rs.10 crores, whichever is less). Also select advance accounts for each type – each of Unsecured, Educational, Housing, Vehicle, Personal, loan against FD, Loan against Shares, Loan against property, Loans granted against other securities. Besides loan accounts cash credit accounts, overdraft against property, bills discounting / purchase accounts should be selected for verification, a mix of both - new sanctions in the current year and sanctions of previous years. Sampling should be based on SA 530 Audit and in accordance with the requirement of LFAR. The LFAR specifies the format in which the auditor has to obtain data from the branch for large advances. The compilation has to be done by the branch. The auditor has to review on a test check basis whether the data keyed into the system is correct.
- **Personal visit to borrowers:** In sample cases , it is very important to visit manufacturing plant and /or warehouses of borrowers to see the operations, inventory levels, Debtors position and creditors position live on the day of visit from accounting system, atmosphere in factory/ commercial establishment , approximate head count – a sixth sense of Auditors will give them idea of problem accounts.
- **Looking too Good:** Such accounts are more important to deeply examine by ledger scrutiny, review of Financial statements, quarterly results, industry report, Google on Company and Promoters, GST payment trends, Outstanding tax payments, delay in payment of statutory dues or delay in salary **are indicators of red flag.**
- **Visit and verify large collateral security:** Examine samples to check validity of recorded amounts and loan documentation. Loan documents would be affected by the legal status of the borrower and the nature of security. Check there is no unrecorded advances.
- **Valuation:** concentrated valuation by few valuers from panel and their repetition is a red flag.
- Ensure stated basis of valuation of (primary/collateral) securities w.r.t advances is appropriately applied and recoverability of advances is recognised in their valuation. Check existence, enforcement and valuation of security. **Valuation report can not be more than 3 years old.**
- Check procedure for **loan balance confirmation.** Also check signatures with signatures on record of authorised signatory.
- Advances are disclosed, classified and described and adequate provisions made in accordance with

# Audit of Advances and NPA related matters

regulatory requirements.

- **Security classification:** In case an NPA or large advances are classified as secured, very carefully check the security papers and evidence of inventory details, Debtors list and also collateral security valuation – should not be more than the circle rates of area. Also examine that original genuine papers of title are with the Bank
- **Flat under construction:** the flats or land underneath can not be treated as security unless the flats are allotted, and these are ready. The cases of misuse of names of flat buyer to borrow need close attention, specially when a significant percentage of flat booking persons are with same builder. These could be cases of misuse of borrower names. Builders borrowing from same bank are cases which need investigative enquiry.
- **Be a Blood Hound:** The role of Bank auditor in case of advances is to work with suspicion on all lending transactions and it is important to rely only on original genuine documents. A little doubt as well as sample cases, it is important to examine credential of borrowers deeply. An examination of MCA data by public inspection, Review of income tax portal with the help of user id and password provided by borrower, GST returns and GST portal in all sensitive cases will be very important. Examination of tax returns, large demands, litigation, failure to pay tax or tds in time are indicators of a big problem. One need to cover all major Companies and entities of the Group.
- **In case of duplicate title deed or signature of title creation document not matching with the property owner's signature on the title deeds as well as signature in the bank account operated by such property owner. The bogus title deed s fabricated by borrowers is a rampant fraud - very common.**
- Check sanctioning, disbursement, review / renewal and monitoring of advances in line with procedures / instructions of the Controlling authorities of Bank. **In case of new sanctions – review valuation of security very carefully. Auditor can not rely on valuation report alone. The fraud of higher valuation at the time of sanction result in large bad debts of bank.**
- Examine all large advances (where outstanding amount is in excess of 5% outstanding aggregate balance of fund based or non- fund based advances of the branch or Rs.10 crores, whichever is less). Check status and security for Top / Large Exposure Accounts. **It is important to carefully verify atleast 25% of such advances very deeply including plant visit, MCA public inspection, default reports, use of specialised data bases and tools to identify fraudster and manipulators.**
- **Change of Auditor :** In all cases where borrower has changed the Audit firm before 5 years, it could be a case needing closer look.
- **Disbursement:** This is a requirement in the LFAR also. Review all disbursements during the year for large advances. Compliance of disbursement conditions is important.
- Accounts that generally have overdue beyond 60 days or likely to slip to NPA at the quarter end are termed as stressed accounts. Review the list of stressed accounts for its completeness and accuracy. Perform analytical procedure to identify trend of slippage in stressed accounts at quarter and month ends and actions taken (tracking defaults and reporting) for resolution of stressed accounts.
- Review restructured or rephased accounts with reference to revised terms of sanction properly approved by the relevant sanctioning authority & check compliance thereof. Ensure compliance with RBI master circular which deals in detail on manner and mode of treatment of restructured advances.
- Obtain List of borrowers referred and cases admitted or filed under the Insolvency and Bankruptcy Code 2016

## Audit of Advances and NPA related matters

- Unsecured exposure has significant impact on the bank, if it slips to NPA. Obtain List of Unsecured Exposures above Rs.1 Crore.
- Check and report of quick mortality cases i.e. the accounts slipped to NPA within 12 months of sanction and verify action taken by bank in such cases.
- Check accounts upgraded or downgraded during the year, accounts rated adversely as per bank's internal ratings, inspection or concurrent audit, previous year audit, etc.
- Obtain the list of accounts identified in EWS (**Early Warning Signals**) reports at the branch to analyse the possible indication of stress and accordingly factor-in for LFAR reporting purpose.
- **Scrutinize advance accounts Ledgers:** to check compliance with limits, stagnancy, drawing against deposits not free from lien, window dressing, correctness of interest rates, roll over and renewals, correct and valid credit ratings fed in system, credit limit sanction beyond delegated authority of limits fixed for branch.
- An advance is treated as **secured to the extent of the value of the security** on the reporting date. Examine evidence available as to ownership (title documents), existence (physical verification), enforceability and market / realizable value of security. Security can be in the form of goods, stock exchange securities & other securities, gold ornaments & bullions, life insurance policies, bank's own deposit certificates, plantations, immovable properties, third party guarantees, etc.
- Review audited financial statements in case of non-corporate buyers, stock statements in case of hypothecated / pledged goods, demat statements in case of stock exchange securities, surrender value certificate in Life Insurance Policies, lien in case of Bank's own deposit certificates, guarantee bonds / promissory notes in case of third party guarantees etc. to assess recoverability of advances. Check quantity, value and nature of hypothecated / pledged goods with stock statements received from borrower. Ensure system of obtaining stock audit reports or conduct stock audits, where applicable.
- **Ensure security /charges / lien** are appropriately registered or assigned in the favour of bank. Verify procedure of Inspection or physical verification carried out of branch. Check for deterioration in value of security by comparing valuation reports on record.
- **In case of Gold Loans**, sample check availability of sealed packets with gold loans outstanding on reporting date. Verify valuers' certificate regarding net gold content & their valuation and ensure compliance with RBI Guidelines. The banks have been advised that while granting advance against the security of specially minted gold coins sold by them, banks should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) and silver coins (weighing up to 500 grams) should be within the Board approved limit. Such loans to be granted by the bank, may be covered under the policy framed by the bank's Board. Further, while granting advances against the gold/silver coins, they may ensure, without fail that the end use of the funds is for approved, non-speculative purposes. The SBA should inspect the sealed gold packets on test basis and verify the seals are intact. The weights mentioned on the bars may generally be accepted as correct.
- Accounts should be kept within the drawing power and the sanctioned limit. The drawing power needs to be verified carefully in case of working capital advances to entities engaged in construction business. Check mobilization advance being received by the contractors is reduced while calculating the drawing power. In respect of certain businesses such as diamond merchants and jewellers, the SBA should

# Audit of Advances and NPA related matters

exercise due caution while verifying realisable value of precious metals, diamonds, jewellery etc. In case of consortium accounts, the drawing power calculation and allocation is made by the Lead Bank and is binding on the member bank.

- **Drawing Power (DP)** is required to be arrived at based on current stock statement. The drawing power calculated from stock statement older than 3 months has to be considered as irregular (overdue). If such "irregular" account continues for 90 days, it has to be classified as NPA, even though the account is otherwise operated regularly. Stock statements, quarterly returns, annual audit report (CARO & Schedule III) and other statements submitted by the borrower to the bank should be scrutinized in detail. Monthly stock statement should be compared with the audited and the reasons for deviations, if any, should be ascertained. For accounts having funded exposure over Rs. 5 crores, review report submitted by the stock auditors and focus on comments made by the stock auditors on valuation of security and calculation of drawing power.
- **Bills purchased and discounted** by the bank are generally drawn on outside parties and are, therefore, sent by the bank to its branches or agents for collection immediately after their receipt. They are generally not in the possession of the bank on the closing date. They are shown separately in the balance sheet as part of 'advances. Examine whether registers of bills purchased and discounted are properly maintained and all transactions are correctly recorded. Check bills and supporting title documents are properly endorsed and assigned in bank's name.
- In case of **Retails loans** acquired through transfer of Pool of Assets either on Portfolio Basis or on Individual Loan Basis, Auditor should ensure transfer shall be only on cash basis and the consideration calculated on arm's length basis received immediately. Carry out due diligence of such loans, modification to exposure ceilings, classification and provisioning, if required. RBI master direction require performance and credit monitoring of the pool assets at obligor level i.e., at the level of each asset.
- Check red flagged accounts for deviations with Bank Policy & reported as fraud within 6 months.
- **In case of advances under consortium & multiple banking arrangements**, where the bank, not being the leader, examine classification, compliance with limits by obtaining copy of certificate/report should be obtained from lead bank for review and record.
- In case of Inter – Bank Participation certificates on risk sharing basis, examine classification and adequate provisioning in case of loss of value.
- **Imposition of Penal interest** on delayed submission of stock statements, non-creation of security, overdrawn accounts etc., needs to be charged as per sanctioned terms and norms of the bank.
- Check frequency and amounts of credits in account, commensurate with sanction limit & volume of borrower.
- Compliance with Income Recognition and Asset Classification (IRAC) Guidelines of RBI.
- **Ensure correct classification** of advances into performing and nonperforming categories. From Dec.2021, RBI mandated that income recognition, asset classification and provisioning should be totally automated by the banks. Prepare Memorandum of Changes for incorrect classification, interest and collection charges.
- **Check adequacy of provisions** for cases wherein process under IBC is mandated but not initiated by Branch. Check ECGC (Export Credit Guarantee Corporation) claims lodged with year end status. In case of claims rejected, same should be considered as uncovered while calculating provision.
- **For export financing**, Export packing credit in rupees or foreign currency to be issued on the

## Audit of Advances and NPA related matters

basis of letter of credit or a confirmed and irremovable order for the export of goods/services, for a maximum period of 360 days. Liquidation of EPC / PCFC will be by way of export proceeds only. RBI Master Direction on export of goods and services, prescribes that AD Category-I banks may permit exporters to repay packing credit advances from balances in their EEFC (Exchange Earners' Foreign Currency) to the extent exports have actually taken place. Check EPC (Export Packing Credit) / PCFC (Pre shipment Credit in Foreign Currency) accounts opened, maintained & liquidated as per RBI Guidelines. Check interest, sanction limits, credit report and use of advances as per Bank Policy.

- **A bank guarantee** is a written contract given by a bank on the behalf of a customer. By issuing this guarantee, a bank takes responsibility for payment of a sum of money in case, if it is not paid by the customer on whose behalf the guarantee has been issued. In return, a bank gets a commission for issuing the guarantee. Auditor should ensure proper classification of guarantees in to performance or financial as they carry separate risk weights. Ensure compliance with RBI Master Circular on "Guarantees and Co-acceptances". As per circular, Bank guarantees issued for Rs. 50,000/- and above should be signed by two officials jointly unless lower cut-off is prescribed by bank. Non fund based advances are prone to frauds and due care needs to be taken while verifying these facilities Check sanction, documentation, approval, Margin money, collateral security, disclosure, fees received, renewal, reconciliation with GL & reversal on expiry in respect of Guarantees issued during the year.
- **A Letter of Credit** is an arrangement whereby Bank acting at the request of a customer (Importer / Buyer), undertakes to pay for the goods / services, to a third party (Exporter / Beneficiary) by a given date, on documents being presented in compliance with the conditions laid down. Check LC issued with

documentation, sanctioned limits, approval and status of closure. For LCs devolved or guarantees invoked, check removal from non-fund based advances and appropriate recording. Also, consider the probability of invocation / devolvement of the guarantees / letters of credit on their due dates and consider making appropriate provisioning thereon as of current date.

- **In respect of non-fund based facilities** (such as LCs/BGs/LoU/LoC) related to NPA borrowal accounts (whether secured by tangible assets or not), provision is required to be made as stipulated in AS 29. A borrowal account becoming an NPA, does not necessarily mean that non-fund based exposures of borrowal account will also become NPA. Hence, it requires assessment on case-to-case basis.
- For Govt. Guarantees, specific rules apply, and the auditor should ensure that these are followed.
- **All accounts which are overdue or stops generating income for the banks continuously for 90 days, have to be treated as NPA** and provision should be made as per extant guidelines of RBI. Obtain NPA Movement statement. Compare NPA accounts with previous year. Check charging of penal interest, bank charges, processing fees on due dates on NPA classification. Ensure bank has not recognised income on Non-Performing Assets until it is actually realised. In respect of NPAs, fees, commission, lease charges and similar income that have accrued in the current period should be reversed, if uncollected/ unrealized.
- In the case of advances upgraded during the year, review such upgradation in the light of the criteria specified for upgradation of NPA accounts, considering the possibility of incorrect upgradation of account on the basis of partial recoveries made in the account wherein the overdue portion is not extinguished in entirety, recoveries made in the account subsequent to the cut-off date, (i.e., date of financial

## Audit of Advances and NPA related matters

statements) and non-identification of NPAs on on-going basis resulting in an account being considered as standard though overdue portion of such unidentified NPAs is not recovered in entirety.

- Ensure that each customer of the bank is tagged under one single customer ID / Unique Customer Identification Code (UCIC) in respect of all its accounts, including those in which credit facilities are granted, irrespective of their location, to enable the bank, (subject to the relaxations/exceptions for the time being applicable to any account/facility), to accord the same NPA classification status to the customer/borrower, based on the most adverse classification determined for any of its account/facility.
- Check up-dation of borrowers' defaults in Central Repository of Information on Large Credits (CRILC) for advances over Rs. 5 Crores, which maintains history of the borrowers from inception.
- For advances less than Rs. 5 Crores, check eligibility of borrowers before sanctioning from Central Fraud Registry (CFR) (maintained by RBI) which holds all the data regarding frauds reported by banks in India.
- Check the review / renewal of advances, availability of drawing power, restructured cases, credit and debit summation in accounts, daily stamping of NPA, evergreening of loans, etc.

***[Refer Annexure 6 - Audit Approach, Procedures including Regulatory Considerations prescribed under Chapter 11 of Guidance Note on Audit of Banks (2026)]***

## RBI Guidelines On Income Recognition, Asset Classification, Provisioning And Other Related Matters

The Auditor needs to review and comment as to whether has branch identified and classified advances into standard / substandard/doubtful/loss assets through the computer system without manual intervention (in line with the norms prescribed by the Reserve Bank of India) (The auditor may refer the relevant H.O. instructions for identification of NPAs and classification of advances).

### ASSET CLASSIFICATION

The guidelines require banks to classify their advances into four broad categories for the purpose of provisioning as follows:

- **Standard assets:** A standard asset is one which is not a non-performing asset and does not carry more than normal banking risk attached to the business. The banks shall recognise incipient stress in loan accounts, immediately on default, by classifying such assets as Special Mention Accounts (SMA)-0,1 &2 based on Principal or Interest payment or any other amount wholly or partly overdue between 1-30, 31-60, 61-90 days respectively.
- In the case of revolving credit facilities like cash credit, the SMA sub-categories will be SMA-1 & 2 based on outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of 31-60 days & 61-90 days respectively. The date of SMA/NPA shall reflect the asset classification status of an account at the day end of that calendar date. SMA classification of borrower accounts are applicable to all loans, including retail loans, irrespective of the size of exposure of the lending institution
- **Sub-standard assets:** A sub-standard asset is one which has remained NPA for a period less than or equal to 12 months.
- **Doubtful assets:** An asset is classified as doubtful if it has remained in the sub-standard category for a period of 12 months.

# RBI Guidelines On Income Recognition, Asset Classification, Provisioning And Other Related Matters

- **Loss assets:** A loss asset is one which has been identified as wholly irrecoverable either by the bank; or the internal or external auditors; or the RBI inspectors, but the amount has not been written off wholly i.e. an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

## Classification Norms relating to NPAs

- **Cash credit/overdraft (CC/OD) account** is classified as NPA if it is 'out of order'. An account shall be treated as 'out of order' if:
  - the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
  - the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period
- A **term loan** is treated as a non-performing asset (NPA) if interest and/or instalment of principal remain overdue for a period of more than 90 days.
- **Bills purchased and discounted** are treated as NPA if they remain overdue and unpaid for a period of more than 90 days.
- **Securitization asset** is to be treated as NPA if the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021.
- **Agriculture Advances** - A loan granted for short duration crops is to be treated as NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons and, a loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season
- **Credit card account** will be treated as NPA if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the payment due date mentioned in the statement.

The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc.

Banks should ensure that drawings in the working capital account are covered by the adequacy of the current assets, since current assets are first appropriated in times of distress. Drawing Power (DP) is required to be arrived at based on current stock statement. The outstanding in the account based on drawing power calculated from stock statements older than three months is deemed as irregular. A **Working capital borrowing account** will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working, or the borrower's financial position is satisfactory.

**Regular and ad hoc credit limits** need to be reviewed/ regularized not later than three months from the due date/date of ad hoc sanction. An account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.

Asset classification of **borrower accounts** where regularisation of account carried out near about Balance Sheet date or by making payment through cheque should be handled with care and without scope for subjectivity.

# Rbi Guidelines On Income Recognition, Asset Classification, Provisioning And Other Related Matters

All facilities granted to a borrower and investment made in securities issued by the borrower will have to be treated as NPA / Non-Performing Investments (NPI), once any or a part of the facility / investment has become irregular, except in case of preference shares wherein if the same are marked as NPI, the rest of the exposures are not required to be considered as non-performing.

In case of bills discounted under LC favouring a borrower may not be classified as a NPA, when any other facility granted to the borrower is classified as NPA. Further, in case of bills discounted under LC, if the payment under the LC is not made on the due date by the LC issuing bank for any reason, unless the amount is immediately made good by the borrower, the auditor needs to review the availability of security in the light of the straight away classification norms specified.

**Overdue receivables** representing positive mark-to-market value of a derivative contract will be treated as NPA, if these remain unpaid for 90 days or more. For unrealised income already booked by the bank on accrual basis, after 90 days of overdue period, the amount already taken to 'Profit and Loss account' should be reversed and held in a 'Suspense Account-Crystallised Receivables.

Normally NPA assessment is done based on record of recovery of dues in advances account. However, there are many **Other Non-Financial Parameters** such as inherent weakness of the account, non-achievement of date of commencement of commercial operations, failure to comply with key restructuring conditions, Erosion in value of security, etc. which also should be considered while assessing classification of NPA account.

In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers, such accounts should be straightaway classified as doubtful or loss asset, as appropriate.

- Erosion in the value of securities by more than 50 per cent of the value assessed by the bank or accepted by RBI inspection team- considered as "significant", requiring the asset to be classified as doubtful and provided for adequately.
- In case of secured loan, if the realisable value of security as assessed by bank/approved valuers/RBI is less than 10 per cent of the outstanding in the borrower accounts, should be classified as loss asset and accordingly fully provided for.
- In respect of all cases of fraud, the entire amount due to the bank (irrespective of the quantum of security held against such assets), or for which the bank is liable (including in case of deposit accounts), is to be provided for.

The **credit facilities backed by guarantees of Central Government** though overdue may be treated as NPA only when the Government repudiates its guarantee by invoking it. In case of State Government guaranteed loans, this exemption will not be available and such account will be NPA if interest / principal / other dues remain overdue for more than 90 days.

Where the remittances by the borrower **under consortium lending arrangements** are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account should be treated as not serviced in the books of the other member banks and therefore, an NPA.

**Advances against term deposits, NSCs eligible for surrender, KVP and life policies** need not be treated as NPAs, provided adequate margin is available in the accounts.

Where the **credit extended** by banks are guaranteed by **EXIM Bank**, the extent to which payment has been received from EXIM Bank on guarantee the advance may not be treated as NPA.

# Rbi Guidelines On Income Recognition, Asset Classification, Provisioning And Other Related Matters

**Take out Finance** - The taking over institution, on taking over such assets, should make provision treating the account as NPA from the actual date of it becoming NPA even though the account was not in its books as on that date.

**Export Project Finance** - Where the actual importer has paid the dues to the bank abroad and the proceeds have not been made good to the bank granting finance due to any political reasons, such account need not be classified as NPA if the bank is able to establish through documentary evidence that the importer has cleared the dues in full by payment received to the credit of account of exporter maintained in such country. The account will, however, have to be considered as NPA if at the end of one year from the date the amount was deposited by the importer in the bank abroad, the amount has not still been remitted to the bank.

## INCOME RECOGNITION

- Banks recognise income (such as interest, fees and commission) on accrual basis, i.e., as it is earned.
- In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not recognise income on non-performing assets until it is actually realised
- If any advance including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to the income account in the past periods should be reversed if the same is not realised. Interest for the current year if recognised till the date of identification but not realised should also be reversed.
- Interest income on advances against term deposits, NSCs, IVPs, KVPs and life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.
- Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.
- In cases of loans where moratorium has been granted for repayment of interest, income may be recognised on accrual basis for accounts which continue to be classified as 'standard'.
- If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.
- The finance charge component of finance income (as defined in AS 19 – Leases) on the leased asset which has accrued and was credited to income account before the asset became non-performing, and remaining unrealised, should be reversed or provided for in the current accounting period
- In the case of take-out finance, if based on record of recovery, the account is classified by the lending bank as NPA, it should not be recognised as income unless realised from the borrower/taking-over institution (if the arrangement so provides).

## PROVISIONING FOR LOANS AND ADVANCES

- **Loss Assets** - The entire amount should be written off. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.
- **Doubtful Assets** - Provisioning for doubtful assets under loans and advances is as under:
  - Full provision to the extent of the unsecured portion should be made.
  - In regard to the secured portion, provision may be made on the following basis, at the rates ranging

# Rbi Guidelines On Income Recognition, Asset Classification, Provisioning And Other Related Matters

from 25 to 100 per cent of secured portion depending upon the period for which the asset has remained doubtful. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances

Period for which the advance has been considered as doubtful	Percentage of provision on secured portion
Upto 1 year	25
More than 1 year and upto 3 years	40
More than 3 years	100

- In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 25 to 100 per cent of secured portion depending upon the period for which the asset has remained doubtful. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances.
- Sub-Standard Assets** - A general provision of 15 per cent on total outstanding should be made without making any allowance for DICGC/ECGC cover and securities available. Unsecured exposures, which are identified, as sub-standard would attract an additional provision of 10 per cent (i.e., total 25 per cent of total outstanding). However, in view of certain safeguards such as escrow accounts available in respect of infrastructure lending, infrastructure loan accounts which are classified as sub-standard will attract a provisioning of 20 per cent instead of the aforesaid prescription of 25 per cent. 'Unsecured exposure' is defined as an exposure (including all funded and non-funded exposures) where realisable value of the tangible security properly charged to the bank, as assessed by bank/approved valuers/RBI inspectors, is not more than 10 per cent, ab initio, of the outstanding exposure. 'Security' means tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State Government guarantees), comfort letters, etc.
- Standard Assets** - The bank is required to make a general provision for 'standard assets' at the following rates for the funded outstanding on global loan portfolio basis. The general provision is as follows:
  - a) Farm credit to agricultural activities, individual housing loans and Small and Micro Enterprises (SMEs) sectors - 0.25 per cent.
  - b) Advances to Commercial Real Estate (CRE) sector – 1.25 per cent in construction phase and 1 percent for project in operation phase.
  - c) Advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 1.00 per cent in construction phase and 0.75 per cent for project in operation phase.
  - d) Housing loans extended at teaser rates– 2.00 per cent
  - e) **Restructured accounts** classified as standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.
- All other loans and advances not included in (a), (b), (c), (d) and (e) above - 0.40 per cent
- A high level of unhedged foreign currency exposures of the entities can increase the probability of default in times of high currency volatility. Hence, banks are required to estimate the risk of unhedged position of their borrowers and make incremental provisions on their exposures to such entities.
- Credit exposures computed as per the current marked to market value of the contract, arising on account of the interest rate and foreign exchange derivative transactions, and gold, shall also attract

# Rbi Guidelines On Income Recognition, Asset Classification, Provisioning And Other Related Matters

provisioning requirement as applicable to the loan assets in the 'standard' category, of the concerned counterparties.

- **Provisioning Norms for Leased Assets:** For Substandard assets: a) 15 per cent of the sum of the net investment in the lease and the unrealised portion of finance income net of finance charge component. The terms 'net investment in the lease', 'finance income' and 'finance charge' are as defined in 'AS 19 Leases' issued by the ICAI. b) Unsecured lease exposures which are identified as 'substandard' would attract additional provision of 10 percent, i.e., a total of 25 percent. For Doubtful & Loss assets - Provisioning norms are same as applicable to advances.
- For advances guaranteed by ECGC, provision should be made only for the balance in excess of the amount of such guarantee. Further, while arriving at the provision required to be made for doubtful assets, realisable value of the securities should first be deducted from the outstanding balance in respect of the amount guaranteed by these corporations and then provision should be made.



# Audit of Fixed Assets and Other Assets

- Check classification of Assets as per third Schedule to the Banking Regulation Act, 1949 which requires Fixed assets to be classified into two categories in the balance sheet, viz., 'Premises' and 'Other Fixed Assets'.
- Verify authorization, title deeds, invoicing, payment, approval, classification and recording of purchase of fixed Assets is as per Bank Procedure.
- Check compliance. RBI Master Circular on "Para- Banking Activities", provides methodology, exposure, accounting, and prudential norms to be followed by banks undertaking leasing activity. In case of leased assets, verify capitalization, amortization, accounting and provisioning in compliance with AS 19 and RBI guidelines. Section 9 of the Banking Regulation Act, 1949, which prohibits a banking company from holding any immovable property exceeding seven years from the date of acquisition.
- For other fixed assets, check system of controlling, recording of movement and depreciation in line with AS 10.
- Check compliance with provisions of the Schedule II to the Companies Act, 2013 and HO Policy for Depreciation
- Ensure adequacy of insurance coverage and sample check existence of assets through physical verification. Review the adequacy of internal control system for accountability & utilisation of fixed assets.
- Ensure compliance with AS 28 for Assets no longer in use and provision for impairment.
- Check adequacy of records, receipts and communication to HO in respect of disposals (destroyed, scrapped or sold) effected at the branch.
- In case of Capital WIP, check authorization, work records, estimation of capital expenditure provisionally capitalized and disclosure under separate heading 'premise under construction'.
- For Other Assets such as stationary & stamps, non-banking assets acquired in satisfaction of claims, etc. check controls over valuation, physical verification of assets acquired with reference to the relevant documentary evidence.
- For Other Assets such as non-interest-bearing staff advances, examine the availability, enforceability & valuation of security and recoverability in line with Bank's Policy.
- For Suspense account, obtain details of old outstanding entries/ age-wise balances along with narrations, reconcile them and adequately provide for in Books.
- Verify that if any credit entries are outstanding for more than five years in the inter-branch account and transfer them to a separate 'Blocked Account' which should be shown under 'Other Liabilities and Provisions - Others'



# Audit of Borrowings & Deposits

- Check compliance of RBI instructions and guidelines on opening of Current / CC / OD Accounts. Ensure savings accounts are opened only for eligible entities for savings purposes and not for business purposes.
- Examine borrowings from the Reserve Bank of India (RBI), other banks, and financial institutions to ensure they are duly authorized. Cross-check relevant supporting documentation, including confirmation certificates, sanction letters, loan agreements, interest rate details, security arrangements, and correspondence records.
- Status & Compliance of KYC, ReKYC and Statement of Financial Transactions reporting. Ensure requirements specified by RBI vide Know Your Customer (KYC) Direction, 2016 has been complied.
- Given the heightened regulatory emphasis on KYC / CKYC compliance, timely updating of customer information, and proper handling of unclaimed and dormant deposit accounts, the SBA should treat any non-compliance as a significant audit concern. Instances such as non-availability of V-CIP for KYC/Re-KYC, failure to update CKYC records, inadequate verification or documentation for withdrawals from inoperative accounts, or the bank's failure to utilise the UDGAM portal for tracing unclaimed deposits should be critically examined. All such lapses should be reported as audit exceptions in the Long Form Audit Report (LFAR) or internal audit memorandum, along with suitable recommendations for corrective action.
- Ensure various types of deposits, and all known liabilities are recorded and stated at appropriate amounts.
- For term deposits, check all such cases to verify the correctness of the interest rates offered. In case of bulk deposits (Rs.3 crore and above for Scheduled Commercial Banks and Small Finance Banks and Rs.1 crore and above for Regional Rural Banks), the auditor should check all such cases to verify the correctness of the interest rates offered.
- For deposits designated in foreign currencies examine conversion and their effect on profit and loss account. For interest rate on deposits held in held in FCNR(B) accounts.
- In terms of Foreign Exchange Management (Crystallization of Inoperative Foreign Currency Deposits) Regulations, 2014 and as per RBI Circular on Instructions Relating to Deposits held in FCNR(B) Accounts, inoperative deposits having a fixed term and those with no fixed term maturity after the expiry of a 3 month notice, upon completion of 3 years, will get crystallized into Rupees
- Examine calculation and disclosure of interest accrued but not due on under the head 'other liabilities and provisions'.
- Check unclaimed deposits and withdrawal from inoperative deposit account in depth being potential fraud area.
- For Unclaimed Deposits / Inoperative Accounts, check compliance with RBI Circular on "Unclaimed Deposits / Inoperative Accounts in banks". As per RBI Circular on "Unclaimed Deposits / Inoperative Accounts in banks", a savings as well as current account should be treated as inoperative / dormant if there are no transactions in the account for over a period of two years.
- Review sample some of the inoperative accounts revived / closed during the year to ascertain inoperative accounts are 'revived' only with proper authority. Ensure system should not allow the withdrawal in inoperative accounts through overrides.
- Verify the existence of audit log for cheque returns due to account dormancy and subsequent activation and system to intimate and follow up with the customers in case of dormant accounts.

# Audit of Borrowings & Deposits

- As per RBI circular on Depositor Education and Awareness Fund (DEAF) Scheme, 2014 - Operational Guidelines”, all such unclaimed liabilities (where amount due has been transferred to DEAF may be reflected as “Contingent Liability”. Check compliance with DEAF Scheme 2014 for calculation and disclosure of interest on such unclaimed interest-bearing de+posits.
- Ensure Proper Authorization for borrowings of money at call and short notice.
- Verify unveiled portion of the credit facilities (overdraft, cash credit), cheques /bills purchased / discounted are used to boost the loans and deposit at the cut off dates to validate the element of window dressing. Also, verify debits are made in suspense account/ sundries receivable account with an offset credit in current account at the cut off dates.
- The bank has to ensure that requisite procedures are followed while unmarking an inoperative account and marking it as 'operative'. Further banks are required to contact the holder of the inoperative account/unclaimed deposit through letters, emails or SMS on a quarterly basis and shall undertake special drives periodically to find out the whereabouts of the customers of such accounts.
- Accounts opened as zero balance for beneficiaries of Central/State Government Schemes and for students who receive scholarship are not to be classified as dormant.
- As per Master Circular No. RBI/2025-26/02 FIDD.GSSD.CO.BC.No.01/09.01.003/2025-26 - “Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY NRLM)” dated April 1, 2025, Bank can open Saving Bank Deposit for SHG, Companies licensed under Section 8 of the Companies Act, 2013 and Societies subject to compliance of condition mentioned in this Master Circular



# Audit of Other Liabilities & Provisions

- Verify accuracy and appropriateness of identification, recording, accounting and squaring off of inter branch transactions. The Auditor must scrutinize 'Office Accounts' or 'Internal Accounts' for any manual debits used to service borrower loan accounts (evergreening). Verify that no customer funds are parked in these accounts to avoid 'Day-End' adverse reporting.
- Determine accuracy in calculating accrued interest.
- Conduct scrutiny of such accounts to verify the transactions in Bill Payable, Sundry Deposits, etc.
- Contingent liabilities includes Letters of Credit, Bank Guarantees and Letters of Comfort, Letters of Undertaking, Liability on Partly Paid Investments, Liability on Account of Outstanding Forward Exchange Contracts and Derivatives Contract, Guarantees Given on Behalf of Constituents, Acceptances, Endorsements and Other Obligations.
- Check compliance with requirements of RBI directions for disclosure of Contingent liabilities. Refer RBI Directions & Circulars on "Guarantees and Co-acceptances", on "External Commercial Borrowings, Trade Credits and Structured Obligations", "Discontinuation of Letter of Undertaking (LOUs) and Letter of Comfort (LOCs) for Trade credit" and on "The Depositor Education and Awareness Fund Scheme, 2014".
- Other items for which the bank is contingently liable will include arrears of cumulative dividends, bills rediscounted, commitments of underwriting contracts, estimated amount of contracts remaining to be executed on capital account and not provided for etc.
- Seek information from the management as to the year- end status of claims outstanding against the branch/ bank that are not acknowledged as debts.
- Check adequacy of internal control to ensure contingent liabilities are properly identified & recorded.
- Verify Margin and physical existence of outstanding forward exchange & derivatives contracts including confirmations from merchants to test the existence of such outstanding contracts
- Verify classification, internal controls over issuance and custody, maintenance of register / statements in respect LCs and guarantees given on behalf of constituents.
- Ensure all LCs and bank guarantees renewed/ extended after the original due dates. Ascertain adequacy of internal controls over expired bills and guarantees.
- Evaluate amounts of the bills with the register maintained/statements with respect to Acceptances, Endorsements and Other Obligations
- Check bills drawn on other branches of the bank are not included in bills for collection by referring to the register maintained for outward bills for collection. Examine collections made subsequent to the date of the balance sheet and procedure for crediting the party on whose behalf the bill has been collected. Examine no income accrued in respect of bills outstanding at balance sheet date.
- Examine adequacy of internal control systems in respect of bills for collection and co-acceptance of bills.
- Ensure provisions are made for any refund liability arising from the wrongful capitalization of penal charges, ensuring compliance with the 'Fair Lending Practice - Penal Charges in Loan Accounts' guidelines.

# Audit of Gold, Bullion & Security Items

- Ensure adequacy of internal controls over issue, custody and insurance of such items
- Verify stock records showing receipts, sales and closing stock.
- Review proper entries are made in the books and billing of invoices is done properly.
- Verify KYC of the customer has been obtained during the issuance of the gold coins
- Carry out physical verification on test check basis.
- The banks have been advised that while granting advance against the security of specially minted gold coins sold by them, banks should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) and silver coins (weighing up to 500 grams) should be within the Board approved limit.
- RBI circular no. RBI/2025-2026/66 FIDD.CO.FSD.BC.No.08/ 05.05.010/2025-26 dated July 11, 2025 it is clarified that loans against voluntary pledge of Gold and Silver as collateral by borrowers, sanctioned by the banks upto the collateral free limit, as covered under the relevant Circular / Master Direction will not be construed as a violation of guidelines as regards to collateral free loans.



## Audit of Inter Branch/Office Accounts

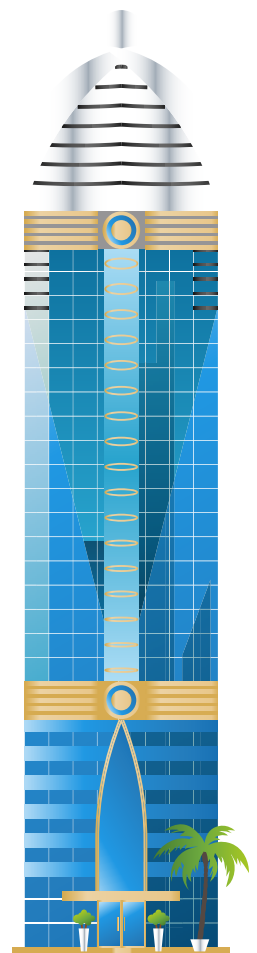
- Review jottings/listing of current / savings bank account to check whether any account is opened with generic name/ Branch Address/ Bank Address/ Bank PAN, etc and verify the purpose of opening the account, periodicity of the parking of entries in the inter office accounts.
- Ensure that the adjustments are done properly and supported by adequate documentary evidence under proper authority. Ensure controls over IT system and processes over passing automated entries and system generated entries and its audit trail.
- Report on the year end status of office accounts and indicate the number of outstanding entries and the amount involved, obtain the relevant information primarily from branch audit reports.
- Verify age-wise analysis of unreconciled entries as on balance sheet date along with subsequent clearance, thereof if any. Verify bank procedure for auto and forced matching of entries.
- Check any unusual entries observed in the reconciliation process and made adequate provision w.r.t unreconciled entries as per the RBI guidelines.
- Check all material transactions outstanding for more than 6 months even when 100 % of the amount has been provided for.
- Most Common types of errors observed in Inter office accounts:
  - Recording of particulars in incorrect fields.
  - Posting of transactions in incorrect office accounts.
  - Squaring off the transaction by same amount without checking the transactions.
  - Use of incorrect office account or using office account for passing entries not to be passed through office accounts.
  - Opening office account in the GL code of customer account GL.

# Audit of Incomes – Interest on Advances, Dividend, Commissions, fees, etc

- Assess the overall reasonableness of the figure of interest earned by working out the ratio. Analyse Bank's credit portfolio and the interest income thereon.
- On test check basis, verify the rates of interest as per terms of sanction in the CBS as well as the calculation of interest on all the performing accounts. Check sanction Letter, discount on bills outstanding and interest subsidy received.
- Check compliance with RBI income recognition guidelines for reversal of interest accrued and credited to income account, in respect of an advance (including bills purchased and discounted) that becomes NPA during the year. Interest on non-performing advances in a separate account styled as 'Interest Suspense/ Interest Not Collected Account (INCA)/ Unrealised interest of previous year (UIPY).\
- Understand the process of accrual of interest, assumption taken for accrual and accounting thereof.
- Understand the process of increase or decrease in Marginal Cost of funds-based Lending Rate (MCLR) and process of updating in the system.
- Obtaining detailed breakup of the investment and money market lending portfolio along with the interest accrued thereon. Re-compute and reconcile the interest accrual with the general ledger on sample basis.
- Obtain details of loans sanctioned and disbursed. Check the items of processing fees, commission, exchange and brokerage on a test check basis. Examine whether the bank has accordingly made suitable adjustments for de- recognition/ reversal of uncollected commission, etc.

## Audit of Expenses – Interest expended and provision thereof, brokerage legal charges, provision, etc.

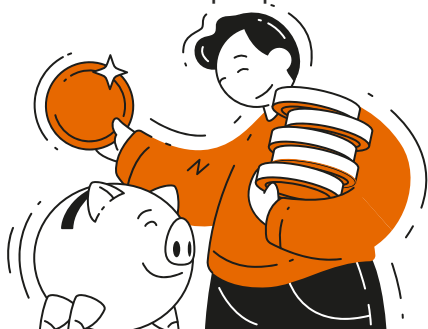
- Assess the overall reasonableness of the amount of interest on deposits.
- Check interest rates are in accordance with the bank's internal regulations, the RBI directives, and agreements with the respective depositors. Compare interest rate with the actual average rate. Ensure correct input and no unauthorized amendments to interest rates.
- Check Interest on inter-branch balances have been provided at the rates prescribed by the head office. Review overdue deposits report. Ensure interest on overdue/ matured/ unpaid/ unclaimed term deposits has been estimated and provided for.
- Ascertain compliance with the various regulatory requirements for provisioning. Verify provision computed on standard assets and non-performing assets.
- Test check payment of brokerage and discounts on bills outstanding
- Obtaining the detailed breakup of the money market borrowing portfolio and the interest accrued on sample basis.
- For legal expenses, review legal agreements, co-relate legal expenses with the contingent liability appearing in financial statement or with the specific annexure/report to be certified by the branch auditors.
- Carry out variance analysis of all expenses head, test check and seek clarification from the branch.



# GST Compliance



- Check GST is appropriately charged and complying with the due dates of payment of GST and all the returns filed reveal the correct amount of liability.
- Suitable disclosure as to contingency exists in respect of applicable penalty may and proper disclosure of all the interest amount.
- Loans sold to factoring agents are not liable for payment of GST. Examine to ensure that these transactions would be "exempt supply," depending on whether they are with or without recourse.
- Check the agreements between the bank and the recovery agent on a sample basis. The bank should raise a self-invoice, and thereafter appropriate GST @ 18 percent should be paid on the same.
- Check GST levied on interchange fees on card settlement fees paid/shared by banks
- Check correct ITC is taken, and appropriate person has discharged the tax.
- Check branch is reversing ITC in compliance with the CGST Rule.
- Ensure expenses are correctly classified and all input can be tracked and suppliers and services providers have issued proper tax invoice.



# Fraud

- Obtain internal circulars of the bank and history of frauds. Review and analyse modus operandi of major frauds from Staff angle
- Obtain and review reports of internal auditor, concurrent auditor, internal inspector, revenue audit, system audit, reports issued by ASMs and vigilance functions and assess existence of any of the Early Warning Signals.
- Review transaction/forensic audit reports conducted in the process of Corporate Insolvency Resolution Process (CIRP)
- Verify Form FMR 1 has been filed with RBI electronically.
- Enquire about any fraud reported to Controlling Authority/vigilance department and local police or CBI.
- Ensure that the systems and procedures are scrupulously followed by the staff concerned.
- Inoperative accounts operation – fraud prone
- Transfer of accounts to other branches – Fraud prone
- KYC change upgrade misuse fraud – signatures and identity can be maliciously changed
- Issue of FD and Charge certificate to wards performance / other guarantee – can be fraud prone
- Reserve Bank issued guidelines vide Circular no. RBI/2024-25/105 CEPD.CO.OBD.No.S1270/50-01-01 /2024-25 dated January 17, 2025 for prevention of financial frauds perpetrated using voice calls and SMS and has prescribed safeguards with a view to mitigate the potential misuse of mobile numbers, Regulated Entities (REs) are advised to undertake certain measures such as:
  - Utilization of Mobile Number Revocation List (MNRL)
  - Verified Customer Care Numbers
  - Registration on DLT Platform
  - Digital Consent Acquisition (DCA)

# Books and Records

- Ensure implementation of the core banking system and in-depth review of all systems. Check any software / systems (manual or otherwise) which have an impact on the financial transactions, reporting or any core activity used at the branch which are not integrated with the CBS
- Check books of accounts are maintained as per AS and as per fundamental accounting assumptions.
- Check degree / percentage of integration of SWIFT system, Structured Financial Messaging System (SFMS), system for lockers etc.
- Any adverse features reported Information Systems (IS) audit and have a direct or indirect bearing on the branch accounts and are pending compliance.
- Check generation and verification of exception reports at the periodicity as prescribed by the bank.
- Check procedures for manual intervention to system generated data and proper authentication of the related transactions. Enquire about availability of audit trail / logs related to such manual interventions and review.

## Audit of Financial statements

- “Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions 2021” requires the presentation and disclosures of profit and loss account.
- Check correctness of other Assets & other liabilities. Test the controls considering attributes such as occurrence, completeness, accuracy, cut-off, classification and disclosures
- Check old balances in other assets and provisioning thereof
- Apply analytical procedures in line with SA 520 “Analytical procedures” - ratio and comparative analysis to find out key variances.

## Audit Report & Certificates

- The objective of the auditor is to form an opinion on the financial statements and to express clearly that opinion through a written report.
- Audit issues need to be discussed with the branch management and after discussion if it is clear to the auditor that the changes are required should be mentioned under Memorandum of Changes (MOC)
- Comply with the requirements of SA 700 (Revised), “Forming an Opinion and Reporting on Financial Statements”, SA 705 (Revised), “Modifications to the Opinion in the Independent Auditor's Report” and SA 706 (Revised), “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report”.
- Matters to be dealt with by auditors in LFAR has been specified by RBI in Sep.2020. Auditor should have appropriate audit documentation to cover all aspects on which reporting is to be done in his main report and LFAR.
- In addition to their audit reports, the SBAs and SCAs may also be required by their terms of engagement or statutory or regulatory requirements to issue other reports or certificates. Auditors to correctness and accuracy of contents of certificates issued at branch level from the available branch records such as:
  - Compliance with BASEL Capital Adequacy Norms prescribed by RBI.
  - Compliance with Ghosh & Jilani Committee Recommendation for Classification of Frauds, Reporting of Frauds to RBI, Quarterly Returns, Reports to the Board, Fraud Monitoring Returns, etc.
  - Review compliance and request the concerned management to give a written representation as to why the particular recommendation(s) has/have not been implemented.

# Recovery of Non-Performing Assets by Asset Recovery Branches

- Obtain a list of all NPA accounts at the start of the FY, movement during the year and closing.
- Understand the reason of NPA for each account and policy of transferring NPA accounts.
- Check interest income on NPA and verify adherence to policy related to expenses.
- Analyse the reason for movement during the year like accounts transferred from other branches, accounts upgraded or recovery effected during the year.
- As regards recovery ensured that the credits towards interest in the relevant accounts are not out of fresh/additional credit facilities sanctioned to the borrowers concerned.
- Cross check values of the security (i.e., primary as well as collateral) as entered in the CBS with the terms in the sanction letter.
- Consider any orders issued by any of the authorities like DRT, SARFAESI etc. Verify the CGTMSE (Credit guarantee fund trust for micro and small enterprises) amount proper classification and provision.
- The auditor is required to ensure compliance with the requirements of RBI Master Circular No. RBI/DOR/2025-26/164 DOR.STR.REC.83./21.04.048/2025-26 dated November 28, 2025 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances w.r.t. the framework for resolution of stressed assets, RBI Master Direction No. RBI/DOR/2025-26/165 DOR.STR.REC.84/ 21.04.048/2025-26 dated November 28, 2025 and also the requirements of the Insolvency and Bankruptcy Code, 2016, in cases where the borrower has been referred to IBC.
- For reporting under LFAR obtain a list and information of borrowers having outstanding of Rs.10 Cr. and above, review movement during the year in accounts, nature of each comment for proper action to be taken by the Management / SCAs, impact on financial numbers like short provisioning, error in valuation of securities etc. the same should be rectified and all accounts have met the legal requirements.
- Review system of updating valuation of security charged to bank periodically against all the NPA accounts
- Obtain the list of all recovery suits filed and its age wise details.
- Ensuring promptness in execution of decrees obtained for recovery from the defaulting borrower, also list the time barred decrees, if any, and reasons thereof. Conduct age-wise analysis of decrees obtained.
- List the recoveries and their appropriation against the interest and the principal and the accounts settled / written off / closed during the year as per the bank's policy and satisfy that they are in accordance with RBI guideline and accounting principles.
- List the new borrower accounts transferred to the branch during the year, obtained confirmation that all the accounts of the borrower exposures and deposits pending adjustment / margin deposits. Subsequently, fresh exposure may be taken on the borrower after a cooling period laid down in the respective Board approved policy of the transferor, which in any case, shall not be less than 12 months from the date of such transfer.



# Clearing House Operations by Service Branches

- The Service Branch ensures that the duly balanced outward clearing batches are received from the various branches within the prescribed time schedule.
- The primary objective of the Auditor is to ensure that there are no long old outstanding open entries as well as unreconciled entries.
- For income recognition, review SOP and understand the basis of income booking, examine the correspondence with RBI Clearing house, check that RBI account, if any, is reconciled as at the year-end, examine that the compensation for delay in realisation of local cheques is adequately accounted.
- For inward clearing, check signature of the drawer of the cheque is being verified by the staff, verify if any claims for refund of the amount excess debited are received from the customer, reconciliation and review of long outstanding entries.
- For outward clearing verify the cheque paper quality invariably, the signature of the drawer of the cheque, any claims for refund of the amount excess credited are received from the other banks, reconciliation and review long outstanding entries.
- For outstation cheques, maximum timeframe for collection of cheques drawn on State capitals / major cities / other locations are 7/10/14 days respectively. If there is any delay in collection beyond this period, customer is entitled to receive compensation at the rate specified in the Cheque Collection Policy (CCP) of the concerned bank. In case the rate is not specified in the CCP, interest rate on fixed deposits for the corresponding maturity to be paid.
- Verify that cheque collection charges. As per FAQs issued by RBI on Cheque Truncation System dated October 31, 2022, no outstation cheque collection charges are to be levied if the collecting bank and the paying bank are located within the jurisdiction of the same CTS grid even though they are located in different cities.
- Obtain necessary documents for reporting under LFAR like SOP followed by bank, old entries in suspense account, long outstanding entries to HO, report on failure to lodge clearing cheques etc.
- Amount lying in suspense for clearing difference for an unusual long period (normally any entry should not remain outstanding for more than 3 working days of lodgement).
- Review clearing adjustments accounts (inwards/ outwards) for any old/ large/ unusual outstanding entries.
- Compliance with guidelines of the controlling authority of the bank with respect to operations related to clearing transactions.



# Audit of Foreign Exchange Business

Foreign banks generally operate in India through branches. Some are set up as Indian subsidiaries of the foreign banks.

- Check compliance with foreign legal and regulatory requirements.
- Review the nature of transactions carried out by branch, the role of bank branch in transaction in terms of FEMA guidelines and should review applicable Master Directions / Circulars
- Verify treasury operations and cross border forex deals
- Compliance with Basel III Regulatory Framework for Capital Adequacy.
- Verify the cases of outstanding Letter of Credits (LC) as on 31st of March.
- Verify balance of letter of credits under contingent liability agrees with the outstanding letter of credit liability (Under BASEL Guidelines computation of Capital Adequacy Ratio [CAR] takes cognizance of contingent liabilities. Any excess amount appearing under contingent liability will impact the bank's CAR).
- Check system of collection of charges, select appropriate sample based on the review of process, and verify GST liability is determined and accounted correctly.
- For export bills, carry out physical verification, verify on sample basis the proof of export in EDPMS (Export data processing and monitoring system), reconcile total of outstanding export bills on collection as per bill balancing report with bills for collection under contingent liability.
- For Import Bills for Collection, carry out physical verification of all outstanding bills, generate bill balancing report for import bills on collection transaction preferably for 31st March, reconcile total of outstanding import bills on collection as per bill balancing report with bills for collection under contingent liability, GST compliances on the charges so collected and accounting. Examine Overdue Bills report
- Examine reports on concurrent audit of treasury transactions, system audit report verification of voice recording mechanism.
- Verify half yearly review of portfolio by the Board of Directors of the bank and annual inspection report of the RBI carried out under Section 35 of the Banking Regulation Act, 1949.
- Review linkages between CBS system and SWIFT system. Test check basis get the SWIFT messages generated from the said system and compare the same with CBS information.
- Obtain a list of all the NOSTRO accounts maintained / operated by the branch and details of mirror accounts should match
- Check system of periodic confirmation/ reconciliation of the balances in NOSTRO accounts maintained with each overseas bank/ correspondent. In the case of Forex transactions, evaluate Brokerage is paid on a settlement basis. All derivative transactions, including forward exchange contracts, should be reported using the Present Value (PV) method.
- Examine transactions done in any dormant Nostro accounts in respect of which balances continue to exist in the books of the branch, at year end



# Audit of Foreign Exchange Business

- Check balances in Nostro Accounts converted at year end at the rates of exchange as prescribed by controlling authorities.
- Compliance with prescribed procedures in relation to maintenance of VOSTRO Accounts
- For cash, review effectiveness of maintenance of cash on the date of verification and compliance to periodic verification guidelines.
- Review compliance with Policy of bank for holding foreign currency (i.e., on period as well as maximum amount) and obtain specific confirmation in Management Representation Letter.
- Adherence to prescribed bank guidelines in line with KYC & FEMA provision for determination of residential status and documents in support thereof.
- Obtain list of FCNR (B) deposits accounts from detailed GL report and verify compliance with internal guidelines for communication and intimation of issuance / renewal of FCNR (B) on sample basis.
- Verify compliance with internal guidelines for communication and intimation of issuance / renewal of FCNR (B) on sample basis.
- Various systems supporting Foreign Exchange activities include SWIFT messaging, Forex deal booking (Spot, Forward, Options), Document Management & Trade Communication systems, Import & Export Data Processing (IDMPS/EDMPS), Regulatory reporting software, Prepaid Forex Card systems, Treasury management, and Transaction monitoring & reconciliation systems for seamless processing, compliance, and risk management, needs to be checked properly.
- Review and assess the software's used for various Foreign Exchange books and records for the level of integration and generation of inconsistency reports, updation of relevant data in without any manual intervention.
- **Guidelines to facilitate cross-border inward payments issued by RBI :**
  - Banks shall inform their customer of the receipt of cross-border inward transactions immediately on receipt of inward message. Messages received after close of operating hours of the individual banks shall be informed to the customer immediately at the start of the next business day.
  - It is observed that several banks rely upon end-of-day statements of the nostro account for confirming and reconciling receipts in nostro accounts, resulting in delayed credit. To expedite this process, banks are advised to undertake reconciliation and confirmation of credit in the nostro account either on near real time basis or at periodic intervals. The reconciliation interval should normally not exceed thirty minutes.
  - Banks shall endeavour to credit the inward payments received during the foreign exchange market hours within the same business day to the beneficiary's account, and credit the inward payments received after market hours on the next business day, subject to compliance with the extant FEMA and other regulatory requirements.
  - Banks may, based on their risk assessment and subject to compliance with extant FEMA guidelines, put in place a straight through process for crediting inward payments to the account of individual residents.
  - Banks may, within a reasonable time frame, endeavour to provide digital interface to their customers to facilitate foreign exchange transactions, including submission of documents or information, and monitoring of transactions

# Annexure 1 - Letter to Branch Management seeking initial information

The Manager

\_\_\_\_\_ Bank

\_\_\_\_\_ Bank (Branch)

Dear Sir,

**Sub: Audit of the accounts of your Branch for the year 2009-10 - Audit engagement/ Management Representations:**

You have already been informed by your Management, that we have been appointed as the auditors to audit and report on the accounts of the Branch for the year 2009-10.

We have accepted the appointment, and we confirm that the audit shall be carried out in accordance with the applicable legal provisions and the regulatory requirements, besides the applicable authoritative pronouncements of the Institute of Chartered Accountants of India, with the objective of expressing an opinion on the Branch financial statements. For this purpose we will perform sufficient tests to obtain reasonable assurance as to whether the information contained in the accounting records and other source data is reliable and sufficient as the basis of the preparation of the financial statements; and whether the information is properly presented in the said statements.

**You are aware that the responsibility for the preparation of the financial statements including adequate disclosure is that of the Management, and this includes the maintenance of adequate accounting records and internal controls, the selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Branch at the end of the financial year and of the profit or loss of the Branch for that period, and the safeguard of the assets of the Bank/branch.**

We will conduct our audit in accordance with the auditing standards generally accepted in India and with the requirements of law. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in

We will conduct our audit in accordance with the auditing standards generally accepted in India and with the requirements of law. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which might come to our notice through the **Long Form Audit Report (LFAR)**, or otherwise.

# Annexure 1 - Letter to Branch Management seeking initial information

We also wish to invite your attention to the fact that our audit process is subject to peer review' under the Chartered Accountants Act, 1949 and the reviewer may examine our working papers during the course of such review.

We wish to complete some audit procedures even prior to the year-end, depending on your state of readiness/response.

In view of the severe time constraints imposed, we are confident you will make available to us, within the dates stipulated, the following Branch returns/statements **duly completed, pre-reviewed and duly authenticated**, to enable us to furnish our reports in the form and manner desired of us by law or by the Reserve Bank of India and not necessarily in the form and manner prescribed by the Bank.

## Statements/returns:

- the Balance Sheet as at 31.3.2010;
- the Profit and Loss Account for the year 2009-10;
- the statements relating to the particulars of Advances as at 31.3.2010; and
- other supporting returns/statements/annexures **(including those covering also the LFAR requirements)**.

Information/ clarifications as stated in **Annexure 'I'** to this letter in connection with our assignment, may please also be expedited.

**To enable us to monitor the progress of the audit and completion of the assignment, please indicate/mention, the actual date(s) of completion as well as handing over to us of each statement/return/ confirmation or other information required to be prepared by you (as per the contents of the letter of appointment sent to us), by your endorsement on each such statement/return/confirmation, before the same (duly authenticated) are handed over to us on 1st April, 2010.**

**We await your commitment.**

As part of the audit process, we will expect to receive from the Management, written confirmation of the representations made to us and a **written response (para-wise), to our requirements is imperative, and such response is to be based on your verification of facts.**

We shall be grateful if you could confirm the name(s) of the Officer(s) designated by the Branch to comply with our requirements in connection with the audit, so that our reports are expedited.

We shall appreciate your co-operation in the matter.

Thanking you,

Yours faithfully,

CHARTERED ACCOUNTANTS

## Annexure 2- Illustrative list of documents to be maintained in Bank Branch Audit specified under Chapter 3 of Guidance note on Audit of Banks (2026)]

An Illustrative list of documents to be maintained in the bank branch audit file is given below:

- Appointment formalities, including appointment letter, communication with previous auditor, engagement letter etc.
- Remarks / Verification remarks against working sheet containing summary of latest RBI Master Directions / Circulars, other material for conducting the audit.
- Working notes complying/ verifying closing guidelines / circular issued by the bank.
- Summary of the relevant provisions applicable as per latest updated RBI Master Directions/Circulars, IRAC norms, closing circular used at the branch/issued by the Bank's Central Office.
- Detailed branch audit plan and program as per SA 230.
- List of new deposit accounts opened during the audit period. List of samples selected of advances and deposits along with criteria taken as base for selecting sample.
- Obtaining Delegation of Power (DOP) booklet to understand the powers and responsibilities at various levels in the branch.
- Bank's accounting policies and how the auditor has verified their satisfactory compliances.
- Audit procedures adopted and determination of materiality levels. understanding of the internal controls, IT system controls.
- Audit working paper documenting the audit procedures carried out for testing IFCOFR controls.
- Audit working papers and issue trackers. How the issues raised during audit were concluded.
- Financial statements of the previous year and current year.
- Management certified trial balance for the year (if available from the system).
- Summary of various audit reports such as internal inspection report, concurrent audit reports, previous year statutory audit report.
- Statement of advances with classification along with various fields duly filled such as security, sanction limits, date of sanction / renewal, outstanding balance etc.
- Specific representation, notes and working papers received from the bank's management on sensitive or significant audit issues or accounts.
- Latest and updated stock and security statements, valuation and inspection reports as on March 31.
- List of documents verified and minutes of meeting with the bank's management.
- Copies of supporting documents that are verified and confirmations obtained during the audit.
- Break-up of other assets and liabilities and Inter-Branch Adjustments including the confirmation of deposits given by the branch.
- Proof of various securities, cash and other assets physically verified during the audit.
- ATM verification details.
- KYC verification, anti-money laundry verification, FEMA compliance at branches.
- Proof of verification of third-party products if any.
- Details of off-balance sheet items, claims against banks not acknowledged as debts and contingent liabilities.
- Other Bank / RBI balance confirmation.
- List of customer complaints registered/responded by the branch- nature of complaint and its resolution.
- Management Representation Letter.
- Various other audit documents / evidence considered in the audit process.
- Mail conversation with Bank branch can also be kept as PDF files to make it easily available in future for ready reference along with all documentation in audit folder.

## Annexure 2- Illustrative list of documents to be maintained in Bank Branch Audit specified under Chapter 3 of Guidance note on Audit of Banks (2026)]

- List of Bank Guarantee and LC Issued and live as on Balance Sheet date.
- List of Invoked Bank Guarantees and devolved LCs
- In cases of FLCs and FBG. O/S list to be prepared with present exchange rate to ascertain any excess outstanding in INR than sanctioned.
- Cases/ Loans involving unhedged foreign currency exposure
- IT software being used at branch and its salient features to ensure data integrity.
- Copies of IT audits/ information Security audit/ Cyber Security audit conducted during the year/previous year.



## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
SA-200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing <sup>4</sup>	<p>This SA establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs. Specifically, it sets out the overall objectives of the independent auditor and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the SAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the SAs.</p> <p>In conducting an audit of financial statements, the overall objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>• To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and</li> <li>• To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.</li> </ul>	
SA-210	Agreeing the Terms of Audit Engagements	<p>This SA deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present.</p> <p>The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:</p> <ul style="list-style-type: none"> <li>• Establishing whether the preconditions for an audit are present; and</li> <li>• Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.</li> </ul>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
SA-220	Quality Control for an Audit of Financial Statements	<p>This SA deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer. The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:</p> <ul style="list-style-type: none"> <li>• The audit complies with professional standards and regulatory and legal requirements; and</li> <li>• The auditor's report issued is appropriate in the circumstances.</li> </ul> <p>The engagement quality control reviewer shall perform an objective evaluation of the significant judgement made by the engagement team and the conclusion reached in formulating the auditor's report.</p>	
SA-230	Audit Documentation	<p>This SA deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. The specific documentation requirements of other SAs do not limit the application of this SA. Laws or regulations may establish additional documentation requirements.</p> <p>The objective of the auditor is to prepare documentation that provides:</p> <ul style="list-style-type: none"> <li>• A sufficient and appropriate record of the basis for the auditor's report; and</li> <li>• Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</li> </ul>	
SA-240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	<p>This SA deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how SA 315 and SA 330 are to be applied in relation to risks of material misstatement due to fraud</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>• To identify and assess the risks of material misstatement in the financial statements due to fraud;</li> <li>• To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and</li> <li>• To respond appropriately to identified or suspected fraud.</li> </ul>	
SA-250	Consideration of Laws and Regulations in an Audit of Financial Statements	<p>This SA deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>• To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;</li> <li>• To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and</li> <li>• To respond appropriately to noncompliance or suspected noncompliance with laws and regulations identified during the audit</li> </ul>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
<b>SA-260 (Revised)</b>	Communication with Those Charged with Governance	<p>This SA deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this SA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;</li> <li>To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and</li> <li>To promote effective two-way communication between the auditor and those charged with governance.</li> </ul>	
<b>SA-265</b>	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	<p>This SA deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. This SA does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of SA 315 and SA 330. The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.</p>	
<b>SA-299 (Revised)</b>	Joint Audit of Financial Statements	<p>This SA lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor as laid down in SA 200. This SA deals with the special considerations in carrying out audit by joint auditors. Accordingly, in addition to the requirements enunciated in this Standard, the joint auditors also need to comply with all the relevant requirements of other applicable SAs.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To lay down broad principles for the joint auditors in conducting the joint audit.;</li> <li>To provide a uniform approach to the process of joint audit.</li> <li>To identify the distinct areas of work and coverage thereof by each joint auditor.</li> <li>To identify individual responsibility and joint responsibility of the joint auditors in relation to audit.</li> </ul>	
<b>SA-300</b>	Planning an Audit of Financial Statements	<p>This SA deals with the auditor's responsibility to plan an audit of financial statements. This SA is framed in the context of recurring audits. Additional considerations in initial audit engagements are separately identified.</p> <p>The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.</p>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
<b>SA-315</b>	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	<p>This SA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.</p> <p>The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.</p> <p>This will help the auditor to reduce the risk of material misstatement to an acceptably low level.</p>	
<b>SA-320</b>	Materiality in Planning and Performing an Audit	<p>This SA deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.</p> <p>The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.</p>	
<b>SA-330</b>	The Auditor's Responses to Assessed Risks	<p>This SA deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315 in a financial statement audit.</p> <p>The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing</p>	
<b>SA-402</b>	Audit Considerations Relating to an Entity Using a Service Organization	<p>This SA deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations. Specifically, it expands on how the user auditor applies SA 315 and SA 330 in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.</p> <p>The objectives of the user auditor, when the user entity uses the services of a service organisation, are:</p> <ul style="list-style-type: none"> <li>To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and</li> <li>To design and perform audit procedures responsive to those risks.</li> </ul>	
<b>SA-450</b>	Evaluation of Misstatements Identified during the Audit	<p>This SA deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.</p> <p>The objective of the auditor is to evaluate:</p> <ul style="list-style-type: none"> <li>The effect of identified misstatements on the audit; and</li> <li>The effect of uncorrected misstatements, if any, on the financial statements.</li> </ul>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
<b>SA-500</b>	Audit Evidence	<p>This SA explains what constitutes audit evidence in an audit of financial statements and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p> <p>The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p>	
<b>SA-501</b>	Audit Evidence Specific Considerations for Selected Items	<p>This SA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with SA 330, SA 500 and other relevant SAs, w.r.t. certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements.</p> <p>The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:</p> <ul style="list-style-type: none"> <li>• Existence and condition of inventory;</li> <li>• Completeness of litigation and claims involving the entity; and</li> <li>• Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.</li> </ul>	
<b>SA-505</b>	External Confirmations	<p>This SA deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of SA 330 and SA 500.</p> <p>The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.</p>	
<b>SA-510</b>	Initial Audit Engagements Opening Balances	<p>This SA deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments</p> <p>In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:</p> <ul style="list-style-type: none"> <li>• Opening balances contain misstatements that materially affect the current period's financial statements; and</li> <li>• Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.</li> </ul> <p>If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with SA 705 (Revised) and SA 710.</p>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
SA-520	Analytical Procedures	<p>This SA deals with the auditor's use of analytical procedures as substantive procedures, and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To obtain relevant and reliable audit evidence when using substantive analytical procedures; and</li> <li>To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity</li> </ul> <p>If analytical procedures performed in accordance with this SA identify fluctuations that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:</p> <ul style="list-style-type: none"> <li>Inquiring of Management and obtaining appropriate audit evidence relevant to management's responses, and</li> <li>Performing other audit procedure as necessary in the circumstances</li> </ul>	
SA-530	Audit Sampling	<p>This SA applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.</p> <p>The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.</p>	
SA-540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	<p>This SA deals with the auditor's responsibilities regarding accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements. Specifically, it expands on how SA 315, SA 330 and other relevant SAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.</p> <p>The objective of the auditor is to obtain sufficient appropriate audit evidence whether in the context of the applicable financial reporting framework:</p> <ul style="list-style-type: none"> <li>accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable; and</li> <li>related disclosures in the financial statements are adequate.</li> </ul>	
SA-550	Related Parties	<p>This SA deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements. Specifically, it expands on how SA 315, SA 330 and SA 240 are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able: <ul style="list-style-type: none"> <li>To recognise fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and</li> <li>To conclude whether the financial statements, insofar as they are affected by those relationships and transactions: <ul style="list-style-type: none"> <li>Achieve a true and fair presentation (for fair presentation frameworks); or</li> <li>Are not misleading (for compliance frameworks); and</li> </ul> </li> </ul> </li> </ul>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
SA-550	Related Parties	<ul style="list-style-type: none"> <li>In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework.</li> </ul>	
SA-560	Subsequent Events	This SA deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. It does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in SA 720(Revised). However, such other information may bring to light a subsequent event that is within the scope of this SA.	
SA-560	Subsequent Events	<p>The objectives of the auditor are to:</p> <ul style="list-style-type: none"> <li>Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements; and</li> <li>Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.</li> </ul>	
SA-570 (Revised)	Going Concern	<p>This SA deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;</li> <li>To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and</li> <li>To report in accordance with this SA.</li> </ul>	
SA-580	Written Representations	<p>This SA deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;</li> <li>To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs; and</li> <li>To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor</li> </ul>	
SA-600	Using the Work of Another Auditor	This SA establishes standards to be applied in situations where the principal auditor, reporting on the financial information of an entity, uses the work of other auditor w.r.t. financial information of components included in the financial information of the entity. This Standard also discusses the principal auditor's responsibility in relation to his use of the work of the other auditor.	

# Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
<b>SA-610 (Revised )</b>	Using the Work of Internal Auditors	<p>This SA deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.</p> <p>The objectives of the external auditor, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:</p>	
<b>SA-610 (Revised )</b>	Using the Work of Internal Auditors	<ul style="list-style-type: none"> <li>To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:</li> <li>If using the work of the internal audit function, to determine whether that work is adequate for the purposes of the audit; and</li> <li>If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.</li> </ul>	
<b>SA-620</b>	Using the Work of an Auditor's Expert	<p>This SA deals with the auditor's responsibilities regarding the use of an individual or organisation's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To determine whether to use the work of an auditor's expert; and</li> <li>If using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes.</li> </ul>	
<b>SA-700 (Revised )</b>	Forming an Opinion and Reporting on Financial Statements	<p>This SA deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and</li> <li>To express clearly that opinion through a written report.</li> </ul>	
<b>SA - 701</b>	Communicating Key Audit matters in the Independent Auditor's report	<p>This SA deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.</p> <p>The objectives of the auditor are to determine key audit matters and having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.</p> <p>Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters Communicated with those charged with governance.</p>	
<b>SA-705 (Revised )</b>	Modifications to the Opinion in the Independent Auditor's Report	<p>This SA deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700(Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.</p> <p>The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:</p> <ul style="list-style-type: none"> <li>The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or</li> <li>The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.</li> </ul>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
<b>SA-706 (Revised)</b>	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	<p>This SA deals with additional communication in the auditor's report when the auditor considers it necessary to:</p> <ul style="list-style-type: none"> <li>• Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or</li> <li>• Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report</li> </ul> <p>The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:</p> <ul style="list-style-type: none"> <li>• A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or</li> <li>• As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</li> </ul>	
<b>SA-710</b>	Comparative Information Corresponding Figures and Comparative Financial Statements	<p>This SA deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 regarding opening balances also apply.</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>• To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and</li> <li>• To report in accordance with the auditor's reporting responsibilities.</li> </ul>	
<b>SA-720 (Revised)</b>	The Auditor's Responsibilities Relating to Other Information	<p>This SA deals with the auditor's responsibilities relating to other information, whether financial or non financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report.</p> <p>The objectives of the auditor, having read the other information, are:</p> <ul style="list-style-type: none"> <li>• To consider whether there is a material inconsistency between the other information and the financial statements;</li> <li>• To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;</li> <li>• To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and</li> <li>• To report in accordance with this SA.</li> </ul>	
<b>SA-800</b>	Special Considerations Audit of Financial Statements Prepared in Accordance with Special Purpose	<p>This SA deals with special considerations in the application of SAs in the 100-700 series to an audit of financial statements prepared in accordance with a special purpose framework.</p>	

## Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

No	Name of SA	Scope and Objective	Remark of Auditor
<b>SA-800</b>	Special Considerations Audit of Financial Statements Prepared in Accordance with Special Purpose	<p>The objective of the auditor, when applying SAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:</p> <ul style="list-style-type: none"> <li>• The acceptance of the engagement;</li> <li>• The planning and performance of that engagement; and</li> <li>• Forming an opinion and reporting on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.</li> </ul>	
<b>SA-805</b>	Special Considerations Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	<p>This SA deals with special considerations in the application of SAs in the 100-700 series to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SA 800 also applies to the audit.</p> <p>The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:</p> <ul style="list-style-type: none"> <li>• The acceptance of the engagement;</li> <li>• The planning and performance of that engagement; and</li> <li>• Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.</li> </ul>	
<b>SA-810</b>	Engagements to report on Summary Financial Statements	<p>This SA deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.</p> <p>The objectives of the auditor are to:</p> <ul style="list-style-type: none"> <li>• Determine whether it is appropriate to accept the engagement to report on summary financial statements;</li> <li>• Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and</li> <li>• Express clearly that opinion through a written report that also describes the basis for that opinion.</li> </ul>	

# Annexure 3- Checklist of applicable SAs for Bank Audit specified under Chapter 4 of Guidance note on Audit of Banks (2026)]

Compliance with the SAs should be taken care of, while executing the audit as well as reporting.

No	Name of SQC	Scope and Objective	Remark of Auditor
1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	<ul style="list-style-type: none"> <li>• The purpose of this Standard on Quality Control (SQC) is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute. (hereinafter referred to as "the Code").</li> <li>• Additional Standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements are set out in other pronouncements of the Auditing and Assurance Standards Board (AASB) issued under the authority of the Council. For example, Standard on Auditing (SA) 220, "Quality Control for an Audit of Financial Statements", establishes standards and provides guidance on quality control procedures for audits of historical financial information.</li> <li>• The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances.</li> <li>• A system of quality control consists of policies designed to achieve the objectives set out in paragraph 3 and the procedures necessary to implement and monitor compliance with those policies.</li> <li>• This SQC applies to all firms. The nature of the policies and procedures developed by individual firms to comply with this SQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.</li> </ul>	

# Annexure 4- Illustrative checklist of special purpose /exceptional reports in CBS prescribed under Chapter 5 of Guidance Note on Audit of Banks (2026)]

## Illustrative List of Special Purpose / Exception Reports in CBS

The following indicative list of reports will benefit SCAs and SBAs (if shared in advance) while undertaking the audit in a fully computerised environment:

### Advances Report

- Advances snapshot covering all important parameters
- Accounts with overdue in excess of 90 days and are classified as Standard Assets
- List of LCs devolved during the period / year and current status of account, including list of forced debits pertaining to the devolvement, not debited to the operative accounts of the borrower i.e. parked separated either under advances or office accounts
- List of BGs invoked during the period / year and current status of account, including list of forced debits pertaining to the invocation, not debited to the operative accounts of the borrower i.e. parked separately either under advances or office accounts
- Standalone Non Fund Based Limits granted to customers
- List of accounts such as SMA / Watch list / Probable NPA / Weak account as on the last date of audit period
- Backdated updation of stock and book debt statements (difference between date of updation in CBS and date of actual receipt of the stock statement)
- List of accounts wherein the facility is not renewed / reviewed
- List of accounts which are short reviewed (which may have impact in NPA identification)
- List of accounts which slipped to NPA during the current period
- List of accounts wherein there is an amendment

- in date of NPA
- List of accounts written off during the period / year
- List of accounts upgraded (along with date of upgrade and the overdues on the date of upgrade and the accounting treatment of recovery amount)
- Quick mortality (NPA within 1 year of original sanction date)
- List of NPA accounts with security valuation not carried out within the prescribed period
- List of accounts wherein re-phasing (change in EMI, tenor, moratorium period) is carried out in CBS (excluding re-phasing due to change in the reference rate)
- Loan / OD against FD with no linkage to FD (i.e., Security)
- Loan to minors (Excluding Non-individual accounts and excluding Education, Loan/OD against deposit cases)
- Loans below the benchmark rate (as applicable in each bank)
- Loans above the maximum lending rate (as applicable in each bank)
- Loans where disbursement is made in cash (Threshold limit may be prescribed)
- Credit transactions in CC / OD / Loan Accounts with Value Date (Back Date) without Value Date (Back Date) at Debit Leg
- Advance accounts where effective interest rate is Zero
- CC accounts with primary security is "Nil"
- Multiple TODs / Ad hoc Sanctions for a customer
- Non delinking of Ad hoc facility sanctioned on expiry
- Multiple customer IDs having common PAN
- Red flagged accounts since more than 6 months
- List of project loans (infra and non-infra) including fields such as Date of Financial Closure, Original DCCO, extended DCCO, Achieved DCCO, Time/ Cost Overruns
- List of advances, where significant erosion in security value is observed. (Accounts where erosion is more than 50 per cent)

# Annexure 4- Illustrative checklist of special purpose /exceptional reports in CBS prescribed under Chapter 5 of Guidance Note on Audit of Banks (2026)]

- Data submitted to CERSAI
- SMA0, SMA1, SMA2 reports of all 12 months of the audit period

## **Profit & Loss Report**

- Manual debit to 'Interest Income' and 'Other Income' accounts
- Manual credits to 'Interest Income' and 'Other Income' account
- Manual debit to 'Interest Expense Account'
- Interest pegging marked as "Y" for loans sanctioned at variable rate i.e., w.r.t. benchmark rates (pegging may freeze the interest rate at the respective time)

## **Foreign Exchange, Internal Controls, Regulatory and Systems Report**

- Bills under LC devolved and not crystallized. / Bills under LC devolved wherein the crystallization account is office account / not of customer
- Export bills discounted / purchased and outstanding beyond due dates
- Packing Credits Accounts outstanding beyond due dates / Running Packing Credit accounts with age of un-utilized orders is more than 365 days
- Resident customers having Non-Resident Account (under same or multiple customer master)
- NRE Account Holder having resident savings account (under same or multiple customer master)
- FDs / RDs with aggregate balance at customer master level in excess of Rs. 20,000 and closed

- one / all FDs / RDs in cash
- Cash payments from Office Accounts in excess of Rs. 10,000
- Non senior citizen customers (based on DOB) with senior citizen interest table code
- Preferential interest rate applicable to staff applied to non-staff deposit (Refer the policy of bank w.r.t. extending facility to ex-staff and relatives of staff / ex-staff)
- List of outstanding office accounts entries (pointing type accounts).
- Accounts with invalid PAN (No. of digits, structure, constitution code mapping with 4th digit) Guidance Note on Audit of Banks (Revised 2024) 369 Sr. No. Report
- List of foreign exchange transactions with exchange rates beyond the card rate / maximum-minimum rate during the period

## **Capital Adequacy Report**

- Accounts above the threshold limit wherein external credit rating is not obtained / updated
- Bank guarantees and LC expired and not reversed
- Accounts with mismatch in constitution code and BASEL mapping

The above list of reports is indicative only. There are various other reports that can be generated. However, the generation of reports requires in-depth review of bank's systems, processes and gaps. The reports can be made more effective through continuous review and update mechanism.

# Annexure 5- Illustrative checklist for Review of Automation of Income Recognition, Asset Classification and Provisioning Processes

Compliance with the SAs should be taken care of, while executing the audit as well as reporting.

No	Requirement Title	Important aspects and Review Process
1	Coverage of Automation	<ul style="list-style-type: none"> <li>Ensure all type of borrowal accounts are subject to automation.</li> <li>Compile list of all type of products from Advances Report and review compliance as to whether all products are covered under Automation.</li> <li>Review SOP developed by bank and MIS Report</li> <li>Temporary overdraft, adhoc limits, Debit Balance in SB/CA or any other short-term facilities granted would also be subject to automation.</li> </ul>
2	Calculation of Provisioning	<ul style="list-style-type: none"> <li>Review MIS Reports for provisioning</li> <li>Ensure the reports are generated from CBS or from other system.</li> <li>In case the reports are generated from other systems review integration / linkage between CBS and the referred system. In this regards a detailed documentation for integration may be called for from the bank. Generally the said aspect would be handled at HO. In that case obtain specific confirmation thereof.</li> </ul>
3	System Based Asset Classification- On going Exercise	<ul style="list-style-type: none"> <li>The activity is required to be carried out as a part of Day end process. Thus the activity would take place on daily basis. The compliance for</li> <li>the same can be reviewed in following way.</li> <li>A. Obtain confirmation from respective department as to System Based Asset Classification is part of day end process and during the</li> <li>audit period the process was carried out on all days without any gaps.</li> <li>B. Wherever available and feasible, review availability of NPA reports for all the days for the audit period and sample review of reports to ascertain the adherence</li> </ul>
4	System Based Asset Classification- Availability of Classification of System Report	<ul style="list-style-type: none"> <li>It is mandatory for banks to deploy a system which provides classification status report with time stamp.</li> <li>Review whether any change in NPA are duly available for review through Data History / Audit Trail in System</li> </ul>
5	System Based Asset Classification- Exception Handling	<ul style="list-style-type: none"> <li>In certain cases the banks are permitted to make manual adjustments in System Based Asset Classifications. However, there are various conditions to be adhered to. The exception handling process would generally be at a centralized level. A confirmation in this regard to be obtained.</li> </ul>
6	System Requirements- Separate application outside CBS	<ul style="list-style-type: none"> <li>Integration between CBS and separate system is required to be reviewed. As per LFAR the same is also required to be commented by Branch Auditor. In this regards the integration documents, areas of manual intervention in separate system should be reviewed. A process walkthrough can be carried out for the same.</li> </ul>
7	System Requirements- System Audit Report	<ul style="list-style-type: none"> <li>If any system audit is carried out at branch level for this aspect the audit report thereof be reviewed.</li> </ul>

# Annexure 5- Illustrative checklist for Review of Automation of Income Recognition, Asset Classification and Provisioning Processes

Compliance with the SAs should be taken care of, while executing the audit as well as reporting.

No	Requirement Title	Important aspects and Review Process
8	Data Input and Validation checks on manual intervention	<ul style="list-style-type: none"> <li>The banks are required to ensure presence of necessary validation / verification checks for Data Input which impact the automated asset classification. Suggestive list of manual intervention / correction / manipulation in system which would have bearing on the asset classification are as follows. The auditors may include suitable review mechanism in this regards.               <ul style="list-style-type: none"> <li>Backdated Renewal Date updation</li> <li>Change in Limit – From Non-Fund Base to Fund Base</li> <li>Changes in EMI</li> <li>Moratorium period/ Flow Start Date</li> <li>Changes in Sanction Limit, Drawing Power</li> <li>Changes in Margin Setting</li> <li>Security Valuation</li> <li>Rephasing/ Rescheduling</li> <li>Credits in Borrowal Accounts through office account, Inter Branch Accounts and reversed later on</li> <li>Multiple transfers within group/ unrelated accounts for credit turnover.</li> <li>Debit and Credit to the same borrowal account for inflated credit turnover</li> <li>Granting of Temporary overdraft and utilization of proceeds thereof for repayment of operative accounts.</li> <li>Parking of devolved bill in office account instead of operative accounts.</li> </ul> </li> </ul>
9	User Access Management, Straight through processing and Restriction on back end data access	<ul style="list-style-type: none"> <li>These requirements are generally handled at Head Office / Centralized Level. A confirmation in this regard may be obtained for audit working paper.</li> </ul>
10	Audit Logs	<ul style="list-style-type: none"> <li>The system is required to be configured to provide Logs for change in masters. The auditor may test check the availability of logs for changes in masters. However, if the activity is carried out at Centralized Level the confirmation for the same may be obtained.</li> </ul>
11	System Generated NPA/NPI- MIS Report with all parameters	<ul style="list-style-type: none"> <li>Report with all the applicable parameters should be obtained for audit.</li> </ul>
12	Test Environment	<ul style="list-style-type: none"> <li>These requirements are handled at Head Office / Centralized Level</li> </ul>
13	SOP for System Based NPA Classification	<ul style="list-style-type: none"> <li>The auditor should review the SOP prescribed for System Based NPA classification for usage by the operating staff. It would provide insight into system implementation and detailed process to be followed.</li> </ul>

# Annexure 6 - Audit Approach, Procedures including Regulatory Considerations prescribed under Chapter 11 of Guidance Note on Audit of Banks (2026)]

## Audit Approach, Procedures including Regulatory Considerations

### A. Preliminary Check

- SBA should review product note or circular or policy related to every loan product under the audit. Also, check if the product note/ policy/ circular is in line with RBI guidelines.
- In retail advance, the volume of transactions are high; hence the auditor needs to apply effective sampling to ensure proper coverage. While selecting sample, the auditor may consider loan sanctioned/ disbursed near to reporting date, high/low in interest rate sanctions as compared to average rate, coverage of different branches and different type of loans. The auditor should review the compliance of Reserve Bank of India (Commercial Banks- Interest Rates on Advances) Directions, 2025 dated November 28,2025.
- SBA should look into the following documents for checking the bank process for selected sample accounts:
  - Prescribed application form.
    - Credit score by CIBIL or any other approved agency of borrower and guarantor.
    - KYC compliance.
    - Income proof like salary slip, financial statement, Income tax returns, bank statement.
    - Property Valuation Report.
    - Title clearance report in case where property like flat, plot, building is mortgaged.
    - Technical review in case of mortgage of machinery.
    - In case of vehicle loans, copy of original invoices, copy of RC and insurance policy of vehicle with bank clause should be obtained.
    - In case of education loans, document evidencing studies in affiliated universities/colleges, prospectus and fees details should be obtained.
    - Whether the bank has complied with the particulars given in the documentation manual.
    - If the loan is taken over from another bank, satisfactory performance report from that bank needs to be collected.
    - If any additional limit is granted, ensure that security and eligibility is being considered.
    - Whether the bank has obtained legal security report in addition to valuation report.
    - Whether all registers required by the Bank/Branch are kept updated.
    - Confidential report and NOC from the existing bankers.
    - Valuation report in case of Gold loan.
    - Master creation of loan in Core Banking System/Operating system including classification of loans as priority sector loans.
    - In respect of FDs pledge against the loans, the auditor should also verify the lien marking in the system.
    - Field verification in case of micro lending.
  - The Insolvency and Bankruptcy Board of India (IBBI) has registered
  - National E-Governance Services Limited (NeSL). RBI has advised the banks to adhere to the relevant provisions of IBC, 2016 and IBBI (Ius) Regulations, 2017 and immediately put in place appropriate systems and procedures to ensure compliance with the provisions of the Code and
  - Regulations (RBI vide Circular No. RBI/2017-18/110 DBR.No.Leg.BC.98/
  - 09.08.019/2017-18 dated December 19, 2017 on Submission of Financial
  - Information to Information Utilities).
  - Legal Entity Identifier (LEI) should invariably be obtained for non-individual borrowers above the limit specified vide Chapter VIII of Reserve Bank of India (Commercial Banks-Credit Risk

## Annexure 6 - Audit Approach, Procedures including Regulatory Considerations prescribed under Chapter 11 of Guidance Note on Audit of Banks (2026)]

Management) Directions, 2025 dated November 28, 2025.

- The SBA may also refer the RBI Guidelines on opening of current accounts and CC/OD accounts by banks Issued vide Chapter XI of the Reserve Bank of India (Commercial Banks- Credit Risk Management) Directions, 2025 dated November 28, 2025.
- In case of term loans with floating rate of interest, the auditor should review the existent system of the bank w.r.t. applying the change in the RoI and its impact on either EMI or tenor of loan as per the terms of sanction of the loan.
- 
- The SBA should check the master data of the borrower in the CBS to ensure correct entering of data about DCCO into CBS whenever applicable.
- Verify if the bank has abided by the Loan to Value (LTV) and Risk Weights (RWs) of para 111 of the Reserve Bank of India (Commercial Banks- Credit Facilities) Directions, 2025 dated November 28, 2025.
- The Bank shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account. The borrower shall be given the option of collecting the original movable / immovable property documents either from the banking outlet / branch where the loan account was serviced or any other office of the bank where the documents are available, as per her / his preference. The timeline and place of return of original movable / immovable property documents should be mentioned in the loan sanction letters. In order to address the contingent event of demise of the sole borrower or joint borrowers, a bank shall have a well laid out procedure for return of original movable/ immovable property documents to the legal heir(s). Such procedure shall be displayed on the website of the bank along with other similar policies and procedures for the customer information. SBAs should refer to the Para 354 to 357 of Reserve Bank of India (Commercial Banks- Responsible Business Conduct) Directions, 2025 dated November 28, 2025.
- Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges, i.e. no further interest computed on such charges, However, this will not affect the normal procedures for compounding of interest in the loan account. Therefore, the bank may charge interest on unpaid interest (including on unpaid EMI) at the contracted rate of interest till the date of remediation, and not at the penal rate of interest. Auditors should ensure compliance with Para 351 of Reserve Bank of India (Commercial Banks- Responsible Business Conduct) Directions, 2025 dated November 28, 2025.
- In case of floating rate personal loans, at the time of sanction, bank should communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. The SBA should verify same. SBA should refer to the Para 349 of Reserve Bank of India (Commercial Banks- Responsible Business Conduct) Directions, 2025 dated November 28, 2025.
- SBA should refer Chapter III of Reserve Bank of India (Commercial Banks- Credit Facilities) Directions, 2025 dated November, 28, 2025, on Guidelines on Digital Lending and verify compliance thereof.
- SBA should refer RBI Notification No. RBI/2023-24/58 CO.DPSS.POLC.No.S-567/02-23-001/2023-2024 dated September 4, 2023 (updated as on February 12, 2025) on Operation of Pre-Sanctioned Credit Lines at Banks through Unified Payments Interface (UPI) along with NPCI circular no.

# Annexure 6 - Audit Approach, Procedures including Regulatory Considerations prescribed under Chapter 11 of Guidance Note on Audit of Banks (2026)]

NPCI/UPI/OC No.171/2023-24 dated September 20, 2023, and verify compliance thereof.

- SBA should refer Para 87 to 102 of Reserve Bank of India (Commercial Banks- Resolution of Stressed Assets ) Directions, 2025 , on “Framework for Compromise Settlements and Technical Write-offs” and verify compliance thereof. SBA should verify adherence to ‘Board approved policy for compromise settlements with the borrowers as well as for technical write-offs’ of accounts which are subjected to Compromise Settlement / Technical Write-Off with respect to following aspects which are illustrative in nature:
  - Definition of Compromise Settlement / Technical Write off and eligibility of accounts settled thereunder.
  - Compliance with Board approved policy for compromise settlements with the borrowers as well as for technical write-offs.
  - Policy lay down process.
  - Delegation of power.
  - Prudential treatment
  - Reporting mechanism
  - Oversight by the Board
  - Cooling period for fresh exposures to such borrower
  - Treatment of accounts categorized as fraud and wilful defaulter.
  - Other legal provisions
- National Company Law Tribunal (NCLT)/National Company Law Appellate Tribunal (NCLAT) under the Insolvency and Bankruptcy Code, 2016 are also required to be reported under the suit-filed cases in reporting to the CICs.<sup>24</sup>

## • Disbursement

- The SBA should check whether the disbursements had been made only if all the terms and conditions of the sanction letter have been fulfilled and an acceptance letter for the same has been obtained.
- Also check whether processing charges, inspection charges, mortgage charges and documentation charges have been collected by the bank. The practice may differ between banks; in few cases these charges are collected from the amount disbursed to the borrower.

## • Post Disbursement Inspection

The bank should have a proper check on the active accounts. The important aspects that the SBA can check are as follows:

- There should be an acceptance letter duly acknowledged by the borrowers and guarantors, if any for all the loan accounts.
- Execution of the loan documents should be as per the terms and conditions of the sanction letter.
- iii. All the original documents are held in the safe custody in fire resistance safe.
- Valuation of securities.
- External and internal credit rating.
- 
- Due diligence certificate.
- Verify if the payment schedule as per the sanction letter is implemented. Check the approval document for the same, if any.
- Whether the interest and principal repayment are received in time in accordance with the

## Annexure 6 - Audit Approach, Procedures including Regulatory Considerations prescribed under Chapter 11 of Guidance Note on Audit of Banks (2026)]

repayment schedule as mentioned in the loan agreement/term sheet.

- Whether the SMAs/EWS are reported to the management on regular intervals and what course of action has been taken to mitigate the same.
- Verify whether the group exposure and industry exposure are within the prescribed limits.
- The SBA should set the expectation for the movement in yield based on the discussion and inquiries made with the management; rate movement observed in the industry, etc., and should obtain explanations for major variances in the yield on monthly basis or quarterly basis.
- The SBA should perform analytical procedures for computing the processing fee percentage for different ticket size loans.
- The SBA should check the master data of the borrower in the CBS to ensure correct feeding of data with regard to sectorial classification of advances, e.g., priority sector and non-priority sector in accordance with Master Direction No. RBI/FIDD/2024-25/128 Master Directions FIDD.CO.PSD.BC.13/04.09.001/ 2024-25 Reserve Bank of India (Priority Sector Lending-Targets and classification) Directions, 2025" dated March 24, 2025 (Updated as on Jan 19, 2026), amount of instalments with due dates of payment etc. It is noted that 'Udyam Registration Certificate' or Udyam Assist Certificate is mandatory to classify the account under Priority Sector classification as per Notification No. RBI/2023-24/27 FIDD.MSME & NFS.BC.No.09/06.02.31/2023-24 dated May 9, 2023 (updated as on July 23, 2025) read with Circular No. RBI/2020-2021/26 FIDD.MSME & NFS.BC.No.4/06.02.31/2020-21 dated August 21, 2020). Additionally, SBA should check Individual women beneficiaries up to ₹1 lakh per borrower, including cash credit or overdraft facility. Renewal above ₹1 lakh are classified as non-weaker. Guidance Note on Audit of Banks (Revised 2024) The SBA should also carry out cut-off procedure for the purpose of ascertaining the completeness of loans and also should review the subsequent cancellation of loan after balance sheet period.



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- Chairman of Northern India - The Institute of Chartered Accountants of India in 1983-84
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- Chairman, Board of Studies of The Institute of Chartered Accountants of India from 2010 to 2011 being in charge and overall responsibility for the Chartered Accountants education of about 1 million CA students in the country.
- He has also served on different Committees of Central Board of Direct Taxes, Ministry of Corporate Affairs and several committees of Securities and Exchange Board of India (SEBI)
- Mr. Jain has been elected member of National Council of CII and a former National President of ANMI (Association Of National Stock Exchanges members of India)
- Shri Jain has been Member, High Powered Committee, appointed by Finance Ministry to simplify Income Tax Law.
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**He specializes in the field of Valuations, Mergers & Acquisitions, GST Advisory & Assurance, Risk Advisory, Business Strategy and Financial Advisory.** He has to his accord very deep business acumen and angle of entrepreneurial and proprietary review. He has wide experience in development of systems and control for operational efficiency and effectiveness. He has also designed Management Information and Reporting Systems for many companies.

**He has been a Special Invitee on IFRS (IndAS) Implementation Committee of ICAI.** He has been a faculty at **GST Point** – A Call in session for Members & Students at ICSI HO, Lodhi Road. He is a **Visiting faculty** to various forums like **ICAI, ICSI, Confederation of Indian Industry (CII), Association of National Exchanges Members of India (ANMI), PHDCCI, etc.** He is **General Secretary at All India Chartered Accountants Society. He is Past President – SGGSCC Alumni Association (2007-15 – 8 Years).**

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- He is a **Senior Partner of M/s Mehra Goel and Co, Chartered Accountants, Nehru Place and Gurugram since April 2018 (5 years+).** Mehra Goel & Co is among the leading audit and assurance, financial & tax advisory firms in India. **Mehra Goel & Co** is a **PCAOB (USA)** registered firm established in **1963** and Member of **Morison Global**, an International Association of Independent Firms.
- He is Director at **INMACS Limited, Registered with SEBI as Category 1 Merchant Banker and Corporate Consultant.** He is also Director with **INMACS Valuers Private Limited, a Registered Valuer Entity** under all 3 classes of Assets viz Land & Building, Plant & Machinery and Securities or Financial Assets with IBBI.
- He has been Partner for **8 years (2010-2018)** with **Vinod Kumar & Associates, Chartered Accountants,** and Article Trainee for **3 years (2007-2010)** with **Price Waterhouse & Co (PwC) from 2007-2010.**

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