

SEMINAR ON STATUTORY AUDIT OF BANK BRANCHES

Audit Planning and Documentation

PRESENTATION BY

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Importance of Audit Planning and reporting

- Well planned is half done
- One should know destination to plan well
- Good planning leads to effective reporting
- Audit destination is report (to express opinion on financial statements)
- Audit planning and reporting are two important stages
- Audit planning is before beginning of field work and reporting is last stage in every audit
- Audit planning helps in controlling audit risks (inherent, control & detection)
- SA 300 - Planning an Audit

<https://www.icaai.org/post/guidance-note-on-audit-of-banks-2026-edition-details>

Section B - Bank Branch Audit

Chapter 2: Bank Branch Audit Planning 311-314

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Stages in Bank Audit

- 1. Study of Appointment / engagement letter for Branch Statutory audit, with closing circulars.
- 2. NOC from the previous auditor.
- 3. Pre-Audit discussion with branch.
- 4. Audit planning - Understanding of the Branch software MIS / Critical / exceptional reports.
- 5. Execution of the audit

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Stages in Bank Audit ...

- 6. Discussion of the draft branch audit report with bank.
- 7. Preparation of Memorandum of Changes and its effect .
- 8. Submission of audit report to branch and copy to central statutory auditors.

Contents of Letter of Appointment

- Appointment under the Banking Regulation Act, 1949
- Duties and responsibilities of the SBA.
- Particulars of branch(s) to be audited and of the region/zone to which the branch reports.
- Particulars of statutory central auditors (SCA)
- Particulars of previous auditors.

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Contents of Letter of Appointment

- Guidelines for conducting audit of Branches, completion of audit, eligible audit fees and reimbursement of expenses etc.
- Procedural requirements to be complied with in accepting the assignment, e.g., letter of acceptance, Declaration of indebtedness, declaration of fidelity and secrecy, other undertaking by the firm/SBA, specimen signatures, etc.

Contents of Letter of Appointment

- Scope of work - Besides the statutory audit under the provisions of the Banking Regulation Act, 1949, SBA is also required to verify certain other areas and issue various report and certificates like LFAR, Tax Audit Report, certificates for cash verification on odd dates, Ghosh&Jilani reports etc.

Contents of Letter of Appointment

- A list of documents/working papers which the RBI may require to be handed over. Such documents have to be carefully maintained with all details as to be self-explanatory

Study of appointments letter

- Noting of relevant contents
- Assessment of disqualification of the auditor
- Letter to the previous auditor of NOC
- Preparation of Acceptance letter and declarations
- Engagement letter to the appointing authority
- Assessment of reporting requirements (Time and contents)
- Letter of requirement to the Branch.

Preliminary work

- Knowledge about the branch operations
- Characteristics and Scope of the Audit
- Acquiring the knowledge for effective conduct of Audit
- Risk assessment and evaluation of internal control
- Staff Training

Preliminary work...

- Consider the requirements of various Accounting Standards and Standards on Auditing, to the extent applicable
- Ascertaining the reporting objectives
- Establish Overall Audit Strategy

Knowledge of Business

- Acquire Information of the banking industry
- Information of past events and progress of the bank
- Study of Annual reports of the earlier years
- Banking Journals
- Laws & Regulations applicable

Laws and Regulations applicable

- The Banking Regulation Act, 1949
- Master Circulars and other circulars issued by the RBI
- The Companies Act
- Guidance Note on Audit of Banks issued by ICAI

Risks in Bank Branch Audit

- .Effect of the statutory and regulatory requirements
- .The scale of banking operations and the resultant significant exposures
- .Extensive dependence on IT to process transactions
- .Continuing development of new services and banking practices
- .Particular nature of risks associated with the transactions undertaken by banks

Risk Assessment and Evaluation of internal control

- Branch Manager meeting
- Meeting and discussion with the bank branch management and understanding the profile of the branch and its business
- Initial review of system
- Review of other Audit observations

Branch Manager meeting

- Review of the Organization chart
- Accounting policies
- Composition of Deposits & Advances
- Staff Strength & Average age
- Shifts & Duty timings
- Positive and grey areas of the branch :
Branch manager's concerns

Initial review of the system

- Meeting with departmental heads
- Division of work and area of operations
- Logistic support expected
- Tentative time schedule of closing work and audit
- Computerization and software used
- List of top ten borrowers
- List of top ten NPA

Review of other audit observations

- Previous year's Branch Audit Report / LFAR
- Internal audit/ concurrent audit Reports
- Credit Audit Report
- Stock Audit Report
- Income- Expenditure /Revenue Audit Report
- IS/IT/Computer/Systems Audit Report
- Any special inspection / investigation report
- RBI Inspection Report

Review of other Documents

- Reporting process between the Head Office & Branches
- Review of RBI circulars
- Review of Circular issued by Head office
- Review of periodical returns from Branch
- Review of Closing Instructions and communication with Branch Auditors

Understand the system in CBS at Branch

- SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment lays down that the use of Information Technology (IT) affects the way control activities are implemented. From the auditor's perspective, controls over IT system are effective when they maintain the integrity of the information and the security of the data such systems process, and includes effective IT controls and application controls. In recent years, most banks have moved towards computerisation of their operations. The degree of computerisation, however, varies among different banks and also among various branches of the same bank. While some branches have been fully computerised, some others have been partly computerised while many others are non-computerised.

Special Considerations in a CBS Environment

- Annexure - A
- <https://www.icaai.org/post/guidance-note-on-audit-of-banks-2026-edition-details>

Guidance note Page 366-370

- Based on the Circular dated November 28, 2025, the branch auditors are required to carry out review of certain aspects w.r.t. adherence to Automation of System / CBS for IRACP. There is suggested checklist provides guidance for review process to be carried out in this regards.

Special Considerations in a CBS Environment

- Annexure - B Suggested Checklist for review of CBS implementation - Conditions prescribed in IRACP Directions, 2025
- Annexure - C Illustrative List of Special Purpose / Exception Reports in CBS

Understand the system in CBS at Branch

- Verify controls
- Start of day and end of day report
- Verify exceptional report
- Understand the editable & uneditable fields at Branch
- Creation & entries in Masters
- Various short-cut keys for checking the accounts

Understand the system in CBS at Branch

- System of downgrading & upgrading of Accounts
- Interest calculations
- Generation of reports relating to advances classification and Capital Adequacy calculation, etc.

Planning for conduct of audit

- Audit Team
- Audit schedule
- Audit Program
- Appropriate documentation
- Physical aspects: Travel, boarding etc.
- Reporting requirements
 - Audit facilities, computers, software, etc.
 - Formats
 - Timings for submission
 - Alternative plan for contingencies

The Audit can be conducted in either of the following ways

- Inspection and Observation
- Inquiry and Confirmation
- Computation
- Analytical Procedures

Staff Training

- Familiarity with banking operations in different areas (deposits, loans, investments, NPA norms, etc.)
- Deliverables: Audit reports, certificates and returns
- Audit techniques (enquiry, explanations, verifications, sample checks, objective evidence, etc.)

General

- Audit Team should carry :--
 - Copy of appointment letter
 - Authorization letter for the staff member
 - Stationery : pen, pencil, letterheads, worksheets, rubber stamps etc.
 - Copy of norms for reimbursement of expenses such as lodging, boarding, Traveling and local conveyance.

Essential of good Planning

- Knowledge of situation
- Knowledge of resources
- Knowledge of Audit expectations
- Plan to deliver more than expected.

Audit Report and certification

- Branch Returns : correctness of branch returns
- Audit Report : True and fair view
- Memorandum of Changes (MOC)
- LFAR
- Tax Audit Report
- Certificates

Branch Returns

- All returns should be certified
- Correctness of returns should be ensured
- No changes are to be made in returns
- The changes are to be reported through MOC
- Corrections, overwriting, deletions etc. Care should be taken about correct preparation and correct reporting
- Even NIL return should be certified

Audit reports

Exceptions should be noted specifically (e.g. Provision for taxation, bonus, NPA)

- Auditor's name and membership number should be mentioned
- Date of Audit Report and place of execution should be mentioned
- The report should be on the letterhead

Memorandum of changes(MOC)

- Memorandum of changes for :
 - Assets and liabilities
 - Income and Expenditure
 - Changes in Asset classification
- In case there is no change...MOC with NIL remark should be submitted
- MOC is a part and parcel of the Audit report...Audit report without MOC is an incomplete report.

MOCcontd.

- Signature of the Branch Manager (BM) needs to be obtained on MOC as a token of acceptance
- In a situation where BM does not accept the change suggested by the Auditor,
 - The auditor should issue the MOC, and
 - A suitable note should be attached describing the reasons as to why the auditor feels the change is necessary

Guidance Note on Audit of Banks (2026 Edition)

<https://www.icaai.org/post/guidance-note-on-audit-of-banks-2026-edition-details>

A. Foreword and Preface of Past Years

B. Text of Guidance Note on Audit of Banks (2026 Edition)

C. Appendices of the Guidance Note on Audit of Banks (2026 Edition)

Appendices of Section A - Statutory Central Audit of Guidance Note on Audit of Banks (2026 Edition)

Appendices of Section B - Bank Branch Audit of Guidance Note on Audit of Banks (2026 Edition)

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Guidance Note on Audit of Banks (2026 Edition)....

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D. Text of Relevant Master Circulars Issued by the RBI

List of Relevant Master Circulars Issued by the RBI

Master Circulars

E. Text of Relevant Master Directions Issued by the RBI

List of Relevant Master Directions Issued by the RBI

Master Directions

F. Text of Relevant Notifications, FAQs and General Circulars

List of Relevant Notifications, FAQs and General Circulars

Notifications, FAQs and General Circulars

Appendices of Section B - Bank Branch Audit

<https://resource.cdn.icai.org/91297aasb-aps4524-c2.pdf>

Appendix V : Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor..... 34-45

Appendix VI : Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor (Separate only for Audit of Internal Financial Controls Over Financial Reporting)..... 46-50

Appendix VII : Illustrative Format of Written Representation Letter to be obtained from the Branch Management 51-60

Appendix IX : Illustrative Bank Branch Audit Programme for the Year ended March 31, 2026..... 79-101

Documentation

<https://www.icaai.org/post/guidance-note-on-audit-of-bank-Sections-2026-edition-details>

B - Bank Branch Audit

Chapter 3: Audit Documentation in Bank Branch Audit 315-321

Illustrative list

- Appointment formalities, including appointment letter, NOC from previous auditor, engagement letter etc.
- Latest RBI Master Directions / Circulars, other material for conducting the audit.
- Closing guidelines / circular issued by the bank.
- Summary of the relevant provisions of the RBI master directions, IRAC norms, closing circular used at the branch

Documentation ...

Illustrative list ...

- Documentation of branch audit as per SA 230.
- Understanding the powers and responsibilities at various levels in the branch.
- Summary of the accounting policies, observations from previous audits, inspection reports, concurrent audits etc. 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.*

Documentation ...

Illustrative list ...

- 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.
- Various Audit reports such as internal inspection report, concurrent audit reports, previous year statutory audit report..

Documentation ...

Illustrative list ...

- 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 by the bank's management on sensitive or significant audit issues or accounts.
- List of latest and updated stock and security statements, valuation and inspection reports

Documentation ...

Illustrative list ...

- 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.
- Verification of other assets and liabilities.
- Proof of various securities, cash and other assets physically verified during the audit.
- ATM verification details.

Documentation ...

Illustrative list ...

- KYC verification, anti-money laundry verification, FEMA compliance at branches.
- Verification of third party products.
- Off balance sheet items, claims against banks and contingent liabilities.
- Other Bank / RBI balance confirmation.
- Management Representation Letter.
- Various other audit documents / evidence considered in audit process.

SAs are applicable to all audit engagements

- 1. General principles & Responsibilities SA 200 to SA 299
- 2. Risk assessment & Response to the assessed risks SA 300 to SA 499
- 3. Audit Evidence SA 500 to SA 599
- 4. Using the Work of Others SA 600 to SA 699
- 5. Audit Conclusions & Reporting SA 700 to SA 799
- 6. Specialised Areas SA 800 to SA 899

Few Important SAs for Branch Audit

- SA 210 , Agreeing the Terms of Audit Engagements
- SA 220, Quality Control for an Audit of Financial Statements
- SA-230 Audit Documentation
- SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
- SA-260 Communication with Those Charged with Governance
- SA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management .
- SA 300 , Planning an Audit of Financial Statements
- SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
- SA 320 , Materiality in Planning and Performing an Audit
- SA 330, The Auditor's Responses to Assessed Risks
- SA 402, Audit Considerations relating to an Entity Using a Service Organisation .
- SA 450, Evaluation of Misstatements Identified during the Audit

Few Important SAs for Branch Audit

- SA 500 Audit Evidence whilst testing IPE Information Produced by the Entity ('IPE')
- SA 505, External Confirmations
- SA 510 , Initial Audit Engagements- Opening Balances
- SA-520 Analytical Procedures
- SA-540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- SA-550 Related Parties
- SA-560 Subsequent Events
- SA-570 (Revised) Going Concern
- SA 580, Written Representations
- SA 600 Using the Work of Another Auditor
- SA-610 (Revised) Using the Work of Internal Auditors
- SA-620 Using the Work of an Auditor's Expert

Few Important SAs for Branch Audit

- SA 700 (Revised), Forming an Opinion and Reporting on Financial Statements ,
- SA - 701 Communicating Key Audit matters in the Independent Auditor's report
- SA 705, (Revised) Modifications to the Opinion in the Independent Auditor's Report
- SA 706, (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- SA-710 Comparative Information Corresponding Figures and Comparative Financial Statements
- SA-720 (Revised) The Auditor's Responsibilities Relating to Other Information
- SA-800 Special Considerations Audit of Financial This SA deals with special considerations in the application of SAs in the 100-700 series to an audit of financial statements prepared in Guidance Note on Audit of Banks (Revised 2022) 293 Statements Prepared in Accordance with Special Purpose Frameworks
- SA-805 Special Considerations Audit of Single Financial Statements and specific Elements, Accounts or Items of a Financial Statement
- SA-810 Engagements to report on Summary Financial Statements



Once upon a time a tortoise and a hare had an argument about who was faster.

- They decided to settle the argument with a race. They agreed on a route and started off the race.



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The moral of the story is that slow and steady wins the race.



The hare was disappointed at losing the race and he did some Root Cause Analysis (RCA).

He realised that he'd lost the race only because he had been overconfident, careless and lax.



The moral of the story :

Fast and Consistent will always
Beat the Slow and Steady



But the story doesn't end here.

The tortoise did some thinking(RCA) this time, and realised that there's no way he can beat the hare in a race the way it was currently formatted.

The moral of the story ?

First identify your core competency
and then change the playing field to
suit your core competency

The moral of the story ?

It's good to be Individually Brilliant and to have strong Core Competencies; but unless you're able to Work in a Team and Harness each other's Core Competencies, you'll always Perform below par because there will always be situations at which you'll do poorly and someone else does well.

There are more lessons to be learnt
from this story.....

Note that neither the hare nor the tortoise gave up after Failures.

The hare decided to work Harder and put in More Effort after his Failure.

The tortoise changed his Strategy because he was already Working as Hard as he could.

In life, when faced with Failure, sometimes it is appropriate to Work Harder and put in More Effort.

Sometimes it is appropriate to
Change Strategy and Try
something different. And
sometimes it is appropriate to do
both.

The hare and the tortoise also
Learnt another vital Lesson :

When we stop Competing against
a rival and instead start Competing
against the Situation, we Perform
far Better

To sum up, the story of the hare and tortoise teaches us many things; Chief among them are :

- Fast and Consistent will always beat slow and steady.
- Work to your Competencies.
- Pooling resources and working as a team will always beat individual performers.
- Never give up when faced with failure; and finally,
- Compete against the situation NOT against a rival.

ANY QUESTIONS

THANK YOU