

**Foreword and Preface
of Past Years**

Foreword to Twentieth Edition

A healthy and sound banking sector is essential for the sustainable socio-economic growth of the economy. One of the most important factors contributing to a healthy and sound banking sector is the quality of the statutory audit of banks. The statutory audit of banks involves several peculiarities that make the task of auditors quite challenging. These include huge volume and complexity of transactions in banks, their wide network, diverse range of products and services offered, extensive use of technology, and strict oversight by the banking regulator. Therefore, it is crucial that auditors of banks possess adequate knowledge of the banking sector and stay updated with the latest developments within the banking sector.

The Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) issues the revised edition of the publication- "Guidance Note on Audit of Banks" every year under the authority of the Council of ICAI. This Guidance Note provides detailed guidance to the members regarding statutory audit of banks and bank branches. I am pleased to note that AASB is bringing out this revised and updated 2025 Edition of the Guidance Note on Audit of Banks.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman, and all other members of the Auditing and Assurance Standards Board for their efforts in bringing out this revised Guidance Note, which will support the members in maintaining quality in bank audits.

I am confident that the members and other stakeholders will find the Guidance Note highly useful in their professional assignments.

February 11, 2025
Delhi

CA. Ranjeet Kumar Agarwal
President, ICAI

Preface to Twentieth Edition

The Indian banking sector plays a pivotal role in the country's economic growth by facilitating the flow of capital, driving savings, promoting investments, and supporting businesses, both large and small. The banking sector is the backbone of the financial system, ensuring efficient resource allocation, providing loans to individuals and enterprises, and enhancing financial inclusion. With the rapid growth of the economy, the banking sector has witnessed significant reforms, digital transformation, and the introduction of new financial products and services. In this context, the role of the statutory audit of banks becomes paramount. Bank audits ensure transparency, integrity, and accountability in the operations of banks, helping to identify risks, prevent fraud, and maintain compliance with regulatory norms. An effective audit process ensures that banks remain solvent, mitigate operational risks, and contribute to the overall stability and growth of the economy.

The Auditing and Assurance Standards Board (AASB) of ICAI has been supporting the members in upholding the quality of bank audits. AASB releases the publication "Guidance Note on Audit of Banks" annually to provide detailed guidance to the members engaged in audits of banks and their branches. The Guidance Note is an important resource for the members involved in these audits. The Guidance Note is updated annually to incorporate the latest developments, the impact of amendments, and changes in the banking landscape. These updates encompass factors such as Master Directions/ Circulars issued by RBI, relevant advisories, ICAI's pronouncements affecting bank audits, and changes in applicable laws or regulations.

We are happy to place in your hands, this revised 2025 edition of the Guidance Note on Audit of Banks. The Guidance Note is divided into two Sections: Section A - Statutory Central Audit, and Section B - Bank Branch Audit. For the benefit of the members, the Guidance Note also contains various Appendices, including illustrative formats of engagement letter, illustrative formats of auditor's report (both for nationalized banks and banking companies), illustrative formats of management representation letter, the text of master directions, master circulars and other relevant circulars issued by RBI. The revised Guidance Note was initially developed by the study group and reviewed by the consolidating group constituted for this purpose. It was then finalised with the contribution of the Board members and the Council members.

The members should also note that AASB has issued three separate publications: "Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks", "Technical Guide on Revised Formats of Long Form Audit

Guidance Note on Audit of Banks (Revised 2026)

Report”, and “Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)”, that are relevant for bank audits and certification during bank audits. Accordingly, we request the members to refer to these publications as well.

We express our sincere thanks to CA. Ranjeet Kumar Agarwal, President, ICAI, and CA. Charanjot Singh Nanda, Vice-President, ICAI, for their guidance and support in various endeavours of the Board.

We wish to place on record our sincere gratitude to all members of the study group for their contribution in revising the Guidance Note. We also acknowledge the contribution made by members of the consolidating group in finalising the Guidance Note.

We are thankful to all Central Council members for their support and guidance in finalising the Guidance Note. We are also thankful to all members and special invitees on AASB for the year 2024-25 viz., CA. (Dr.) Rajkumar Satyanarayan Adukia, CA. Chandrashekhar Vasant Chitale, CA. Piyush Sohanraji Chhajed, CA. Durgesh Kabra, CA. Dheeraj Kumar Khandelwal, CA. Purushottamlal Khandelwal, CA. Mangesh Pandurang Kinare, CA. Priti Paras Savla, CA. Aniket Sunil Talati, Immediate Past President, CA. Dayaniwas Sharma, CA. Sridhar Muppala, CA. Sripriya Kumar, CA. (Dr.) Debashis Mitra, Past President, CA. (Dr.) Rohit Ruwatia, CA. Abhay Kumar Chhajed, CA. Anuj Goyal, CA. Gyan Chandra Misra, CA. Prakash Sharma, CA. (Ms.) Kemisha Soni, CA. Hans Raj Chugh, CA. Pramod Jain, Shri Naveen Singhvi, Adv. Vijay Kumar Jhalani, CA. Sekar G., CA. Gautam Sharma, CA. Umesh Dada, CA. Viren Bhanuchandra Shah, CA. Krishanu Bhattacharyya, CA. Dhiraj Kumar, CA. Sanjay Bajoria, CA. Rajesh Guraria, CA. Santosh K Roongtaa, CA. Sandeep Sharma, CA. Pallav Gupta, Prof. Sobhesh Kumar Agarwalla, CA. Prateek Maheshwari, CA. Aniruddha Godbole, CA. Ramkumar Pandey, CA. Sunil Kalra, Shri Nethaji Bhudevan, CA. S K Majumdar, CA. Abhijit Bandyopadhyay, CA. Shrinivas Yeshwant Joshi, CA. Avinash Aggarwal, CA. Deepa Agarwal, CA. Prashant Akkalkotkar, CA. Ansul Agrawal, CA. Anurag Murarka, CA. Ashish Chandrakant Khandelwal, CA. Chetan Kumar Joshi, CA. Deoki Nandan Agrawal, CA. Dhananjay Gokhale, CA. Umesh Chand Goyal, CA. Harish Gupta, CA. Hari Shankar Gupta, CA. Pranav Jain, CA. Nilima Joshi, CA. Kapil Kedar, CA. Shirish W Kirloskar, CA. Lalit Kumar, CA. Man Mohan Kwatra, CA. Amit Mitra, CA. Narender Singhania, CA. Padmashree Vinod Crasto, CA. Parveen Kumar, CA. Sandeep Dinanath Welling, CA. Sandeep Dinodia, CA. Rajeev Saxena, CA. Shubham Bindal, CA. Deepak Singhal, CA. Sonika Burman, CA. Sumant

Guidance Note on Audit of Banks (Revised 2026)

Chadha, CA. Vikram Agarwal, CA. Vipin Gangwal, CA. Rahul Aggarwal and CA. Tarun Kansal, for their support and guidance in finalising the Guidance Note.

We appreciate the efforts of CA. Megha Saxena, Secretary, AASB, CA. Vinay Sharma, CA Professional, CA. Vivek Kumar, CA Professional, Ms. Anitha P., Private Secretary (SU) and other staff members of AASB for giving the Guidance Note its final shape.

We are confident that the members will find the Guidance Note highly useful in conducting audits of banks and bank branches.

CA. Vishal Doshi

Vice Chairman

Auditing and Assurance Standards Board

CA. (Dr.) Sanjeev Kumar Singhal

Chairman

Auditing and Assurance Standards Board

Foreword to Nineteenth Edition

India's Banking Sector plays a vital role in boosting the economy as it keeps evolving. It has moved beyond providing basic banking services to include insurance, mutual funds, stock trading and risk management services. With technological advancements, services like online banking, mobile apps, and digital payments through UPI have become common. Payment Banks have further simplified daily transactions, such as online shopping. The sector has seen significant changes with the introduction of private/ foreign banks and wider geographical reach. These advancements carry substantial implications for the operations of banks, placing increased expectations on the auditing profession than ever before. Therefore, it is crucial for statutory auditors of banks to be well-prepared in terms of their knowledge and stay updated on the latest developments in the banking sector.

The Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) issues the Guidance Note on Audit of Banks every year under the authority of the Council of ICAI. This publication provides comprehensive guidance to members regarding statutory audit of banks and bank branches. I am pleased to note that the AASB is bringing out 2024 Edition of Guidance Note on Audit of Banks.

I extend my compliments to CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman, and all other members of Auditing and Assurance Standards Board for bringing out this revised Guidance Note. Their dedication is instrumental in supporting members to uphold quality in bank audits. I also appreciate the valuable contribution of the study group in the revision of this Guidance Note.

I am confident that the Guidance Note would be of immense use to members and other stakeholders.

New Delhi
February 1, 2024

CA. Aniket Sunil Talati
President, ICAI

Preface to Nineteenth Edition

The banking sector is one of the pillars of foundation of any economy, serving as a crucial driver for sustainable socio-economic development. Similar to other economic endeavors, the banking sector is subject to diverse risks in its operations. Ensuring the well-being and security of the banking sector is imperative for maintaining financial stability in the economy. Undoubtedly, the annual statutory audit of banks plays a pivotal role in affirming the credibility of banks' financial statements, thereby contributing to overall economic robustness.

In pursuit of the stated objective, the Auditing and Assurance Standards Board (AASB) of ICAI actively contributes by supporting the members in upholding the quality of bank audits. AASB releases the publication "Guidance Note on Audit of Banks", annually offering comprehensive guidance to members engaged in audits of banks and their branches. This Guidance Note undergoes regular updates to incorporate the latest developments, the impact of amendments, and changes in the banking landscape. These updates encompass factors such as Master Directions/Circulars from RBI, relevant advisories, ICAI pronouncements affecting bank audits, and changes in applicable laws and regulations.

We are happy to place in your hands this revised 2024 edition of the Guidance Note on Audit of Banks. The Guidance Note is divided into two Sections i.e. Section A - Statutory Central Audit and Section B - Bank Branch Audit. For benefit of the members, the Guidance Note also contains various Appendices like illustrative formats of engagement letter, illustrative formats of auditor's report both in case of nationalized banks and banking companies, illustrative formats of management representation letter, the text of master directions, master circulars and other relevant circulars issued by the RBI. The revised Guidance Note was initially developed by writers and reviewers and one consolidating group constituted for this purpose and thereafter it was finalised with the contribution of the Board members and the Council members.

The members may note that AASB has also issued two separate publications i.e. "Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks" and "Technical Guide on Revised Formats of Long Form Audit Report" which are relevant for bank audits. Accordingly, we request the members to refer the aforesaid publications.

At this juncture, we wish to place on record our sincere gratitude to all the writers and reviewers for their contribution in revising the Guidance Note. We also

Guidance Note on Audit of Banks (Revised 2026)

acknowledge the contribution made by members of consolidating group in finalising the Guidance Note.

We express our sincere thanks to CA. Aniket Sunil Talati, President, ICAI, and CA. Ranjeet Kumar Agarwal, Vice-President, ICAI for their guidance and support in various endeavours of the Board.

We are thankful to all the Board members and Council members for their guidance and support in finalizing this Guidance Note. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB, CA. Devender Pandey, Project Associate, CA. Vinay Sharma, CA Professional and other staff of AASB in giving the Guidance Note its final shape.

We are sure that the members would find the Guidance Note useful while conducting audits of banks and bank branches.

CA. Vishal Doshi

Vice Chairman

Auditing and Assurance Standards Board

CA. (Dr.) Sanjeev Kumar Singhal

Chairman

Auditing and Assurance Standards Board

Foreword to Eighteenth Edition

An efficient and robust banking system is a key indicator of economic strength of a country, and for a developing country like India, it is one of the fundamental metrics of the economic stability. With the effective prudential norms followed by Indian banking system duly supported by effective bank audit practices, India has ably withstood the financial crisis of the past.

Over the past few decades, the Indian banking system has witnessed a radical shift in its functioning and way of operations as it is increasingly a technology and data driven business now. With the advent of increasing technological changes, there has been an increased focus on the spectrum of risk management, information systems and internal financial controls in banks by the regulatory authorities.

These developments have significant implications on functioning of banks and simultaneously have more expectations from the auditing profession than before. Thus, it is essential that the banks statutory auditors are well equipped in terms of their knowledge and keep themselves abreast with the latest developments in banking sector.

The Institute of Chartered Accountants of India (ICAI) provides members with adequate facilities and guidance by continuously enhancing their knowledge, skills and professional values to meet the challenging environment and maintain quality and ethics in all their professional endeavors.

The Auditing and Assurance Standards Board (AASB) of ICAI under the authority of the Council of ICAI brings out revised version of *Guidance Note on Audit of Banks* every year with the objective to provide detailed guidance to the members on statutory audit of banks and bank branches. I am happy that the AASB of ICAI has come out with this revised 2023 edition of the “Guidance Note on Audit of Banks” for the benefit of the members and other stakeholders.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman and other members of the Auditing and Assurance Standards Board for bringing out this revised edition of the Guidance Note to assist members in updating their knowledge and laying down audit procedures relating to bank audits.

I am confident that the Guidance Note would be of immense use to members and other stakeholders.

New Delhi
March 13, 2023

CA. Aniket Sunil Talati
President, ICAI

Preface to Eighteenth Edition

Banking sector is the backbone of any economy as it helps in sustainable socio-economic growth of the economy. Like other economic activities, banking sector is also exposed to various risks in its operations. For financial stability in the economy, it is essential that banking sector stays healthy, safe and sound. It is needless to state that the annual statutory audit plays pivotal role in establishing the creditability of the financial statements of banks.

The Auditing and Assurance Standards Board (AASB) of ICAI has also been contributing in the above said objective by helping the members in maintaining quality in bank audits. The AASB brings out the publication “Guidance Note on Audit of Banks” every year to provide detailed guidance to the members conducting audits of banks and their branches. The Guidance Note is updated every year to incorporate the recent updates, impact of amendments and changes in banking environment, such as, master directions/circulars of RBI, relevant advisories, pronouncements of ICAI having bearing on bank audits and amendments/changes in applicable laws or regulations.

We are happy to place in your hands this revised 2023 edition of the Guidance Note on Audit of Banks. The Guidance Note is divided into two Sections i.e. Section A - Statutory Central Audit and Section B - Bank Branch Audit. For benefit of the members, the Guidance Note also contains various Appendices like illustrative formats of engagement letter, illustrative formats of auditor’s report both in case of nationalized banks and banking companies, illustrative formats of management representation letter, the text of master directions, master circulars and other relevant circulars issued by the RBI. The revised Guidance Note was initially developed by eight study groups and one consolidating group constituted for this purpose and thereafter it was finalised with the contribution of the Board members and the Council members.

The members may note that the Auditing and Assurance Standards Board has also issued two separate publications i.e. “Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks” and “Technical Guide on Revised Formats of Long Form Audit Report” which are relevant for bank audits. Accordingly, we request the members to use this Guidance Note in conjunction with the aforesaid publications.

At this juncture, we wish to place on record our sincere gratitude to all Convenors viz., CA. Abhay Kumar Chhajed, CA. Cotha S. Srinivas, CA. Gyan Chandra Misra, CA. Piyush S. Chhajed, CA. Priti Paras Savla, CA. Purushottamlal H. Khandelwal, CA. (Dr.) Raj Chawla, CA. Umesh Ramnarayan Sharma, and all

Guidance Note on Audit of Banks (Revised 2026)

members of eight study groups for their contribution in revising the Guidance Note. We also acknowledge the contribution made by members of consolidating group in finalising the Guidance Note.

We express our sincere thanks to CA. Aniket Sunil Talati, Honourable President, ICAI, CA. Ranjeet Kumar Agarwal, Honourable Vice-President, ICAI and CA. (Dr.) Debashis Mitra, Honourable Immediate Past President, ICAI for their guidance and support in various endeavours of the Board.

We are thankful to all the Board members and Council members for their guidance and support in finalizing this Guidance Note. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB and other staff of AASB in giving the Guidance Note its final shape.

We are sure that the members would find the Guidance Note useful while conducting audits of banks and bank branches.

CA. Vishal Doshi

Vice Chairman

Auditing and Assurance Standards Board

CA. (Dr.) Sanjeev Kumar Singhal

Chairman

Auditing and Assurance Standards Board

Foreword to Seventeenth Edition

The Banking sector is the backbone of the Indian economy. Therefore, it is essential that the banking sector remains healthy, safe and sound. For healthy, safe and sound banking sector, one of the most important factors is the quality of various audits functions of banks specially the Statutory audit. The role of statutory auditors of banks is quite important in building a resilient banking sector.

The Guidance Note on Audit of Banks is issued by the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India (ICAI) under the authority of the Council of ICAI every year with the objective to provide detailed guidance to the members on statutory audit of banks. I am happy that the Auditing and Assurance Standards Board of ICAI has come out with this revised and fully updated 2022 edition of the “Guidance Note on Audit of Banks” for the benefit of the members and stakeholders at large.

I compliment CA. G. Sekar, Chairman, CA. Shrinivas Y. Joshi, Vice-Chairman, and other members of the Auditing and Assurance Standards Board for bringing out this revised Guidance Note to assist the members in maintaining quality in bank audits. I also acknowledge the contribution of the study group in revising this Guidance Note.

I am confident that the members and other stakeholders would find the Guidance Note highly useful in their professional assignments.

New Delhi
February 4, 2022

CA. Nihar N. Jambusaria
President, ICAI

Preface to Seventeenth Edition

Statutory audit of banks involves a number of peculiarities due to some unique features of banks and banking operations e.g. huge volumes and complexity of transactions, wide geographical spread of banks' network, large range of products and services offered, extensive use of technology, strict vigilance by the banking regulator etc. All these factors make the task of statutory auditors of banks quite challenging in maintaining quality in bank audits.

The Auditing and Assurance Standards Board of ICAI has been helping the members in maintaining quality in statutory audit of Scheduled Commercial Banks by bringing out the publication "Guidance Note on Audit of Banks" every year to provide detailed guidance to the members conducting audits of banks and their branches. The Guidance Note is updated every year to incorporate the recent updates, impact of amendments and changes in banking environment which require attention of statutory auditors, such as, master directions/circulars of RBI, relevant advisories, pronouncements of ICAI having bearing on bank audits and amendments/changes in applicable laws or regulations.

We are happy to place in your hands this revised 2022 edition of the Guidance Note on Audit of Banks. The Guidance Note is divided into two Sections i.e. Section A - Statutory Central Audit and Section B - Bank Branch Audit. For benefit of the members, the Guidance Note also contains various Appendices like illustrative formats of engagement letter, illustrative formats of auditor's report both in case of nationalized banks and banking companies, illustrative formats of management representation letter, the text of master directions, master circulars and other relevant circulars issued by the RBI. The revised Guidance Note was initially developed by a study group constituted by the Board for this purpose and thereafter it was finalised with the contribution of the Board members and the Central Council members.

The members may note that the Auditing and Assurance Standards Board has also issued two separate publications i.e. "Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks" and "Technical Guide on Revised Formats of Long Form Audit Report" which are relevant for bank audits. Accordingly, we request the members to use this Guidance Note in conjunction with the aforesaid publications.

At this juncture, we wish to place on record our sincere gratitude to CA. Dhananjay J. Gokhale, Deputy Convenor of the study group and other study group members for their contribution in revising the Guidance Note.

Guidance Note on Audit of Banks (Revised 2026)

We express our sincere thanks to CA. Nihar N. Jambusaria, Honourable President, ICAI, and CA. (Dr.) Debashis Mitra, Honourable Vice-President, ICAI for their guidance and support in various endeavours of the Board.

We are thankful to all the Board members and Central Council members for their guidance and support in finalizing this Guidance Note. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director, CA. Nitish Kumar, Assistant Secretary, CA. Samriddhi Bhatt, Assistant Project Officer, CA. Parul Gupta, Research Fellow, Ms. Anitha P., and Mr. Chirag Popli for their hard work in giving the Guidance Note its final shape.

We are sure that the members would find the Guidance Note useful while conducting audits of banks and bank branches.

CA. Shrinivas Y. Joshi

Vice Chairman

Auditing and Assurance Standards Board

CA. G. Sekar

Chairman

Auditing and Assurance Standards Board

Foreword to Sixteenth Edition

Banking Sector in India is rapidly changing due to technological innovation, financial liberalization with entry of new private and foreign banks, introduction of new products/services and geographical expansion. Banks function under the supervisory and regulatory directions of the Reserve Bank of India to minimise the internal and external risks that are faced by banks. Statutory Audit helps banks to provide the stakeholders a comfort with regard to credibility of the financial statements of banks.

In order to maintain quality of bank audits, it is essential that the statutory auditors are well equipped in terms of their knowledge of the banking sector and keep themselves abreast with the latest developments in banking sector. The Guidance Note on Audit of Banks brought out by the Auditing and Assurance Standards Board of ICAI every year is an important resource which provides detailed guidance to the members on various aspects of bank audits.

I am happy to note that the Auditing and Assurance Standards Board of ICAI has come out with revised 2021 edition of the “Guidance Note on Audit of Banks” for the benefit of the members and stakeholders at large. The Guidance Note is comprehensive and self-contained reference document. The Revised edition incorporates the impact of the various circulars of the Reserve Bank of India as well as certain important advisories, pronouncements of the ICAI which would be relevant to bank audits for the financial year ending March 31, 2021.

I compliment CA. G. Sekar, Chairman, CA. Shrinivas Y. Joshi, Vice-Chairman, and other members of the Auditing and Assurance Standards Board for bringing out this revised Guidance Note to assist the members in maintaining quality in bank audits. I also acknowledge the contribution of CA. (Dr.) Debashis Mitra, Vice President, ICAI (Contributed as Co-Convenor of the study group) and CA. Prasanna Kumar D, Convenor of the study group in revising this Guidance Note.

I am confident that the members and other stakeholders would find the Guidance Note highly useful in their professional assignments.

New Delhi
March 19, 2021

CA. Nihar N. Jambusaria
President, ICAI

Preface to Sixteenth Edition

Banking in India has become service oriented, maturing from the days of 'walking in business' to the present situation of 24*7 banking solutions to attract customers. With such widespread and rapid growth of the banking industry and their entry into a wide variety of services like insurance, mutual funds, etc., the onus of the healthy sustenance and growth of the banking industry lies on the back of reliable financial statements which can only be assured by quality audits. The bank audit is thus an important step for all banks who seek a better optimization of its overall management. It is essential that the members undertaking statutory audit of banks, both at the branch as well as the central level, keep themselves abreast with the latest developments in the banking sector. The Auditing and Assurance Standards Board of ICAI has been helping the members in maintaining quality in bank audits by bringing out its benchmark publication "Guidance Note on Audit of Banks" to provide detailed guidance to the members who undertake audits of banks and their branches. The Guidance Note is updated every year to incorporate the recent updates, impact of amendments and changes in banking environment which require attention of statutory auditors, such as, master directions/circulars of RBI, relevant advisories, pronouncements of ICAI having bearing on bank audits and amendments/changes in applicable laws or regulations.

We are happy to place in your hands this revised 2021 edition of the Guidance Note on Audit of Banks. The Guidance Note is broadly bifurcated into two Sections i.e. Section A - Statutory Central Audit and Section B - Bank Branch Audit. For benefit of the members, the Guidance Note also contains various Appendices like illustrative formats of engagement letter, illustrative formats of auditor's report both in case of nationalized banks and banking companies, management representation letter, the text of master directions, master circulars and other relevant circulars issued by RBI.

RBI has made reporting on internal financial controls mandatory for statutory auditors of public sector banks from the financial year 2020-21 onwards. Further, RBI has issued revised formats of LFAR in September 2020 which will be applicable for audits of banks for the financial year 2020-21 and onwards. To provide specific guidance to the members on these aspects, two separate publications i.e. "Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks" and "Technical Guide on Revised Formats of Long Form Audit Report" have been issued by Auditing and Assurance Standards Board. Accordingly, we request the members to use this Guidance Note in conjunction with the aforesaid publications.

Guidance Note on Audit of Banks (Revised 2026)

At this juncture, we wish to place on record our sincere gratitude to CA. Prasanna Kumar D, Central Council Member, ICAI and Convenor of the Study Group and other study group members for revising the Guidance Note.

We express our sincere thanks to CA. Nihar N Jambusaria, Honourable President, ICAI, CA. (Dr.) Debashis Mitra, Honourable Vice-President, ICAI and CA. Atul Kumar Gupta, Honourable Immediate Past President, ICAI for their guidance and support to the activities of the Board.

We are thankful to all the Board Members and Central Council Members for their guidance and support in finalizing this Guidance Note. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB, CA. Nitish Kumar, Executive Officer, CA. Samriddhi Bhatt, Assistant Project Officer, Ms. Anitha P., and Mr. Chirag Popli for their hard work in giving the Guidance Note its final shape.

We are sure that the members would find the Guidance Note useful while conducting audits of banks and bank branches.

CA. Shrinivas Y. Joshi
Vice Chairman
Auditing and Assurance Standards
Board

CA. G. Sekar
Chairman
Auditing and Assurance Standards Board

Foreword to Fifteenth Edition

Banking industry in India has scaled newer heights with the changing times. The increased use of technology and digitalization has brought a revolution in the working style of banks. Nevertheless, the core fundamental aspects of banking i.e. trust and confidence of the people on the banking system remain same. The changing dynamics of banking industry brings new kind of risk exposures for banks making statutory audit of banks a major ingredient to bridge off the risk exposures.

The statutory audit of banks forms an integral and important part of control mechanism of the banking sector. It enhances the stakeholders' confidence in the credibility of financial information provided by banks at year end. It is essential that the statutory auditors are well equipped in terms of their knowledge of the banking industry to conduct effective and efficient bank audits.

The Guidance Note on Audit of Banks brought out by the Institute of Chartered Accountants of India under the aegis of Auditing and Assurance Standards Board (AASB) every year is an important resource which provides detailed guidance to the members on various aspects of bank audits. It is heartening that the Auditing and Assurance Standards Board has come out with revised 2020 edition of the "Guidance Note on Audit of Banks" for the benefit of the members and stakeholders at large. I am happy to see that the Guidance Note is comprehensive and self-contained reference document.

I compliment CA. G. Sekar, Chairman, CA. Debashis Mitra, Vice-Chairman and other members of the Auditing and Assurance Standards Board for bringing out this revised Guidance Note to assist the members in maintaining quality in bank audits. I also acknowledge the contribution of CA. Shrinivas Y. Joshi, Convenor of the Study Group in revising this Guidance Note.

I am confident that the members and other stakeholders would find the Guidance Note highly useful in their professional assignments.

New Delhi
March 2, 2020

CA. Atul Kumar Gupta
President, ICAI

Preface to Fifteenth Edition

The depth and spread of the banking sector in any country is a major indicator of the economic strength of the country. It is, therefore, very essential to ensure that the banking sector remains healthy and robust. For healthy and robust banking sector, one of the most important factors is reliable financial information supported by audits performed in accordance with the established performance benchmarks.

The Auditing and Assurance Standards Board of ICAI has been helping the members in maintaining quality in bank audits by bringing out its benchmark publication “Guidance Note on Audit of Banks” to provide detailed guidance to the members who undertake audits of banks and bank branches. The Guidance Note is updated every year to incorporate the impact of developments that have taken place in the banking sector which require attention of statutory auditors, such as, master directions/circulars of RBI, other relevant circulars issued by RBI, relevant pronouncements of ICAI having bearing on bank audits, amendments/changes in applicable laws or regulations. It is, therefore, essential that the members undertaking statutory audit of banks, both at the branch as well as the central level, keep themselves abreast with the latest developments in the banking sector.

We are happy to place in your hands this revised 2020 edition of the Guidance Note on Audit of Banks. The Guidance given in the Guidance Note is broadly bifurcated into two Sections i.e. Section A - Statutory Central Audit, Section B - Bank Branch Audit. Department wise guidance is given in Section A - Statutory Central Audit viz. Personal Banking and Operations, Retail Banking and Marketing, Wealth Management and Third Party Products, Credit Monitoring and Restructuring, Treasury Operations, Audit of Information Technology and Digital Banking, Long Form Audit Reports Consolidation, etc.

For benefit of the members, the Guidance Note also contains various Appendices like Illustrative formats of engagement letter, illustrative formats of auditor’s report both in case of nationalized banks and banking companies, illustrative formats of management representation letter, the text of master directions, master circulars and other relevant circulars issued by RBI.

At this juncture, we wish to place on record our gratitude to CA. Shrinivas Y. Joshi, Central Council Member and Convenor of the Study Group, who is a subject matter expert and possess vast practical experience in Bank Audit, for revising the Guidance Note and his team.

We wish to express our sincere thanks to CA. Atul Kumar Gupta, Honourable President, ICAI and, CA. Nihar Niranjan Jambusaria, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

Guidance Note on Audit of Banks (Revised 2026)

We are thankful to all our Central Council colleagues for their guidance and support to the activities of the Board. We also express our gratitude to all the members of AASB for their guidance and support in finalizing this Guidance Note. We also thank CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director, CA. Nitish Kumar, Executive Officer and other staff of AASB for their hard work in giving the Guidance Note its final shape.

We are sure that the members would find the Guidance Note useful while conducting audits of banks and bank branches.

CA. (Dr.) Debashis Mitra
Vice Chairman
Auditing and Assurance Standards
Board

CA. G. Sekar
Chairman
Auditing and Assurance Standards Board

Foreword to Fourteenth Edition

The banking sector in India is one of the largest in the world as far as its extensive network of branches is concerned. The role of the sector in the overall growth and development of the Indian economy is quite significant and laudable. Over the years, the sector has been through a long journey and has also achieved new heights with the changing times. The widespread use of technology has completely changed the working of banks resulting in lesser requirements for people to visit banks physically. Nevertheless, the fundamental aspects of banking i.e. trust and confidence of people on banking sector remains the same. This trust and confidence come on the back of strong quality of audit system and practices in place in India.

The Guidance Note on Audit of Banks is issued by the Auditing and Assurance Standards Board (AASB) of ICAI every year with the objective to provide detailed and updated guidance to the members on various aspects of bank audits. The Guidance Note is an important resource for the members carrying out audits of banks and bank branches. I am happy that AASB has come out with this revised 2019 edition of the Guidance Note on Audit of Banks for the benefit of the members. I am also happy that the Guidance Note is comprehensive and self-contained reference document for the members.

I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and other members of AASB for bringing out this revised Guidance Note to help the members in maintaining quality in bank audits.

I am confident that the members would find the Guidance Note highly useful in their professional assignments.

January 13, 2019
New Delhi

CA. Naveen N.D. Gupta
President, ICAI

Preface to Fourteenth Edition

Every year, the Auditing and Assurance Standards Board (AASB) of ICAI brings out the publication, "Guidance Note on Audit of Banks" to provide detailed guidance to the members who undertake audits of banks and bank branches. The Guidance Note is updated every year to incorporate the impact of developments that have taken place in the banking sector which require attention of statutory auditors, such as, master directions/circulars of RBI, other relevant circulars issued by RBI, relevant pronouncements of ICAI having bearing on bank audits, amendments/changes in applicable laws or regulations.

I am happy to place in hands of the members, this revised 2019 edition of the Guidance Note on Audit of Banks. The Guidance Note covers in detail various aspects like knowledge of the banking industry, initial considerations, special considerations in a CIS Environment, risk assessment and internal control, various items of banks' financial statements and their peculiarities, manner of disclosure in financial statements, the RBI prudential guidelines thereon, audit procedures, reporting on Long Form Audit Reports both at central and branch level, Ghosh and Jilani Committee recommendations, special purpose reports and certificates, etc.

For benefit of the members, the CD accompanying the Guidance Note contains Illustrative formats of engagement letter, illustrative formats of auditor's report both in case of nationalized banks and banking companies, illustrative formats of management representation letter, Illustrative list of special purpose/ exception reports in CBS, Illustrative audit checklist for capital adequacy, Illustrative checklist on audit considerations in a CIS Environment, Features of the Gold Monetization Scheme, Suggested Abbreviations used in the Banking Industry, Basis of Selection of Advances Accounts in case of bank branch audit, updated bank branch audit programme for the year 2018-19, Verification of the aspects of the Treasury/ Investments of the Bank in Statutory Audit, Flow Charts for Use of Core Banking Solution software in case of Bank Branch Audit, the text of Master Directions, Master Circulars and other relevant Circulars issued by RBI.

Readers may note that this edition of the Guidance Note has been divided in three separate sections as follows:

- Section A - Statutory Central Audit.
- Section B - Foreign Exchange Transactions and Integrated Treasury.
- Section C - Bank Branch Audit other than Foreign Exchange Transactions.

At this juncture, I wish to place on record my gratitude to all the members of Mumbai study group viz., CA. Dhananjay J. Gokhale (Convenor), CA. Viren

Guidance Note on Audit of Banks (Revised 2026)

H. Mehta, CA. Shrinivas Y. Joshi, CA. Sandeep D. Welling, CA. Sanjay Khemani, CA. Niranjana Joshi, CA. Abhijit Sanzgiri, CA. Vipul K. Choksi, CA. Abhay V. Kamat, CA. N. Sampath Ganesh, CA. Sanat Ulhas Chitale, CA. Gautam V. Shah, CA. Manish Sampat, CA. Nilesh Joshi, CA. Parag Hangekar, CA. Shivratana Agarwal, CA. Vikas Kumar, CA. Ketan Jogalekar, CA. Nachiket Deo, CA. Parag V. Kulkarni, CA. Dilip Dixit, CA. Jitendra Ranawat, CA. Prakash P. Kulkarni, CA. Kuntal P. Shah, CA. Giriraj Soni, CA. Vitesh Gandhi, CA. Hitesh Pomal, CA. Pankaj Tiwari, CA. Saurabh Peshwe, and CA. Pankaj Mittal for their dedicated efforts in revising the Guidance Note despite the demands of their professional and personal lives under the overall supervision of CA. Nihar Niranjana Jambusaria, Central Council Member, ICAI. I am thankful to CA. M P Vijay Kumar, Central Council Member, ICAI and his team for their efforts.

My sincere thanks to all the Members of Jaipur Study Group constituted under my convenorship viz., CA. Bhupendra Mantri (Dy. Convenor), CA. Vimal Chopra, CA. Prahalad Gupta, CA. Vikas Gupta, CA. Vishnu Dutt Mantri, CA. Ajay Atolia, CA. Jugal Kishore Agrawal, CA. P. D. Baid, CA. Mukesh Gupta, CA. Vikas Rajvanshi, CA. Thalendra Sharma, CA. Varun Bansal, CA. Sandeep Jhanwar, and CA. Keshav Garg for reviewing exposure draft of the Guidance Note and providing their valuable suggestions thereon.

I wish to express my sincere thanks to CA. Naveen N.D. Gupta, Honourable President, ICAI and CA. Prafulla P. Chhajed, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

I am also thankful to all my Central Council colleagues for their guidance and support to the activities of the Board. I also express my gratitude to CA. Sanjay Vasudeva (Vice-Chairman, AASB) and all the members and special invitees on AASB for their guidance and support in finalizing this Guidance Note. I also thank CA. Megha Saxena (Secretary), CA. Rajnish Aggarwal (Assistant Director), CA. Nitish Kumar (Executive Officer) and other staff of the Board for their hard work in giving the Guidance Note its final shape.

I am sure that the members would find the Guidance Note useful while conducting audits of banks/ bank branches.

January 13, 2019
Jaipur

CA. Shyam Lal Agarwal
Chairman,
Auditing and Assurance Standards Board

Foreword to Thirteenth Edition

Independent audit of financial statement of banks is essential for a healthy, safe and sound banking system. Audit of banks involves number of peculiarities e.g. huge volumes and complexity of transactions in banks, wide geographical spread of banks' network, large range of products and services offered by banks, extensive use of technology in banks, oversight by the banking regulator etc. All these factors make the task of the bank auditors quite challenging in doing the audits.

The *Guidance Note on Audit of Banks* brought out by the Auditing and Assurance Standards Board of ICAI every year is an important resource which provides detailed guidance to the members on various aspects of statutory bank audits. I am happy that the Auditing and Assurance Standards Board has brought out the revised 2018 edition of the *Guidance Note on Audit of Banks* for the benefit of the members. The revised Guidance Note was initially developed by an expert group constituted by the Board and thereafter it was finalised with the contribution of the Board members. The Guidance Note is comprehensive and self-contained reference document for the members.

At this juncture, I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and other members of the Auditing and Assurance Standards Board & the expert group for their efforts in bringing out this Guidance Note to help the members in maintaining quality in bank audits in a timely manner.

I am confident that the members would find the Guidance Note very useful in their professional assignments.

New Delhi
March 09, 2018

CA. Naveen N. D. Gupta
President, ICAI

Preface to Thirteenth Edition

Banking sector is the backbone of any economy as it provides finances to various segments of economy and helps in sustainable socio-economic growth of the economy. Like other economic activities, the banking sector is also exposed to various risks in its operations. For financial stability in the economy, it is essential that banking sector stays healthy, safe and sound. For safe and sound banking sector, one of the most important factors is reliable financial information supported by quality bank audits. By conducting audits of financial statements of banks, the auditors play an important role in building a resilient banking sector.

The Auditing and Assurance Standards Board of ICAI has been helping the members in maintaining quality in bank audits by bringing out the publication "Guidance Note on Audit of Banks" every year. Since the issuance of the last edition of the Guidance Note in 2017, apart from the Master Directions and Circulars issued by RBI, certain important developments have also taken place in the banking sector. It is, therefore, essential that the members undertaking statutory audit of banks and bank branches keep themselves abreast with the latest developments in the banking sector.

I am happy to place in hands of the members, this revised 2018 edition of the Guidance Note on Audit of Banks. The Guidance Note discusses in depth the various important items on the financial statements of banks, its peculiarities, manner of disclosure in the financial statements, the RBI prudential directions thereon, audit procedures, reporting on Long Form Audit Reports both at central and branch level, Ghosh and Jilani Committee recommendations, special purpose reports and certificates, etc. The Guidance Note, *inter alia*, has been updated for the impact of the Master Directions, Master Circulars and other relevant circulars issued by RBI, the relevant pronouncements of the ICAI, GST provisions. The Guidance Note also includes a new Chapter on Scrutiny of Advance Accounts presented in Ind AS by Borrowers. For the benefit of the members, the CD accompanying the Guidance Note contains illustrative formats of engagement letter, auditor's report, written representation letter, Features of the Gold Monetization Scheme, Abbreviations used in the Banking Industry, Basis of Selection of Advances Accounts in case of bank branch audit, updated bank branch audit programme for the year 2017-18, Verification of the aspects of the Treasury/ Investments of the Bank in Statutory Audit, Flow Charts for Use of Core Banking Solution software in case of Bank Branch Audit, the text of Master Directions, Master Circulars and other relevant Circulars issued by RBI.

Guidance Note on Audit of Banks (Revised 2026)

At this juncture, I wish to place on record my gratitude to all the members of the Mumbai study group viz., CA. Shrinivas Y. Joshi (Convenor), CA. Gautam Shah, CA. Sandeep D Welling, CA. Vipul K Choksi, CA. Vikas Kumar, CA. Abhijit Sanzgiri, CA. Niranjan Joshi, CA. Ashutosh Pednekar, CA. Dhananjay Gokhale, CA. Manish Sampat, CA. G. N. Sampath, CA. Shivratn Agarwal, CA. Parag Hangekar, CA. Sanjay Khemani, CA. Sanjay Rane, CA. Abhay Kamat, CA. Pankaj Tiwari, CA. Ketan Jogalekar, CA. Nachiket Deo, CA. Parag Kulkarni, CA. Dilip Dixit, CA. Jitendra Ranawat and CA. Prakash Kulkarni for working on this herculean project despite the demands of their professional and personal lives. My sincere thanks to (i) all the Members of Jaipur Study Group constituted under my convenorship, viz., CA. Bhupendra Mantri, CA. Vishnu Dutt Mantri, CA. Vikas Gupta, CA. Ajay Atolia, CA. Anil Mathur, CA. Vijay Kumar Jain, CA. Prahalad Gupta, CA. Jugal Kishore Agrawal, CA. P. D. Baid, CA. Mukesh Gupta, CA. Ram Avtar Sharma, CA. Vikas Rajvanshi, CA. Vimal Chopra, CA. Thalendra Sharma, CA. Varun Bansal, CA. Mukesh Khandelwal, and CA. Keshav Garg (ii) all the Members of Delhi Study Group constituted under the convenorship of CA. Sanjay Vasudeva, Vice Chairman, AASB, viz., CA. V Rethinam, CA. Rajiv Puri, CA. M. M. Khanna, CA. Simran Singh, CA. Bupinder Singh, CA. Rakesh Gupta, CA. Lalit Ahuja, CA. D. S. Rawat, CA. Bhuvnesh Maheshwari, CA. Nitin Jain, CA. Ashish Agarwal, CA. Anuj Dhingra, CA. Himanshu Garg and Mr. Rakesh Sharma (iii) all the Members of Kolkata Study Group constituted under the joint convenorship of CA. Debashis Mitra and CA. Ranjeet Kumar Agarwal viz., CA. Dipankar Chatterji, CA. Santanu Ghosh, CA. Veena Hingarh, CA. Arif Ahmed, CA. Rajendra Nath Basu, CA. Sukamal Chandra Basu, CA. Mrityunjay Ray, CA. Nirupam Haldar CA. Krishanu Bhattacharyya, CA. Sunil Singhi, CA. Vikash Banka, CA. Ajay Agarwal, CA. Selu Jhunjhunwala, CA. M. R. Jain, CA. Anindra Nath Chatterjee, CA. Tushar Basu and CA. Ashok Kumar Samanta (iv) all the Members of Chennai Study Group constituted under the joint convenorship of CA. G. Sekar, CA. M P Vijay Kumar, CA. K. Sripriya viz., CA. R. Sundararajan, CA. Sivaprasad N., CA. Sukumaran T. G., CA. G.N. Ramaswami, CA. Anusha Sreenivasan, CA. Asir Raja Selvan M, CA. S. Ramesh, CA. Vijay T. C., Dr. S. Gurusamy, CA. V. Chandrasekaran, CA. T. R. Chandrasekaran, CA. Mahesh Krishnan, CA. Uttamchand Jain and CA. Vittalraj to review the exposure draft of Guidance Note on Audit of Banks 2018 edition.

I wish to place on record my sincere thanks to Honourable President, ICAI, CA. Naveen N. D. Gupta, Honourable Immediate Past President, ICAI, CA. Nilesh S. Vikamsey and Honourable Vice President, ICAI, CA. Prafulla Preamsukh Chhajed for their whole hearted support to the activities of the Board.

Guidance Note on Audit of Banks (Revised 2026)

I am also thankful to all my Central Council colleagues for their support and guidance to the activities of the Board. I also wish to place on record my gratitude to CA. Sanjay Vasudeva, Vice Chairman, AASB and all the members and special invitees on the Board for the year 2017-18, without whose support, the Guidance Note would not have been possible in the given time. I also wish to thank CA. Megha Saxena, Secretary, CA. Rajnish Aggarwal, CA. Nitish Kumar and other staff members of her team for their hard work in giving the Guidance Note its final shape.

I am sure that the members would find the Guidance Note useful as its earlier editions while conducting the audits of banks/ bank branches.

Jaipur
March 09, 2018

CA. Shyam Lal Agarwal
Chairman
Auditing and Assurance Standards Board

Foreword to Twelfth Edition

Banking sector is the backbone of any economy as it is essential for sustainable socio-economic growth and financial stability in the economy. The banking sector is also crucial as it deals with mammoth amounts of public monies and is highly sensitive to reputational risk. Like all economic activities, the banking sector is also exposed to various risks in its operations. It is of utmost importance to ensure that banking sector stays healthy, safe and sound. For safe and sound banking sector, one of the most important factors is reliable financial information supported by quality bank audits.

The Guidance Note on Audit of Banks brought out by the Auditing and Assurance Standards Board of the ICAI every year is an important resource which provides detailed guidance to the members on various aspects of bank audits. It is heartening that the Auditing and Assurance Standards Board has come out with this revised 2017 edition of the Guidance Note on Audit of Banks for the benefit of the members. The revised Guidance Note was initially developed by an expert group constituted by the Board for this project and thereafter it was finalised with the contribution of the Board members and the Central Council members of ICAI. I am happy that the Guidance Note is comprehensive and self-contained reference document for the members.

I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and other members of the Auditing and Assurance Standards Board for bringing out this revised Guidance Note to help the members in maintaining quality in bank audits.

I am confident that the members would find the Guidance Note highly useful in their professional assignments.

New Delhi
February 7, 2017

CA. M. Devaraja Reddy
President, ICAI

Preface to Twelfth Edition

Independent audit of financial statement of banks is important for a healthy, safe and sound banking system. Audit of banks involves a number of peculiarities e.g. huge volumes and complexity of transactions, wide geographical spread of banks' network, large range of products and services offered, extensive use of technology, strict vigilance by the banking regulator etc. All these factors make the task of the auditors quite challenging in maintaining quality in bank audits.

The Auditing and Assurance Standards Board of ICAI has been helping the members in maintaining quality in bank audits by bringing out its benchmark publication "Guidance Note on Audit of Banks" every year. Since the issuance of the last edition of the Guidance Note in 2016, apart from the Master Directions and Circulars issued by RBI, certain important developments have also taken place in the banking sector, including the recent demonetisation, warranting appropriate attention of the auditors. It is, therefore, essential that the members undertaking statutory audit of banks, both at the branch as well as the central level, keep themselves abreast with the latest developments in the banking sector.

I am happy to place in your hands this revised 2017 edition of the Guidance Note on Audit of Banks. The Guidance Note discusses in depth the various important items on the financial statements of banks, its peculiarities, manner of disclosure in the financial statements, the RBI prudential directions thereon, audit procedures, reporting on Long Form Audit Reports, Ghosh and Jilani Committee requirements, special purpose reports and certificates, etc. The Guidance Note, *inter alia*, has been updated for the impact of the Master Directions and other relevant circulars issued by RBI in 2016, guidance on demonetization at appropriate places, relevant pronouncements of the ICAI having bearing on bank audits. For the benefit of the members, the CD accompanying the Guidance Note contains illustrative formats of engagement letter, auditor's report, written representation letter, updated bank branch audit programme for the year 2016-17, the text of Master Directions issued by RBI in 2016, the text of Master Circulars and relevant General Circulars issued by RBI.

At this juncture, I wish to place on record my gratitude to all the members of the Mumbai study group viz., CA. Nihar Niranjana Jambusaria, Convenor, CA. Shrinivas Y. Joshi, CA. Sandeep D Welling, CA. Vipul K Choksi, CA. Vikas Kumar, CA. Abhijit Sanzgiri, CA. Niranjana Joshi, CA. Kuntal Shah, CA. Dhananjay Gokhale, CA. Ashutosh Pednekar, CA. Manish Sampat, CA. G. N. Sampath, CA. Zubin Billimoria, CA. Gautam Shah, CA. Giriraj Soni, CA. Shivratana Agarwal, CA. Parag Hangekar, CA. Sanjay Khemani, CA. Sanjay Rane, CA. Ketan Saiya, CA. Abhay Kamat and CA. Sanat Chitale for working on this herculean project

Guidance Note on Audit of Banks (Revised 2026)

despite the demands of their professional and personal lives. My sincere thanks to (i) all the Members of Jaipur Study Group under my convenorship, viz., CA. Bhupendra Mantri, CA Vijay Kumar Jain, CA Vishnu Dutt Mantri, CA Vikas Gupta, CA Prahalad Gupta, CA Ajay Atolia, CA Jugal Agrawal, CA Mukesh Gupta, CA Sandeep Jhanwar, CA Ashok Singhal, CA Vijay Jain, CA. Abhishek Sharma, CA Shailendra Agarwal, CA Keshav Garg and CA Anil Jain (ii) all the Members of Delhi Study Group constituted under the convenorship of CA. Sanjay Vasudeva, Vice Chairman, AASB, viz., CA. K.A. Balasubramanian, CA. V Rethinam, CA. Rajiv Puri, CA. Anil Sharma, CA. Rohit Mehta, CA. M M Khanna, CA. Simran Singh, CA. Pramod Kr Maheshwari, CA. Parveen Kumar, CA. Nitin Jain, CA. Anuj Dhingra and CA. Himanshu Garg (iii) all the Members of Kolkata Study Group constituted under the convenorship of CA. Debashis Mitra viz., CA. Dipankar Chatterjee, CA. Santanu Ghosh, CA. Veena Hingarh, CA. Arif Ahmed, CA. Abhijit Bandyopadhyay, CA Vivek Newatia, CA. Rajendra Nath Basu, CA. Sukamal Chandra Basu, CA. Mrityunjay Ray and CA. Nirupam Haldar (iv) all the Members of Kolkata Study Group constituted under the convenorship of CA Ranjeet Kumar Agarwal viz., CA. Krishanu Bhattacharya, CA. Jay Narayan Gupta, CA. Sunil Singhi, CA. Ajit Verma, CA. R K Roy Choudhary, CA. Vikash Banka, CA. Ajay Agarwal, CA. Niraj Jhunjhunwala, CA. Binay Singhania, CA. H K Verma, CA. Kshitiz Chhawcharia, CA. Mrityunjay Ray and CA M R Jain (v) all the Members constituted under the convenorship of CA. M P Vijay Kumar at Bengaluru Study Group, viz., CA. K Raghu, CA. Madhukar Narayan Hiregange, CA. Cotha S Srinivas, CA. B. P. Rao, CA. Nityananda N, CA. Manohar Gupta P, CA. Ananthan, CA. R Shasidhara and CA. Gururaj Acharya and CA. Vivek Krishna Govind from Cochin to review the exposure draft of Guidance Note on Audit of Banks 2017 edition.

I wish to place on record my sincere thanks to CA. M. Devaraja Reddy, President ICAI and CA. Nilesh S. Vikamsey, Vice President ICAI for their whole hearted support to the activities of the Board.

I am also thankful to all my Central Council colleagues for their all-time support and guidance to the activities of the Board. I also wish to place on record my gratitude to all the members and special invitees on the Board for the year 2016-17, viz., CA. Sanjay Vasudeva, Vice Chairman, AASB, CA. Nandkishore Chidamber Hegde, CA. Nihar Niranjan Jambusaria, CA. Dhinal Ashvinbhai Shah, CA. Babu Abraham Kallivayalil, CA. Madhukar Narayan Hiregange, CA. G. Sekar, CA. K. Sripriya, CA. M P Vijay Kumar, CA. Ranjeet Kumar Agarwal, CA. Sushil Kumar Goyal, CA. Debashis Mitra, CA. Manu Agrawal, CA. Kemisha Soni, CA. Sanjiv Kumar Chaudhary, CA. Mangesh Pandurang Kinare, Shri Vithayathil Kurian, Dr. P.C. Jain, Shri Vijay Kumar Jhalani, CA. Abhijit Bandyopadhyay, CA. Harinderjit Singh, CA. Murali Krishna, CA Vijay Kumar Jain, CA. Akhil Bhalla, CA. Sandeep Dinanath Welling, CA. V. Balaji, CA. Sandeep Sharma and CA. Khushroo B. Panthaky without whose support, the Guidance Note would not have been possible in the given time. I also wish to thank CA. Megha Saxena,

Guidance Note on Audit of Banks (Revised 2026)

Secretary, CA. Rajnish Aggarwal, Sr. Education Officer, CA. Nitish Kumar, Executive Officer to the Board and other officers and staff of AASB for their hard work.

I am sure that the members would find the Guidance Note useful as its earlier editions while conducting the audits of banks/ bank branches.

Jaipur
February 11, 2017

CA. Shyam Lal Agarwal
Chairman
Auditing and Assurance Standards Board

Foreword to Eleventh Edition

Banking industry plays a critical role in driving the economic growth. It is closely regulated and supervised to channelize the growth in the desired direction and keep economy in proper shape. The sector helps in overall social good by facilitating the growth that reaches all strata of society. In fact, the sector is helping in the financial inclusion so that the fruits of growth are enjoyed by the economically weaker sections and their overall interests are protected.

To monitor the sector and bring synergies with other sectors, the Government and the banking regulator need credible financial and non-financial information. This further enables them to fulfil the promise of “*greater good for greater number of people*” that democracy like India endeavours for.

The Government and the regulators require credible information from banks to be able to make informed decisions. In this context, statutory audits of banks’ financial statements are highly crucial. For quality bank audits, it is essential that the statutory auditors are well equipped in terms of knowledge of the banking sector and keep themselves abreast with the latest developments.

The Guidance Note on Audit of Banks brought out by the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India every year is an important resource that provides detailed guidance to the bank auditors on the basic tenets of a bank audit. I am, therefore, very happy to note that the Auditing and Assurance Standards Board has come out with the revised 2016 edition of the Guidance Note on Audit of Banks.

At this juncture, I wish to place my appreciation for CA. Abhijit Bandyopadhyay, Chairman, CA. J. Venkateswarlu, Vice Chairman and other members of the Auditing and Assurance Standards Board for their zeal and commitment in bringing out this literature to help the members in maintaining quality in bank audits.

I am confident that the readers will find the 2016 Guidance Note highly useful in their professional assignments in a similar manner as its previous editions.

New Delhi
January 25, 2016

CA. Manoj Fadnis
President, ICAI

Preface to Eleventh Edition

The economic development of any country, especially an emerging economy like ours, depends significantly on the depth and reach of its banking sector. As the recent global experience amply shows, an economy would survive only so long as its banking sector stands on sound banking fundamentals and is supported by a regulatory environment that, on the one hand, provides a fair opportunity to the banks to promote economic activity and on the other hand provides control mechanism that ensures that public monies and public interest remain protected.

The statutory audit of banks forms an integral and important part of such control mechanism of the regulators. It provides the stakeholders a comfort with regard to credibility of the financial information that a bank generates at every year end. Given the nature, scope and volume of transactions undertaken by banks in India, coupled with their geographical spread and the various regulatory directions to which they are subject, audit of the financial statements of banks indeed becomes very challenging for their auditors.

The Auditing and Assurance Standards Board of ICAI has been actively supporting the members in their role as statutory auditors of banks by bringing out a number of technical publications dealing with the various aspects of bank audit. The Guidance Note on Audit of Banks has always been a benchmark publication in this context.

The Guidance Note is updated every year to reflect the important developments that have taken place in the banking sector, warranting attention of the statutory auditors, for example, RBI's master circulars, general circulars of relevance, consequential updation of guidance for the auditors, where required, various pronouncements of ICAI, etc.

I am, therefore, happy to place in your hands the 2016 edition of the Guidance Note on Audit of Banks. In addition to the updations required on account of Master Circulars issued in 2015, the Guidance Note, *inter alia*, has been revised to include the new developments in the banking industry, such as, introduction of payment and small finance banks, how RBI exercises control over banking industry, some international developments of importance in the global banking industry, risk assessment and controls related to products regulated by SEBI and other regulators, Red Flag Accounts and Early Warning System, developments in respect of anti money laundering provisions, additional examples of IT and related frauds, verification of IT assets, guidance on capitalization of assets, FIMMDA Trade Reporting and Confirmation System, explanation of terms commonly used in case of investments by banks, audit procedures for loss on derivative transactions and margins held with exchanges, margins held under credit support annex, additional guidance on consolidation of branch accounts, new chapter on consolidation of financial statements, etc.

The CD accompanying the Guidance Note contains Illustrative formats of the engagement letter, the auditor's report and the written representation letter,

Guidance Note on Audit of Banks (Revised 2026)

updated bank branch audit programme for the year 2015-16, the text of Master Circulars issued by RBI on July 1, 2015 and the text of General and Other Circulars of RBI.

At this juncture, I wish to place on record my gratitude to all the members of the Mumbai study group viz., CA. Shrinivas Y. Joshi, Convenor, CA. Gautam Shah, CA. Vikas Kumar, CA. Sandeep D. Welling, CA. Shivratn Agarwal, CA. N. Sampath Ganesh, CA. Vipul Choksi, CA. Niranjn Joshi, CA. Manish Sampat, CA. Sanjay Khemani, CA. Abhay V. Kamat, CA. Ashutosh Pednekar, CA. Dhananjay J. Gokhale, CA. Mrudul Gokhale, CA. Parag Hangekar, CA. Sanjay Rane, CA. Kedar Mehendale, Mr. Prabhat Gupta, CA. Rukshad Daruvala, CA. Abhijit Sanzgiri, CA. Nilesh Joshi and CA. Nitant Trilokekar for their dedication in taking up this herculean project despite the demands of their professional and personal lives.

I take this opportunity to place on record my sincere thanks to CA Manoj Fadnis, President ICAI and CA M Devaraja Reddy, Vice President ICAI for their support to the activities of the Board.

I am also thankful to all my Central Council colleagues for their support and guidance to the activities of the Board. I also wish to place on record my gratitude to all the members and special invitees on the Auditing and Assurance Standards Board for the year 2015-16, viz., CA. J. Venkateswarlu, Vice Chairman, AASB, CA. Prafulla Premsukh Chhajed, CA. Pankaj Inderchand Jain, CA. Nihar Niranjn Jambusaria, CA. Dhinal Ashvinbhai Shah, CA. Nilesh S. Vikamsey, CA. Babu Abraham Kallivayalil, CA. K. Raghu, CA. G. Sekar, CA. Sumantra Guha, CA. Shyam Lal Agarwal, CA. Sanjiv Kumar Chaudhary, CA. Naveen N.D. Gupta, CA. Charanjot Singh Nanda, Shri P.K. Mishra, Shri Salil Singhal, Shri R.K. Jain, CA. V. Balaji, CA. Radha Krishna Agrawal, CA. Kamlesh Amlani, CA. Aseem Trivedi, CA. Krishna Kumar T., CA. Rajeevan M., CA. Sanjay Vasudeva, CA. Vijay Sachdeva, Dr. Sanjeev Singhal, Shri Narendra Rawat, CA. Aniruddh Sankaran and Shri R. Kesavan without whose support, the Guidance Note would not have been possible.

I am sure that the members would find this edition of the Guidance Note as useful as its earlier editions. I would, however, be happy to have your feedback on the Guidance Note.

Kolkata
January 25, 2016

CA. Abhijit Bandyopadhyay
Chairman, Auditing & Assurance Standards Board

Foreword to Tenth Edition

The banking sector in India, perhaps, is one of the largest in the world as far as its extensive branch network is concerned. The role of the banking sector in the overall growth and development of the Indian economy is also quite significant and laudable. Like all economic activities, the banking sector is also exposed to various risks in the conduct of their operations. For safe and sound banking sector, one of the most important factors is reliable financial information supported by audits performed in accordance with the established performance benchmarks.

I am happy that the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India, in order to help the members in maintaining quality in bank audits, has come out with the revised 2015 edition of the Guidance Note on Audit of Banks. The Revised edition incorporates the impact of the various circulars of the Reserve Bank of India, provisions of the Companies Act, 2013 and certain important pronouncements of the Institute which would be relevant to bank audits for the financial year ending March 31, 2015.

At this juncture, I wish to place my appreciation for CA. Abhijit Bandyopadhyay, Chairman, Auditing and Assurance Standards Board for his zeal and commitment to reach out to the members in the profession in maintaining quality in the audit services rendered by them.

I am confident that the members would find the 2015 edition of the Guidance Note immensely helpful.

New Delhi
February 19, 2015

CA. Manoj Fadnis
President, ICAI

Preface to Tenth Edition

Banking is a very dynamic industry. Its contours are always on the change, in tandem with the changes in the sentiments of the national as well as global economy. On the other hand, it is a tool in the hands of the policy makers to create the desired sentiments and level of activity in the economy as also social development.

Given the huge spread of the banking sector in terms of nature of activities undertaken, client profile, geography, etc., as also the fact that the banking industry is inextricably linked to the various players in the economy, it is also exposed to a large number of risks that can affect their financial stability. Banks, therefore, function under the tight supervisory and regulatory directions of the Reserve Bank of India to minimise these internal and external risks that face the banking industry. Accordingly, banks also have extensive systems for internal controls to comply with these directions and to otherwise also protect them from these risks.

These aspects make audit of the financial statements of banks extremely typical. For example, understanding the bank and its operating environment, its controls environment at macro and micro levels, risk of misstatements in the financial statements, etc., can be very challenging and time consuming. As a corollary, the audit planning too would require considerable attention of the auditor. Similarly, deciding audit materiality, sample size, application of analytical procedures too would need careful exercise of professional judgment by the auditors. I would not hesitate to add that audit of a bank is one of the best example how application of Standards on Auditing, including the concept of exercise of professional scepticism by the auditors, ensures audit quality.

I am, therefore, happy to place in your hands this 2015 Guidance Note on Audit of Banks. The Guidance Note provides an insight into the banking industry in India and how they carry out their day to day functions. It also discusses in depth the various important items on the financial statements of a bank, its peculiarities, manner of disclosure in the financial statements, the RBI prudential directions thereon, audit procedures, etc. Similarly, the Guidance Note has Chapters on audit procedures for reporting on long form audit reports for banks and bank branches, reporting under Ghosh and Jilani Committee requirements, special purpose reports and certificates, etc. At this juncture, I may also mention that, as the members may be aware, the Auditing & Assurance Standards Board has been working closely with the Reserve Bank of India for bringing out revised

and more contemporary Long Form Audit Reports (LFARs) for banks and bank branches. As and when the revised LFARs are notified by the RBI, we will separately bring out relevant guidance for the auditors. Accordingly, as of now, this edition of the Guidance Note contains the existing LFARs and auditors' guidance relevant thereto.

The Guidance Note, *inter alia*, has been updated for the impact of RBI Master Circulars issued in 2014, Basel III, service tax requirements, etc. Importantly, the auditors of the banking companies, in addition to the reporting requirements under the Banking Regulation Act, 1949, would also need to report pursuant to section 143 of the Companies Act, 2013. The auditors would accordingly need to amend their audit engagement letters and the auditor's report. Illustrative formats of an engagement letter and an auditor's report for a banking company, meeting the requirements of the Banking Regulation Act, 1949 as well as the Companies Act, 2013, have also been given in the Appendices given in the CD. Similarly, an updated bank branch audit programme for 2014-15 audits is also given.

I am sure the readers appreciate that updating this Guidance Note is a herculean task. Accordingly, my thanks are due to the Mumbai study group viz., CA Shrinivas Y Joshi, convenor, CA Abhay Kamat, CA Ashutosh Pednekar, CA Ganesh Sampath, CA Gautam Shah, CA Manish Sampat, CA Niranjan Joshi, CA Sandeep Welling, CA Sanjay Khemani, CA Shivratn Agarwal, CA Shrawan B Jalan, CA Vikas Kumar, CA Vipul Choksi, CA Zubin Billimoria and CA Sandeep Sarawgi, for their dedication in taking up this task despite the demands of their professional and personal lives.

I take this opportunity to place on record my sincere thanks to CA Manoj Fadnis, President ICAI and CA M Devaraja Reddy, Vice President ICAI for their support to the activities of the Board.

I am also thankful to all my Central Council colleagues for their support and guidance extended by them at all junctures. I also wish to place on record my gratitude to all the members and special invitees on the Auditing & Assurance Standards Board (2014-15), viz., CA. K. Raghu, CA. Rajkumar S. Adukia, CA. Nihar Niranjan Jambusaria, CA. Sanjeev K. Maheshwari, CA. Nilesh S. Vikamsey, CA. Shiwaji Bhikaji Zaware, CA. V. Murali, CA. S. Santhanakrishnan, CA. J. Venkateswarlu, CA. Subodh Kumar Agrawal, CA. Mukesh Singh Kushwah, CA. Sanjiv Kumar Chaudhary, CA. Atul Kumar Gupta, Shri P Sesh Kumar, Shri Bhaskar Chatterjee, CA. Sanjay Kumar Jain, CA. Sunil Ramakant Bhumralkar, CA. K. Sai Ram, CA. Navin Tilakraj Gupta, CA. Ravi Prasad, CA. Uttam P. Agarwal, Shri R Kesavan, RBI, Shri Anindya K Das, SEBI, CA. Vijay

Guidance Note on Audit of Banks (Revised 2026)

Sachdeva, ASSOCHAM, CA. Sanjay Vasudeva and CA Amit Roy, CII without whose support, the Guidance Note would not have been possible.

I am sure that the members would find the 2015 edition of the Guidance Note as useful as its earlier editions. I would, however, be happy to have your feedback on the Guidance Note.

Kolkata
18th February 2015

CA ABHIJIT BANDYOPADHYAY
Chairman,
Auditing & Assurance Standards Board

Foreword to Ninth Edition

The banking industry in India has a huge of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, the banking industry in India has been through a long journey and has also achieved new heights with the changing times. The use of technology brought a major revolution in the working system of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and confidence of the people on the institution remains the same, which comes on the back of strong quality of audit system and practices in place.

Since the issuance of the last edition of the Guidance Note on Audit of Banks, a number of important developments have taken place in the banking sector, warranting attention of the auditors. It is, therefore, essential that the members undertaking statutory audit of banks, both at the branch as well as the central level, keep themselves abreast with the latest developments in the banking sector.

I am pleased that in order to help the members maintain the quality in bank audits, the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India under the able and dynamic Chairmanship of CA. Abhijit Bandyopadhyay, has come out with a completely revised and edited 2014 edition of the Guidance Note on Audit of Banks. The revised edition incorporates the guidance for the statutory auditors at branch as well as central level w.r.t. the various circulars of the Reserve Bank of India as well as important pronouncements of the Institute. I am also happy that the 2014 Guidance Note has been totally revamped to make it more reader-friendly.

I hope that the members would find the 2014 edition of the Guidance Note immensely helpful.

New Delhi
February 24, 2014

CA. K. Raghu
President, ICAI

Preface to Ninth Edition

Independent audit of financial statements of banks is one of the important tools for throwing light on their financial health, the state of their affairs, the results of their operations and the position of their cash flows. Financial statement audit therefore is important for a strong and resilient banking industry. Audit of banks, however, involves certain typicalities which make the task of the auditors quite onerous. Most significant of these being volume and complexity of transactions, geographical spread, client portfolio, wide variety of products and services offered, extensive use of technology and above all, high sensitivity to the slightest of changes in the social, economic or political environment. As a result, the risks faced by banks vary in nature and quantum with the all these aspects.

Obtaining an appropriate and adequate understanding of these aspects and the resultant risks, particularly, their impact on the truth and fairness of a bank or its component's financial statements becomes a humungous but nonetheless essential task for the auditors. Every year, the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India brings out the Guidance Note on Audit of Banks to help the common members understand the important aspects of the banking industry so that they can understand these risks and plan and perform their audits effectively and efficiently against the strict time deadlines.

It is, therefore, my great pleasure to place in your hands, the 2014 Guidance Note on Audit of Banks. The 2014 edition of the Guidance Note has been written to not only reflect the important regulatory changes that have been brought about by the Reserve Bank of India since 2013 through its Master and other general circulars issued till 23rd February 2014 as usual but also implementation of Core Banking Solutions at almost all levels in the banks. The guidance to the auditors has been suitably revised to reflect the impact of CBS on financial reporting system. Besides, in sync with the requirements of the current suite of Standards on Auditing, the Guidance Note has also been given the flavour of risk-based audit approach. Further, guidance has also been included on aspects on which members have frequently posed queries. We have also identified and removed repetitive guidance and shifted certain conceptual and basic level aspects to the accompanying CD to reduce the volume of the publication and make the Guidance Note more user-friendly. In addition to the text of the Guidance Note, this CD also contains important data such as text of RBI's Master Circulars as well as other important circulars issued till 23rd February 2014, appendices, illustrative checklists, etc.

At this juncture, I wish to place on record my gratitude to each and every member of the Mumbai study group viz., CA. Shrinivas Y Joshi, CA. Abhay Kamat, CA. Ashutosh Pednekar, CA. Ganesh Sampath, CA. Gautam Shah, CA.

Guidance Note on Audit of Banks (Revised 2026)

Manish Sampat, CA. Neville Daruwalla, CA. Niranjan Joshi, CA. Sandeep Kumar Sarawgi, CA. Sandeep Welling, CA. Sanjay Khemani, CA. Shivratan Agarwal, CA. Shrawan Kumar B Jalan, CA. Ulhas Chitale, CA. Vikas Kumar, CA. Vipul Choksi, CA. Zubin Billimoria for taking time out of their pressing professional and personal preoccupations to work on this herculean project .

I also place on record my sincere thanks to CA K Raghu, President, ICAI and CA. Manoj Fadnis, Vice President, ICAI for their constant support to the activities of the Board.

I am also thankful to all my Council colleagues, for their unstinted support and helpful guidance that I have always been fortunate to receive in the activities of the Board. I also wish to express my gratitude to all the members and special invitees on the Auditing and Assurance Standards Board for 2013-14, viz., CA. Naveen N.D. Gupta, the then Vice Chairman, CA. Rajkumar S. Adukia, CA. Subodh K Agrawal, CA. Jay Ajit Chhaira, CA. Sanjeev K. Maheshwari, CA. Shiwaji Bhikaji Zaware, CA. M. Devaraja Reddy, CA. Dhinal Ashvinbhai Shah, CA. S. Santhanakrishnan, CA. J. Venkateswarlu, CA. Vijay Kumar Gupta, CA. Sanjiv K Chaudhary, Shri Gautam Guha, Shri Bhaskar Chatterjee, CA. Sanjay Vasudeva, CA. Niraj Kumar Jhunjhunwala, CA. Ganesh Balakrishnan, CA. Charanjeet Surendra Attra, CA. Harinderjit Singh, CA. Saunak Ray, Shri Anindya Kumar Das, CA. Nilesh S. Vikamsey, CA. Jitendra K Agarwal, CA. Amit Roy, CA. Vijay Sachdeva and CA. Aniruddh Sankaran without whose support this publication would not have been possible. I also wish to thank the Secretariat of the Auditing and Assurance Standards Board for their efforts in giving the Guidance Note its final shape.

I am sure that the 2014 edition of the Guidance Note on Audit of Banks would also be as warmly received by the members as its earlier editions. I look forward to the readers' feedback on the publication.

Kolkata
February 24, 2014

CA. Abhijit Bandyopadhyay,
Chairman,
Auditing & Assurance Standards Board

Foreword to Eighth Edition

The Banking Sector is the most dominant segment of the financial sector in the Indian economy. It is fairly mature in terms of product range and reach. The banking sector, like all economic activities, is also exposed to the risk in the conduct of their business. However, Indian banks continue to build on their strengths with good quality audits serving as the backbone of the strong banking system in place today.

In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies. The statutory auditors have had a critical role to play in this.

I am happy that the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India has come out with the Revised 2013 Edition of the Guidance Note on Audit of Banks. The Revised edition incorporates the impact of the various circulars of the Reserve Bank of India as well as certain important pronouncements of the Institute which would be relevant to bank audits for the financial year ending March 31, 2013.

At this juncture, I wish to place my appreciation to CA. Abhijit Bandyopadhyay, Chairman, Auditing and Assurance Standards Board for his zeal and commitment in bringing out such literature and make it available to the members at large thereby enabling them in maintaining quality in the audit services rendered.

I am confident that the members would find the revised edition of the Guidance Note immensely helpful.

New Delhi
March 14, 2013

CA. Subodh Kumar Agrawal
President, ICAI

Preface to Eighth Edition

Audit of banks has been much in the limelight in the professional and regulatory circles for a variety of reasons. As the financial year 2012-13 draws to an end, the members who have been allotted bank statutory central audits and bank branch audits would be busy preparing for these audits. The Profession must utilize this opportunity to demonstrate how an audit of financial statements is not just a regulatory requirement to be complied with but it indeed has an immense value to not only the auditee banks but also to the banking regulator, i.e., the Reserve Bank of India.

At this juncture, it gives me immense pleasure to place in your hands the 2013 edition of the Guidance Note on Audit of Banks, which would help the auditors in efficient and effective conduct of the audit. This edition of the Guidance Note has been updated since the last edition which came out in 2011. During these two years a number of important directives have been issued by the banking regulator i.e., the Reserve Bank of India which the statutory auditors are required to be aware of, particularly, those brought about by the RBI through its various Master Circulars and a number of other relevant circulars. I also take this opportunity to reiterate that the auditor's report for the financial year 2012 – 13 onwards would have to be issued in the revised format as prescribed under the Revised SA 700 issued by the Institute of Chartered Accountants of India.

I take this opportunity to place on record my sincere gratitude and appreciation for the members of the Mumbai study group, viz., CA Shriniwas Y. Joshi, coordinator of the study group, CA Vipul Choksi, CA Ashutosh Pednekar, CA Akeel Master, CA Sanjay Khemani, CA Vikas Kumar, CA Zubin Billimoria, CA Manish Sampat, CA Niranjan Joshi, CA Sandeep Welling, CA Shivratn Agarwal, CA Ulhas Chitale, CA Gautam Shah, CA Neville M. Daruwalla and CA Ashwin Suvarna for squeezing time out of their pressing professional and personal commitments to work on the 2013 edition of the Guidance Note on Audit of Banks and finalise it in a short time.

I also wish to place on record my gratitude to CA. Subodh K Agrawal, President, ICAI and CA. K Raghu, Vice President, ICAI for their unstinted support to the activities of the Board.

I am also grateful to my colleagues at the Auditing and Assurance Standards Board, CA. Naveen ND Gupta, Vice Chairman, AASB, CA. Rajkumar S Adukia, CA. Jay Ajit Chhaura, CA. Shriniwas Y Joshi, CA. Sanjeev Maheshwari, CA. Dhinal A Shah, CA. Shiwaji B Zaware, CA. M. Devaraja Reddy, CA. S.

Guidance Note on Audit of Banks (Revised 2026)

Santhanakrishnan, CA. J. Venkateswarlu, CA. Manoj Fadnis, CA. Sanjiv K Chaudhary and CA. Vijay K Gupta for their support to the various projects of the Board. I also wish to thank the Secretariat of the Auditing and Assurance Standards Board for their efforts in giving the Guidance Note its final shape.

I am sure that like its predecessors, the readers would find this updated edition of the Guidance Note also extremely useful.

Kolkata
March 14, 2013

CA. Abhijit Bandyopadhyay,
Chairman,
Auditing & Assurance Standards Board

Foreword to Seventh Edition

The Banking system remains, as always, the most dominant segment of the financial sector in the Indian economy. Today, the banking sector in India is fairly mature in terms of supply, product range and reach. The banking sector, like all economic activity is also exposed to risk in the exercise of their business. Indian banks continue to build on their strengths with good quality audits serving as the backbone of the strong banking system in place today.

In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The responsibility for this lies on the shoulders of the auditors.

I am pleased to note that the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India has, in order to help the members maintain the good quality of bank audits, come out with the 2011 Edition of the Guidance Note on Audit of Banks. The Revised edition incorporates the impact of the various circulars of the Reserve Bank of India as well as certain important pronouncements of the Institute which would be relevant to bank audits for the financial year ending March 31, 2011.

At this juncture, I wish to place my appreciation to CA. Abhijit Bandyopadhyay, Chairman, Auditing and Assurance Standards Board for his zeal and commitment to reach out to the members in the profession in maintaining quality in the audit services rendered by them. More so, as the Guidance Note on Audit of Banks is a publication which is eagerly awaited by one and all.

I am extremely confident that the members would find the revised edition of the Guidance note immensely helpful in efficiently conducting audit of banks.

New Delhi
March 11, 2011

CA. G RAMASWAMY
President, ICAI

Preface to Seventh Edition

The banking industry is a systemically important industry for the Indian economy in general and financial sector in particular as it comprises nearly 90% of the total financial services sector of the country. The banking industry in India has undergone significant transformation since the initiation of the financial sector reforms that were part of the structural reforms of early 1990s. The banking sector has steadily evolved from a state-directed banking system into a fairly open competitive banking system.

Banking in India has become service oriented, maturing from the days of 'walking in business' to the present situation of 24 hour banking solutions to attract customers. With such widespread and rapid growth of the banking industry and their entry into a wide variety of services like insurance, mutual funds, etc., the onus of the healthy sustenance and growth of the banking industry lies on the back of reliable financial statements which can only be assured by good quality audits. The bank audit is thus an important step for all banks who seek a better optimization of its overall management.

To help the members provide value add audit of the financial statements of a bank, the Institute has brought out the 2011 edition of the *Guidance Note on Audit of Banks*, thoroughly revised in the light of the relevant circulars issued by the Reserve Bank of India between 2009 till date. Since adequate and appropriate understanding of an auditee is a prerequisite for any effective audit, the Guidance Note contains comprehensive information on the working of a modern bank, its control systems, books of account, legal and regulatory requirements, including introduction of new banking concepts, in addition to comprehensive information and audit guidance on important items on the financial statements of banks.

The 2011 Guidance Note covers critical aspects such as Knowledge of the Banking Industry, Risk Assessment and Internal Control, Items of Bank's Financial Statements and Auditing Aspects, Long Form Audit Reports, Special Aspects. The text of the relevant circulars of the Reserve Bank of India is given in the CD with the Guidance Note.

Guidance Note on Audit of Banks (Revised 2026)

At this juncture, I would wish to place my gratitude to CA. G Ramaswamy, President and CA. Jaydeep N Shah, Vice President, ICAI for their support and valuable guidance to the initiatives of the Auditing and Assurance Standards Board. My sincere thanks is also due to CA. M M Khanna, CA. Sanjay Vasudeva and CA. Ajay K Jain from New Delhi and CA. Vipul Chokshi from Mumbai for their valuable inputs in making the 2011 edition of the Guidance Note more useful and comprehensive.

I also wish to place on record my sincere thanks to my colleagues at the Board, viz., CA. Rajkumar S Adukia, Vice-Chairman, AASB, CA. Amarjit Chopra, CA. Naveen N.D. Gupta, CA. Sanjeev K. Maheshwari, CA. M. Devaraja Reddy, CA. Rajendra Kumar P., CA. J. Venkateswarlu, CA. Sumantra Guha, CA. Anuj Goyal, CA. Pankaj Tyagee, CA. Jayant P. Gokhale, CA. S. Santhanakrishnan, CA. Mahesh P. Sarda, CA. Vijay Kumar Garg, CA. V. Murali, CA. Nilesh S. Vikamsey, Ms. Usha Sankar, Shri Prithvi Haldea, CA. David Jones, CA. Sanjay Vasudeva, CA. Raviprasad, CA. P.R. Vittel, CA. C.N. Srinivasan and CA. Ramana Kumar B for their views for further improvements to the Guidance Note. My sincere gratitude is also due to all my other Central Council colleagues without whose support this edition of the Guidance Note would not seen the light of the day.

I am extremely confident that the Guidance Note would prove to be highly useful and relevant for authoritative reference for the auditors and also for all those who are connected with the banking industry in one way or other.

Kolkata
March 11, 2011

CA. Abhijit Bandyopadhyay
Chairman
Auditing and Assurance Standards Board

Foreword to Sixth Edition

India's banking industry must strengthen itself significantly in order to support the modern and vibrant economy which India aspires to be. The last decade has seen many positive developments in the Indian banking sector. Policy makers have made some notable changes in policy and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations between commercial and co-operative banks.

For safe and sound banking system, one of the most important ingredient is reliable, clear financial information supported by quality audits. At the same time, audit also complements supervisory efforts of the regulators in risk management and efficient functioning of banking system.

In order to equip our members with requisite updated knowledge on functional areas of the banking operation, I am pleased to note that the Auditing and Assurance Standards Board of the Institute has brought out the revised edition of the Guidance Note on Audit of Banks. The revised edition has been updated by incorporating insightful guidance into the impact of various new/ revised circulars issued by the Reserve Bank of India.

I am sure that the members will find the revised Guidance Note, like its earlier editions, useful in providing a comprehensive overview of the functioning of a bank and guidance on critical aspects of a bank audit. I am confident that this publication would surely help the members in discharging their responsibility in an effective manner.

New Delhi
February 04, 2009

Ved Jain
President, ICAI

Preface to Sixth Edition

Liberalization and de-regulation process that started in 1991-92 made a sea change in the working and reach of the banking system. From a totally regulated environment, it has moved gradually into a market driven competitive system though the move towards global benchmarks has been, by and large, calibrated and regulator driven.

In this dynamic environment, the auditors of banks, in their own way, play a crucial role in upholding and enhancing the credibility of the banking system. In order to equip the members with updated knowledge on banking industry, the Auditing and Assurance Standards Board has been from several past years coming out with Guidance Note on Audit of Banks. The 2009 edition of the Guidance Note has thoroughly been revised by taking the impact of the relevant circulars issued by the RBI from time to time. The audit procedures have been thoroughly revised in view of the issuance of risk-based Standards on Auditing which have come into force with effect from 1st April, 2008. Further, three new chapters have been added in the 2009 edition, i.e., "Special features of bank treasury operations, foreign exchange and derivative transactions", "Basel II" and "Disclosure requirements in financial statements".

I wish to place on record my sincere gratitude to CA. Vipul K. Choksi, FCA, convenor of the Study Group constituted at Mumbai and all the other members of the Study Group, viz., CA Abhijit Sanzgiri, CA Ashutosh Pednekar, CA Akeel Master, CA Ketan Vikamsey, CA Sanjay Khemani, CA Vikas Kumar, CA Zubin Billimoria, CA. Kamlesh Vikamsey, CA. Uday Chitale, CA. Asit Pal, CA. Jatin Lodaya, CA. Shiv Ratan Agarwal CA. Manoj Daga and CA Dharini Shah who have squeezed time from their professional and personal commitments to complete this mammoth task of revising the Guidance Note. I would also take the opportunity of placing on record my gratitude to all the members of the Expert Group viz., CA. Amarjit Chopra, CA. K. P. Khandelwal CA. S. Santhanakrishnan, CA. Manoj Fadnis and CA. Shanti Lal Daga for their invaluable comments and suggestions. I am also thankful to all my colleagues on the Auditing and Assurance Standards Board and Council for their continuous support and guidance.

I am sure that the members will find the guidance contained in this revised edition effective in conducting audit of banks and their branches.

New Delhi
February 04, 2009

Harinderjit Singh
Chairman
Auditing and Assurance Standards Board

Foreword to Fifth Edition

Sounding clichéd as I may do, yet I would begin with stating what has been said at a number of for a number of times that the economic growth and development of the society hinges to a large extent on the soundness of the accountancy profession. It is one profession which has had a reach and has enjoyed unwavering trust of one and all, not withstanding the political, cultural or economic barriers that might have separated them.

Whereas this unwavering trust has placed the accountancy profession in a unique position to command authority and respect, it has also been something which has given sleepless nights to not only the regulators but also the professional accountancy bodies across the world. These professional bodies have been working relentlessly towards equipping their members with the latest knowledge and skill sets to help them perform efficiently and uphold that trust.

The Institute too has been committed to that cause and has a clear approach to keeping its members technically sound. Issuing authoritative technical literature has been an integral part of this approach. The challenge however is to keep that literature current and relevant. I am happy to note that the Auditing and Assurance Standards Board of the Institute has brought out the revised version of the Guidance Note on Audit of Banks incorporating the latest regulatory and other professional requirements having an impact on audit of banks.

I am sure that the readers will find the revised Guidance as useful as its earlier version, not only as a one stop reference for audit procedures in case of banks but also as a concise compendium of significant banking activities.

New Delhi
February 4, 2008

Sunil H. Talati,
President, ICAI

Preface to Fifth Edition

Banking is a unique industry in itself. In a world divided by political, economic and social boundaries and barriers, it acts as a glue to keep it integrated in one way or the other. This fact has been underlined time and again; the tremors of the recent crises in the US banking industry have been felt in almost all parts of the world. Extensive geographical spread, wide array of products and services offered, high volumes of transactions many of which are quite complex, advanced level of automation, large customer base are some of the other elements of uniqueness of the banking industry.

This uniqueness of banking industry, however, poses a major challenge in the audit of banks. The answer to this challenge for the auditors lies, to a considerable extent, I personally believe, in two things, one, having a firm grip on the knowledge of the banking industry and second, in keeping update with the professional (in particular the latest auditing standard & pronouncements), regulatory and other industry related developments. The Guidance Note on Audit of Banks (2008 edition) has been designed keeping in view the aforesaid requirements. The Guidance Note has been divided into four parts, first, the knowledge of the banking industry and its operational aspects; second, related audit procedures; third, LFAR both at the branch as well as head office level; and fourth, special purpose reports and certificate and other special aspects, etc. Also the relevant circulars are contained in the accompanying CD. At this juncture, I also wish to underline the fact that it is necessary to read the Guidance Note in its entirety to properly appreciate the guidance given therein.

I would like to place on record my sincere gratitude to CA S Swaminathan, from Chennai who volunteered to undertake this mammoth task of revising and restructuring the 2006 edition of the Guidance Note. I am also thankful to all my colleagues in the Auditing and Assurance Standards Board and Council for their continuous support and guidance. I would also like to place on record my thanks to CA. Ashok Batra from Delhi and CA. Mitil Chokshi from Mumbai for providing his invaluable inputs on the Guidance Note. I also wish to appreciate the contribution of CA. Priya Subramaniam, Senior Assistant Director, Board of Studies in respect of taxation of banks. Finally, I also wish to record my thanks to Shri Vijay Kapur, Director, Auditing and Assurance Standards Board and his team at the AASB Secretariat for giving final shape to the revised Guidance Note.

I am sure that the readers would find the guidance note useful.

New Delhi
February 4, 2008

Harinderjit Singh
Chairman
Auditing and Assurance Standards Board

Foreword to Fourth Edition

Since the issuance of the last edition of the Guidance Note on Audit of Banks in March 2005, a number of important developments have taken place in the banking sector, warranting attention of the auditors. Some of these developments are usual and happen every year such as the issuance of the revised income recognition and asset classification norms, investment exposure norms, etc. Some of these changes, however, highlight some major policy shifts by the Reserve Bank of India and would have a lasting impact on the future of the banking industry in India, such as move towards risk-based supervision of banks, para banking activities, new capital adequacy norms, etc.

In addition, the banking industry in India in the recent past has been a witness to the flurry of merger and acquisition activities. Further, the recent years have also seen a growing interest of the banking industry in the capital markets. It is, therefore, essential that members undertaking statutory audit of banks keep themselves abreast with the latest developments in the banking including the actions of the banking regulator, the Reserve Bank of India. I am happy to note that the Auditing and Assurance Standards Board has brought out the 2006 edition of the Guidance Note on Audit of Banks well in-time to keep the members abreast with the vital changes in the banking to help them appropriately understand the impact of these changes on their audit.

I sincerely hope that the members would find this edition of the Guidance Note also useful and informative.

New Delhi
March 14, 2006

T.N. Manoharan
President

Preface to Fourth Edition

The economic development of any country depends significantly on the support that it gets from the banking sector of the economy. In order to build up a resilient banking industry, it is essential that the industry is founded on sound banking principles and practices, complemented by effective regulation and supervision. The recent past has witnessed the banking industry becoming the focus of investment opportunities be it by way of IPOs or mergers and acquisitions or FDI. Another significant development over the past few years has been the growing activism of the banking industry in the capital markets.

The mammoth amounts of public monies being handled by the banks as well as the inherent vulnerable nature of the banking industry, however, make it imperative that the activities of the industry are closely monitored and regulated without strangulating the spirit of entrepreneurship. Audit forms an integral and important part of such monitoring and regulation. For past number of years the members of the Institute have been taking on this responsibility with that extra fervour and commitment. The Institute too has been actively supporting the members in their role as statutory auditors of banks by bringing out a number of technical publications dealing with the various aspects of bank audit, especially the Guidance Note on Audit of Banks. The Guidance Note deals with several important aspects of bank audit both at branch as well as head office level. Keeping abreast with the latest developments in the banking industry and understanding their impact on audit of banks is quintessential for the auditors if they want to make any value addition.

The 2006 edition of the Guidance Note contains guidance on important aspects such as risks associated with the banking industry, assessment of the risk based internal audit system in banks, audit of ATMs, audit under CDR, and more importantly the revised formats of the audit reports of nationalized banks as well as banking companies, to name a few. This edition of the Guidance Note is targeted at helping the members understand the various developments in the banking industry since the issuance of the 2005 edition of the Guidance Note and their impact on their audits. Some of the important aspects of the banking industry that have undergone a change as a result of regulatory intervention include the changes in the prudential norms on income recognition and asset classification, exposure norms for credit and investment portfolio, loans and advances, capital adequacy requirements, changes in the CRR, SLR, new guidelines on corporate debt restructuring as well as small and medium enterprises, introduction of risk based supervision in banks, guidelines on securitization of standard assets, KYC norms, etc. Some other important developments that have impacted the banking industry are the banking cash transaction tax, the fringe benefit tax, service tax etc. Further, for ease of

Guidance Note on Audit of Banks (Revised 2026)

reference of the readers, the important changes in the 2006 edition from the 2005 edition are also indicated by way of footnote references.

The 2006 edition of the Guidance Note is divided into two Sections, Section I contains the Text of the guidance whereas Section II contains the Appendices. Section I is divided into four parts – initial considerations, audit of branches, audit of head office and special purpose reports and certificates. Part II contains the text of the relevant circulars of the Reserve Bank of India as well as the formats of the audit reports. For the benefit of the readers, the appendices have also been given in a CD along with the Guidance Note.

At this juncture, I wish to place on record my immense gratitude to S/Shri Dinesh Mehta, FCA, Rajiv Sogani, FCA, Anil Goyal, FCA, Atul Atolia, FCA, Ashok Batra, FCA and Nitant Trilokekar, FCA who squeezed time out of their busy professional and personal lives to revise certain important aspects of the Guidance Note. My thanks are also due to Shri Nagesh D Pinge, Sr. General Manager, ICICI Bank for his contribution in respect of the guidance on risk based internal audit in banks. I also express my gratitude to Shri Amarjit Chopra, FCA, my colleague in the Council as well as my immediate predecessor as Chairman, Auditing and Assurance Standards Board under whose able guidance and vision the revision of the 2005 Guidance Note was initiated. I also wish to place my sincere thanks to my colleagues at the Auditing and Assurance Standards Board for their valuable inputs on the draft Guidance Note. My thanks are also due to my colleagues at the Council, in specific to Shri Harinderjit Singh, also Vice Chairman of AASB as well as Shri S C Vasudeva, for their incisive comments on improving upon the draft Guidance Note and giving it a final shape. I also wish to place on record the efforts put in by Shri Vijay Kapur, Secretary, Auditing and Assurance Standards Board and his team of officers, viz., Smt. Puja Wadhera, Senior Technical Officer, Shri Nitin Singhal and Shri Amit Sinha, Executive Officers in finalizing the Guidance Note.

I am confident that the bank audit being just round the corner, this edition of the Guidance Note too, as its predecessors, prove to be of immense use to the members as also other interested readers.

New Delhi
March 16, 2006

Sunil Goyal
Chairman
Auditing and Assurance Standards Board

Foreword to Third Edition

An audit based on the sound knowledge of the audit client is quintessential if the Profession has to maintain its competitive edge as well as the confidence reposed in it by all. Audit of the banking sector is no exception to that. In fact, audit of a bank requires quite good knowledge of almost all the functional areas of the banking operations.

As all are aware, the Institute has taken a number of initiatives to keep the members abreast with the latest developments in the areas of professional relevance, be it in the form of technical literature or seminars, etc. The 2005 edition of the Guidance Note on Audit of Banks, developed by the Auditing and Assurance Standards Board is one such initiative. This edition is thorough update of the Guidance Note issued in 2001 and the subsequent 2003 Supplement.

I am happy to note that the 2005 edition also contains an insightful guidance into the impact of various new/revised circulars of the Reserve Bank of India with respect to prudential norms, exposure norms on investments, etc. In tune with times, the Guidance Note also contains specific guidance on service tax matters.

With bank audits just around the corner, I am sure that this edition of the Guidance Note on Audit of Banks too will prove to be immensely useful to our members in discharge of their attest functions in the most appropriate manner.

New Delhi
March 31, 2005

(Kamlesh S. Vikamsey)
President

Preface to Third Edition

The banking industry is no doubt the backbone of any economy. It is, therefore, very essential to ensure that the banking industry remains healthy and robust. The accountancy profession, within its given means and scope of work contributes actively by ensuring proper financial reporting and disclosure aspects of the banking industry. Statutory audit of banks is one such area by which the accountancy profession makes such a contribution.

To be able to contribute to the health of the banking industry, it is essential that the statutory auditors are well equipped in terms of the knowledge of the banking industry. Guidance Note on Audit of Banks is an important tool in the kitty of the members of the Institute to gain an insight into the systems and processes in the significant functional areas of the banking industry, such as the acceptance of deposits, credit, investments, fixed assets, branch functions, etc. These all are obviously aimed at helping the members understand and effectively evaluate the internal controls and accounting systems in a bank.

A number of changes have taken place in the banking sector, having a bearing on the functioning of the banks as also, consequently, statutory audit of banks. The 2005 edition of the Guidance Note, therefore, is an extensively revised and updated version of the 2001 Guidance Note and the 2003 Supplement, all with the basic aim of keeping our members abreast with the latest developments in the area of bank audits. Like the 2001 Guidance Note and the Supplement, the 2005 edition too delves into the impact of several new circulars in the field of prudential and income recognition norms, investment norms, exposure of investments, investment portfolio etc., on the functioning of as well as financial reporting by the banks. In addition, the Guidance Note also touches upon the aspect of application of various Accounting Standards, issued after the 2003 Supplement as well as the Report of the N D Gupta Committee on Compliance with Accounting Standards by Banks. Another critical area in the banking industry, which is being stressed upon by the Reserve Bank of India is prevention of money laundering. The regulator has issued a number of circulars relating to “Know Your Customer” guidelines. These circulars too have been dealt with by the revised Guidance Note.

The revised Guidance Note also provides an insight into the technological advancements impacting the banking sector, such as the internet banking

feature, etc. In addition to the above, as is the norm, the Appendices to the revised Guidance Note contain the text of various relevant circulars issued by the Reserve Bank of India as a source of ready reference for readers as also the illustrative format of the auditor's report. In nut shell, the Guidance Note aims to provide a comprehensive overview of the functioning of a bank and critical aspects of a bank audit.

At this juncture, I wish to place my gratitude to the Study Group constituted at Indore under the Convenorship of Shri Manoj Fadnis, FCA, which prepared the basic draft of the revised Guidance Note at such a short notice. In particular my special thanks are due to S/Shri Aseem Trivedi and Santosh Deshmukh of Indore for the hard work put in by them. S/Shri Ashok Batra and Nishith Seth of Delhi also deserve special mention for their valuable contribution. I am also grateful to all my colleagues at the Auditing and Assurance Standards Board for providing insights from their rich knowledge and experience for improving upon the draft Guidance Note. A word of thanks is also due to all my colleagues at the Council for providing their invaluable guidance and support in giving the final shape to the revised Guidance Note.

I am extremely grateful to Shri Vijay Kapur, Secretary, Auditing and Assurance Standards Board, for his efforts and valuable inputs which were so essential in bringing out this Guidance Note. Also my thanks are due to technical staff of Auditing and Assurance Standards Board for their valuable contribution.

I am sure that the members and other interested users will find this edition of the Guidance Note useful in discharge of their professional obligations.

New Delhi
March 30, 2005

Amarjit Chopra
Chairman
Auditing and Assurance Standards Board

Foreword to Second Edition

The banking system in India, perhaps, is one of the largest in the world as far as its extensive branch network is concerned. The role of the banking sector in the overall growth and development of the Indian economy is also quite significant and laudable. Today, disclosure practices followed by Indian commercial banks are almost at par with those of international banks. The introduction of prudential norms, capital adequacy norms, requirement to attach the financial statements of the subsidiaries beginning from year 2000-01 are definite measures to bring more transparency in the banking industry. In this context, the Reserve Bank of India has been performing a stellar role by issuance of detailed guidelines in close consultation with the ICAI.

In view of stringent disclosure practices and far-reaching technological developments, the role of accounting profession with respect to the banking industry has assumed considerable significance. The original Guidance Note on Audit of Banks was issued in 1994. In view of far reaching changes, it was imperative to revise the Guidance Note, to bring it in line with these developments. I am pleased to note that the Auditing Practices Committee of the Institute has brought out the revised Guidance Note on Audit of Banks. A salient feature of the revised Guidance Note is that a considerable emphasis has been laid on explaining the distinguishing characteristics of the banking industry – how it operates, what transactions take place, the sequence of these transactions, the accounting system for recording the transactions and the legal and regulatory framework within which it operates. Another important feature of the revised Guidance Note worth mentioning is that it deals separately with the audit of banks at the head office and that at the branch level.

The draft of the Guidance Note was considered by the Council of the Institute at its meeting held on 6th, 7th and 8th March 2001. I wish to specially commend the efforts and contribution made by Mr. S. Gopalakrishnan, Chairman, Mr. K.S. Vikamsey, Vice-Chairman and all the members of the Auditing Practices Committee who undertook the mammoth task of bringing out the revised Guidance Note in such short span of time. I also wish to thank the members of the Central Council of the Institute for their valuable suggestions in enriching the contents of the revised Guidance Note.

I appreciate the efforts of Mr Vijay Kapur, Secretary, Auditing Practices

Guidance Note on Audit of Banks (Revised 2026)

Committee of the Institute and his team of Officers, without whose untiring efforts, this Guidance Note would not have been published in time.

I am sure that the revised Guidance Note would prove immensely useful not only to the members who have an experience in audit of banks but also those members who are uninitiated to the area of bank audit.

New Delhi
March 20, 2001

(N.D. Gupta)
President

Preface to Second Edition

While the auditing principles remain the same regardless of the nature of the entity under audit, the manner of their application has to be determined in the context of the specific features of the industry to which the entity belongs and also the specifics of the entity itself. This revised Guidance Note seeks to provide guidance on application of generally accepted auditing principles in the specific context of Banks.

A number of developments have taken place in the Banking industry. Some of the prominent changes include, from time to time, in prudential guidelines relating to income recognition, asset classification, provisioning and investment valuation, capital adequacy and extensive computerization of Banking operations. These developments have necessitated a thorough revision of the Guidance Note to maintain its relevance in the changed scenario.

This Guidance Note makes a clear distinction between audit at Branch level and Head office level and elaborates on general considerations in audit of Banks at Head Office/Branch level and special consideration in the case of audit of Branches.

The Guidance Note consists of 29 chapters (besides a number of appendices), divided into four parts:

- Part I deals with general considerations in audit of banks and applies to audit at both head office level and branch level.
- Part II deals with special considerations in the case of audit of branches.
- Part III deals with audit at head office and zonal/regional office level.
- Part IV deal with special-purpose reports and certificates to be issued by auditors of head office or branches of banks.

While every attempt has been made to cover the latest circular issued by Reserve Bank of India on the subject, it is advisable for the members in the ever changing scenario to keep a constant watch on the latest developments in the Banking sector and familiarize themselves on the update.

Guidance Note on Audit of Banks (Revised 2026)

I am confident that the members will find this Guidance Note user friendly and a good companion on the subject.

I take this opportunity to express my sincere thanks to Shri M.M. Khanna, Past Council Member and past/present members of the Auditing Practices Committee for their valuable contribution in the preparation of the Guidance Note.

I would like to record my sincere appreciation to the faculty who assisted the Committee in preparation of this Guidance Note. I also wish to thank Shri Vijay Kapur, Secretary, Auditing Practices Committee and his team whose untiring efforts made it possible for the Committee to bring out this Guidance Note in good time.

Hyderabad
March 20, 2001

(S. Gopalakrishnan)
Chairman
Auditing Practices Committee

Foreword to First Edition

I am glad to note that the Auditing Practices Committee of the Council of the Institute is bringing out this Guidance Note on Audit of Banks.

Banking is a dynamic activity which has constantly been undergoing a change. In recent years, there has been a remarkable change in the nature, volume and spread of transactions of banks. Apart from this, the non-traditional functions of banks, e.g., foreign exchange activities, merchant banking, portfolio management, investment, etc., have acquired considerable importance during this period. Another significant development from the auditors' view point is the issuance, by the Reserve Bank of India, of detailed guidelines regarding income recognition, asset classification, provisioning and other related matters. Yet another development which affects the work of bank auditors is the revision of formats of financial statements of banks as also of the formats of long form audit reports. These developments made it imperative for the Institute to revise its existing publications dealing with audit of banks. I am glad that the Auditing Practices Committee took up the work of revision on a priority basis and completed this task in a short period. The draft prepared by the Committee was considered by the Council at its meeting held in September, 1994 and approved for publication.

The members would recall that during the first half of 1994, a series of seminars on the subject of 'Bank of Audit' was organised at all major places throughout the country. For this purpose, the Institute had brought out a uniform background material. The present Guidance Note draws heavily on the background material, supplemented by the large number of suggestions made during the course of the seminars. The Guidance Note, thus, reflects the collective thinking of the profession on the subject.

It is noteworthy that the earlier edition of this publication on 'Audit on Banks' was in the form of a 'Study'. However, considering the importance of the banking sector in the economy, it has been decided to bring out the present edition in the form of a Guidance Note. As the members are aware, Guidance Notes are recommendatory in nature. Accordingly, while carrying out the statutory audit of a bank or a branch of a bank, a member should ordinarily follow the recommendations made in this Guidance Note except where he is satisfied that in the circumstances of the case, it may not be necessary to do so.

In the fast changing economic scenario of the country, the banking sector is likely

to witness many more changes in the years to come. I am sure, the Auditing Practices Committee will strive to keep this publication up-to-date by revising it periodically. However, the process of revision, by its very nature, takes time. Therefore, I would strongly urge upon the members to keep a constant watch on the developments in the banking sector specially insofar as they affect their work and adapt their audit procedures and techniques in response to the changes in the environment.

I have great pleasure in acknowledging the efforts and the contribution made by the Chairman of the Auditing Practices Committee, Mr. Dipankar Chatterji. I profoundly thank members of the Auditing Practices Committee and of the Council for their valuable suggestions. On behalf of the Council, I would like to record the sincere appreciation to the faculty of the Technical Directorate especially to Dr. Kamal Gupta, Technical Director and Mr. Ashok Arora, Deputy Director, for their utmost dedication and technical input in bringing out this publication.

I am sure, the members would find the guidance contained in this publication useful in conducting the audit of banks and their branches.

New Delhi
November 22, 1994

B.P. Rao
President

Preface to the First Edition

The Auditing Practices Committee has pleasure in placing before the members this Guidance Note on Audit of Banks. The Guidance Note is a thoroughly revised, updated and enlarged edition of the two existing publications titled 'Study on Audit of Banks' and 'Guidance Note on Long Form Audit Reports in case of Public Sector Banks'.

The need for bringing out this revised edition arose because of a number of significant developments in the banking sector which have affected the work of the auditors in recent years. One of the most significant developments is the issuance of guidelines for income recognition, asset classification, provisioning and other related matters by the Reserve Bank of India. The guidelines lay down objective parameters for determining the quantum of provision required in respect of advances. Similarly, with the issuance of guidelines for valuation of investments, a considerable degree of uniformity has been brought about in the manner in which investments are accounted for and valued by banks.

The formats of financial statements of banks have been recently modified, thereby bringing about a greater degree of transparency therein. The Reserve Bank of India has similarly revised the formats of long form audit reports and also extended the requirement for obtaining such reports to private banks and foreign banks.

The changes in the nature and volume of activities of banks also affect the work of the auditors. In particular, the treasury functions of banks such as investments, foreign exchange, etc., have assumed considerable significance in the last few years. The portfolio management services rendered by banks have also been a subject matter of considerable interest during the last couple of years.

This revised edition seeks to respond to the above, as well as several other, developments that have taken place since the publication of the last editions of the aforesaid two publications. I would like to particularly draw the attention of the members to the chapter on Audit Objectives and Approach to audit of banks in the present-day context. I would also like to make a special mention of chapters dealing with investments and advances which have been thoroughly revised in the context of the relevant guidelines issued by the Reserve Bank of India.

Apart from a thorough revision of the existing chapters, several new chapters have also been added to provide guidance on areas which have gained considerably in significance during the last few years. These chapters deal with the problem of arrears in inter-branch accounts, examination of foreign exchange transactions, application of analytical procedures by the auditors, and consolidation of accounts of branches. A separate chapter deals with the role of the statutory auditors of banks in relation to portfolio management services. Similarly, a chapter has been added to provide guidance on the requirement of the Reserve Bank of India that the statutory auditors of a bank give a separate report on compliance with the SLR requirements.

Guidance Note on Audit of Banks (Revised 2026)

The ten appendices to the Guidance Note contain useful reference material for the auditors. These include the formats of financial statements of banks, revised formats of audit reports in case of nationalised banks and banking companies, formats of long form audit reports and the various guidelines issued by the Reserve Bank of India regarding securities transactions of banks, valuation of investments, income recognition, asset classification, provisioning and other related matters.

An important aspect to which I would like to invite the attention of the members in the new nomenclature of this publication. As would be observed, this publication is in the form of a Guidance Note while the earlier publication on Audit of Banks was in the form of a 'Study'. The decision to bring out this edition in the form of a Guidance Note has been taken by the Council in the context of the increasing importance of the banking sector in the economy.

I must acknowledge the very hard work put in by the members of the Auditing Practices Committee, members of the Study Group formed in Calcutta for preparing the background material for Seminars on Bank Audit and also Mr. T. Neogi, F.C.A., Mr S.V. Zaregaonkar, F.C.A., and Mr K.Kannan, F.C.A. who gave their unstinted time and guidance. The Technical Directorate made an extraordinary effort to bring out this publication. Special mention must be made of Mr. Ashok Arora, Deputy Director. Only shortage of space prevents me from special mention of many others who have given their invaluable help.

The changes in the banking sector are taking place at a rapid pace. In this edition of the Guidance Note, an attempt has been made to capture the relevant developments till September 15, 1994. It is, however, appreciated that as the future unfolds itself, many of the aspects dealt with in the Guidance Note may need revision. It will be the endeavour of the Auditing Practices Committee to update this publication on a regular basis. In this task, I invite suggestions from members as to how the utility of this publication can be enhanced.

I hope the members will find the guidance provided in this publication useful while conducting statutory audit of banks and their branches.

Calcutta
November 21, 1994

Dipankar Chatterji
Chairman
Auditing Practices Committee