ANNEXURE I
RISK BASED INTERNAL AUDIT IN INDIAN BANKS
- An Assessment of Organizational Preparedness

Questionnaire
_______________________ Bank

(Please put ✓ mark in the appropriate Box)
* Soft copy of questionnaire can be mailed, if required. Kindly use additional sheet/s wherever necessary.

1. Implementation of Risk Based Internal Audit.

1. Was a Task Force of Senior executives formed in your bank to chalk out an Action Plan for implementation of Risk Based Internal Audit (RBIA)?

☐ Yes ☐ No

If Yes, please state the year: ________

2. Did your bank review the existing system of Internal Audit in the light of the Guidance Note received from Reserve Bank of India (RBI) for implementation of RBIA?

☐ Yes ☐ No

3. Has your bank drawn up a 'Road Map' for implementation of RBIA?

☐ Yes ☐ No

(a) If Yes, in which of the following locations/activities of the Bank has RBIA been implemented? Please also indicate wherever it is proposed for implementation

1. Branches ☐ Yes ☐ No ☐ Proposed

2. Currency chest ☐ Yes ☐ No ☐ Proposed

3. ATMs ☐ Yes ☐ No ☐ Proposed

4. Controlling offices ☐ Yes ☐ No ☐ Proposed
5. Treasury □ Yes □ No □ Proposed
6. Risk Management department □ Yes □ No □ Proposed
7. Forex department □ Yes □ No □ Proposed
8. Centralized Processing cells □ Yes □ No □ Proposed
9. Merchant Banking & Advisory services □ Yes □ No □ Proposed
10. IT Systems □ Yes □ No □ Proposed

(b) How is RBIA being conducted in your Bank:

1. Along with Regular Inspection □ Yes □ No
2. Independent of Regular Inspection □ Yes □ No

(c) Does the Road Map envisage discontinuance of any one/more of the following:

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Inspection</td>
<td></td>
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<tr>
<td>Concurrent audit</td>
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<td>Revenue audit</td>
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<td>Credit audit</td>
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<td>Stock audit</td>
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<tr>
<td>Any other (pi. specify)</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

If yes, state the reason
4. As on 31st March 2008, what was the coverage of locations/activities under RBIA? (by number of branches/locations etc)

<table>
<thead>
<tr>
<th>Activity</th>
<th>100%</th>
<th>75%-99%</th>
<th>50%-74%</th>
<th>&lt; 50%</th>
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<tbody>
<tr>
<td>1. Branches</td>
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<td>7. Forex department</td>
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<td>8. Centralized Processing cells</td>
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<tr>
<td>9. Merchant Banking &amp; Advisory services</td>
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<td>10. IT Systems</td>
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</tbody>
</table>

5. What is expected to be the coverage of locations/activities under RBIA by 31st March, 2009? (By number of branches/locations etc)

<table>
<thead>
<tr>
<th>Activity</th>
<th>100%</th>
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6. Do you undertake a review of the progress of implementation of RBIA in your Bank?

□ Yes □ No

(a) If Yes, what is the frequency of such a review?

1. Once a year □
2. Once since implementation □
3. More frequently (please specify) □
4. Is this done internally? □ Yes □ No

(b) Has the implementation of RBIA in your bank been in line with the identified Road Map?

□ Yes □ No

If No, what are the major impediments:

□ Shortage of inspectors
□ Skill gaps
□ Increased coverage of regular internal inspection
□ New items of audit/inspection are being introduced
□ Any other (please specify) ________________________________

7. Has any Manual of Inspection / Audit, containing procedures for conduct of RBIA been prepared by your bank?

□ Yes □ No

If Yes, is this done internally? □ Yes □ No

If No, please discuss your plan of action in this regard:

__________________________________________________________________________

__________________________________________________________________________
2. Policy Formulation

1. Have you developed a 'Policy on RBIA?  
   □ Yes □ No

2. If yes, who has developed the RBIA Policy?  
   □ In house □ External agency
   If developed In-house, did you refer to the policies of other banks in India?  
   □ Yes □ No

3. Do you think the Guidance Note of RBI of December 2002 and subsequent clarifications given in February 2005 are sufficient to guide a bank to formulate a policy on RBIA?  
   □ Yes □ No  
   If No, what further guidance is required?

4. Whether the policy on RBIA has been approved by Audit Committee of the Board (ACB) / the Board of Directors (BoD)?  
   □ Yes □ No  
   If Yes, please state the year of approval of the RBIA policy : ____________  
   If No, please state the reason : ________________________________________
5. Does the Policy of your bank detail the following:

1. Objectives of RBIA. □ Yes □ No
2. Scope of RBIA. □ Yes □ No
3. Risk Assessment methodology. □ Yes □ No
4. Preparation of Audit plan. □ Yes □ No
5. Reporting formats under RBIA. □ Yes □ No
6. Follow-up of RBIA report and role of Regional Inspectorate/Regional/Zonal Office □ Yes □ No
7. Review of RBIA implementation and formats. □ Yes □ No
8. Role of Inspection department. □ Yes □ No
9. HR &Organizational aspects of RBIA. □ Yes □ No
10. Any other bank specific guidelines.

6. Has the RBIA Policy initially drafted and adopted by the bank undergone any material changes during its implementation over the years?
□ Yes □ No

3. Risk Assessment.

1. Has your Bank identified the various Risks it faces in its business, as stated under?

   Inherent Business Risks
   
   Capital □ Yes □ No
   Credit □ Yes □ No
   Market □ Yes □ No
   Liquidity □ Yes □ No
Operational □ Yes □ No

Earnings □ Yes □ No

Business Environment & Strategy □ Yes □ No

Group □ Yes □ No

Any other (please specify) _____________________________________________

Control Risks

Internal Control & Housekeeping □ Yes □ No

Organizational □ Yes □ No

Management □ Yes □ No

Compliance □ Yes □ No

Any other (please specify) _____________________________________________

2. Does the bank carry out Risk assessment of various activities/locations?

□ Yes □ No

If Yes, which of these activities are covered under Risk assessment?

1. Branches □ Yes □ No

2. Currency chest □ Yes □ No

3. ATMs □ Yes □ No

4. Controlling offices □ Yes □ No

5. Treasury □ Yes □ No

6. Risk Management department □ Yes □ No

7. Forex department □ Yes □ No

8. Centralized Processing cells □ Yes □ No
9. Merchant Banking & Advisory services □ □ □
10. IT Systems □ □ □
11. Any other □ □ □

3. When is the Risk assessment carried out?
□ Off-site (before conduct of audit)
□ On site (during the audit)
□ At Head office (after on site audit)

4. Who conducts the Risk assessment?
□ Internal audit department
□ Risk management department
□ Controlling office/HO
□ Others, if any (please specify)

5. Is Risk assessment being conducted activity-wise/ location-wise separately for Business risks and Control risks?
□ Yes □ No

6. Which formats for Risk assessment of branches are being used by your bank?

1. Branch as a whole □ Yes □ No
   (Business risks & Control risks of Branch are assessed and Risk assessment rating of branch determined)

2. Functional Areas within a branch □ Yes □ No
   (Business risks & Control risks of Functional areas within a branch like Advances, Cash, Deposits, and Remittances etc are assessed separately and Risk assessment rating of Functional area determined)

3. Inherent Business risks within a branch □ Yes □ No
   (Risk assessment rating of each Inherent Business risk within the branch like Credit, Operational, Earnings etc is determined separately)

4. Business Lines □ Yes □ No

5. Any other (please specify)
7. Does the bank assess the level of Business risks & Control risks separately and rate them as 'Low', 'Medium' or 'High'?  

□ Yes □ No  

If No, what classification is being used by the bank?  

1.  

2.  

3.  

4.  

8. Does the bank incorporate the magnitude of risk based on volume of business or any other factors in determining the level of risk?  

□ Yes □ No  

9. Does the bank prepare the Composite Risk Matrix after assessing the level of Business risks & Control risks separately?  

□ Yes □ No  

10. Does the bank identify the 'Direction' of risk of activity/location into 'Increasing', 'Decreasing' or 'Stable' separately for Business & Control risks?  

□ Yes □ No  

11. Does the bank determine Direction of Composite risk of activity/location?  

□ Yes □ No  

12. Which of the following sources of information are relied upon for Risk assessment in your bank?  

□ Previous internal audit report and compliance  
□ Report of external auditors  
□ Significant change in management / key personnel  
□ Volume of business and complexity of activities – recent trends  
□ Change in business lines or change in business focus  
□ Industry trend and other environmental factors  
□ Any Other (please specify)  

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13. Whether there is a system within the bank of an independent quality check of the 'Risk Assessment Ratings' assigned by the auditors?

□ Yes □ No

14. What are the score ranges being adopted by your bank for determining the level of risk?

Low risk

Medium risk

High risk

Any other? (pi specify)

15. Does your bank adopt the following 'Risk assessment ratings' for branches/functions/activities/locations etc?

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Increasing</th>
<th>Stable</th>
<th>Decreasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely High Risk</td>
<td>□</td>
<td>□</td>
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<tr>
<td>Very High Risk</td>
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<tr>
<td>High Risk</td>
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<tr>
<td>Medium Risk</td>
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</tr>
<tr>
<td>Low Risk</td>
<td>□</td>
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</table>

If No, what rating is used

4. Audit Plan

1. Does the bank prepare an 'Annual Audit Plan'?

□ Yes □ No

2. Is the Annual Audit plan prepared for:

   The Audit Universe (All activities of the bank) □ Yes □ No
   For each activity/location separately □ Yes □ No
3. Is the Annual Audit Plan prepared based on the ‘Risk assessment Ratings’ of the various activities/locations carried out by the bank?

1. Previous Audit ratings □ Yes □ No

2. Risk assessment carried out specifically for preparation of Annual Audit Plan □ Yes □ No

4. If the bank is conducting Risk assessment specifically for preparation of Annual Audit plan, are the formats presently used for risk assessment the same as those used for on-site audit?

□ Yes □ No

5. Are the ‘Risk assessment ratings’ being used in your bank to determine the Priority & Periodicity of audit of various activities/locations as well as the extent of Transaction Testing during on-site audit?

□ Yes □ No

6. Can you outline the yardstick adopted by your bank for determining the ‘Periodicity of audit’ and the ‘Extent of Transaction Testing’ during on-site Audit for the different Risk assessment ratings.

<table>
<thead>
<tr>
<th>Risk assessment Ratings</th>
<th>Periodicity of Audit (Months)</th>
<th>Extent of Transaction Testing (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely High Risk - Increasing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extremely High Risk - Stable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extremely High Risk - Decreasing</td>
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<tr>
<td>Very High Risk - Increasing</td>
<td></td>
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<tr>
<td>Very High Risk - Stable</td>
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<tr>
<td>Very high Risk - Decreasing</td>
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<tr>
<td>High Risk - Increasing</td>
<td></td>
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<td>High Risk - Stable</td>
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<td>High Risk - Decreasing</td>
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<td>Medium Risk - Increasing</td>
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<td>Medium Risk - Stable</td>
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<td>Medium Risk - Decreasing</td>
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<td>Low Risk - Increasing</td>
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<td>Low Risk - Stable</td>
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</tr>
<tr>
<td>Low Risk - Decreasing</td>
<td></td>
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</tr>
</tbody>
</table>
7. Do you have a system in place to ensure that no activity/location is left unaudited for a period beyond 18 months?

☐ Yes  ☐ No

8. Do you make use of the 'Risk Audit Matrix' (as indicated in the RBI Guidance Note of 27/12/2002) to determine the areas that need priority of audit Resources?

☐ Yes  ☐ No

5. Conduct of RBIA, Audit Report, Action Plan & Risk Mitigation

1. What is the scope of 'on-site audit' under RBIA based on:

(a) The off-site Risk Assessment  ☐ Yes  ☐ No
(b) Previous Audit Risk assessment  ☐ Yes  ☐ No
(c) Any other (please specify)  ☐ Yes  ☐ No

2. Is the auditee (such as branch/department)activity/location informed in advance the schedule & scope of RBIA?

☐ Yes  ☐ No

3. Is the extent of transaction testing during on site audit based on the Risk assessment?

☐ Yes  ☐ No

4. Whether any separate format has been developed in your bank to report the Audit findings under RBIA?

☐ Yes  ☐ No

5. Does the RBIA reporting format cover the following:

(a) Process by which Risks are identified  ☐ Yes  ☐ No
(b) Process by which Risks are managed  ☐ Yes  ☐ No
(c) Control environment in various areas  ☐ Yes  ☐ No
(d) Identification of Frauds & Fraud prone areas  ☐ Yes  ☐ No
(e) Data integrity & reliability  ☐ Yes  ☐ No
(f) Integrity of MIS  ☐ Yes  ☐ No
(g) Internal, Regulatory & Statutory compliance  ☐ Yes  ☐ No
(h) Budgetary controls □ Yes □ No
(i) Performance reviews □ Yes □ No
(j) Compliance with earlier RBIA reports □ Yes □ No
(k) Compliance with Money laundering controls □ Yes □ No
(l) Identification of potential Inherent Business risks & Control risks □ Yes □ No
(m) Any other (please specify) ____________________________________________

6. Do you have a system of Interim/Flash report for:
   (a) Reporting major Exceptions & Excesses □ Yes □ No
   (b) Reporting Negative & Sensitive findings □ Yes □ No

7. When is the Audit report under RBIA finalized?
   On site by the Audit team □
   At the Inspectorate □
   At the Head Office (Inspectorate) □
   Any other (please specify) ____________________________________________

8. Before finalization of the Audit report under RBIA, does the audit team have a detailed discussion with the branch manager/operation head explaining its findings and recommendations?
   □ Yes □ No

9. Has your bank identified the “Acceptable level of Risk” for the various risk assessment parameters?
   □ Yes □ No

10. Does the audit team recommend the measures to be taken to Mitigate the risks faced by the auditee activity/location?
    □ Yes □ No

11. Do you feel any need for preparing a “checklist for Risk Mitigation Techniques”?
    □ Yes □ No

If yes, has such checklist been prepared?
    □ Yes □ No

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12. Does the bank prepare a time bound “Action Plan” after completion of RBIA for Risk mitigation/rectification of audit findings?

□ Yes □ No

13. Who is responsible for implementation of this Action plan?

□ Branch functionaries
□ Controlling offices
□ Inspectorate
□ Risk management department
□ Any other (please specify) ________________________________

14. Who monitors the progress in implementation of this Action plan?

□ Branch functionaries
□ Controlling offices
□ Inspectorate
□ Risk management department
□ Any other (please specify) ________________________________

15. Does your Bank undertake a comparison of the Risk assessment for the Audit plan & the Risk assessment under RBIA after 'on site audit'?

□ Yes □ No

If yes, have any material variations been observed;

□ Yes □ No

If Yes, can you outline some of the important reasons for the variations:

□ Incorrect MIS
□ Changes in Management or Key Personnel
□ Change in Focus of Business
□ Change in Control Environment
□ Substantial time lapsed since last risk assessment
□ Compliance reported but actually not carried out
□ Any other (please specify)
16. When is the audit report under RBIA deemed to be closed by the inspectorate?

□ After rectification of major deficiencies
□ After finalization of Action Plan
□ Within a stipulated period
□ Any other (please specify)

17. Do the Regional or Zonal Offices (Operations) make use of the Risk assessment under RBIA for improving the risk profile of the activities under their jurisdiction?

□ Yes □ No

If Yes, please share your experiences regarding the advantages/effectiveness of this methodology:

18. Which audit reports under RBIA are placed before the Audit committee of the Board (ACB)?

□ All RBIA reports are placed before the ACB
□ A summary of the reports is placed before the ACB
□ All High risk & above assessment placed before ACB
□ Reports of high business segments placed before ACB
□ Any other criteria (please specify)

6. Organizational Aspects

1. (a) Whether the ‘Task Force’ of senior executives set up for implementation of RBIA in the bank has identified the transitional and change management issues?

□ Yes □ No

(b) If Yes, please identify the some of the important issues concerning your Bank

□ Training required for RBIA Risk Management
□ Greater focus on Risk Management
□ Better Quality of Manpower for Audit Department
□ CBS will assist in RBIA implementation
□ Format for Risk Assessment
□ Any other (please specify) _____________________________
(c) What are the steps initiated by the bank to address these issues?

- Extensive Training being given to staff/officers
- Formats reviewed and modified for RBIA
- Better quality staff requisitioned
- Any other (please specify)

2. Is there a system in your bank of keeping Internal Audit Department informed of any change in business plans, practices, products and services, risk management tools, changes in reporting lines, changes in accounting practices, policies, by the Top Management, etc.?

- Yes
- No

If Yes, how is this done?

________________________________________________________________________________________

________________________________________________________________________________________

3. Whether any assessment has been done by your bank about the manpower required by the Internal Audit Department for conduct of RBIA keeping in view the special skills required?

- Yes
- No

If Yes, please provide details.

________________________________________________________________________________________

________________________________________________________________________________________

4. (a) Whether the executives manning the various activities/functions/locations are aware of the Risk management Policies & practices of the bank?

- Yes
- No

(b) Whether officers in your bank have been regularly trained to implement & assess the Risk management practices & policies at the branch / functional level?

- Yes
- No
(c) Are the officers in the Inspection department adequately trained to arrive at the level of risk of various activities/functions and prepare the Composite Risk Matrix?

☐ Yes    ☐ No

(d) Has appropriate training been imparted/awareness created to Branch Managers/operational functionaries/senior executives of controlling offices for adoption & successful implementation of RBIA?

☐ Yes    ☐ No

5. Is the technology support provided for conduct of RBIA & Risk assessment adequate in your bank?

☐ Yes    ☐ No

If No, please state any constraints that exist in your bank.

__________________________________________________________________________

6. Has the bank developed/purchased any software for risk assessment under RBIA?

☐ Yes    ☐ No

7. Has the implementation of RBIA in your bank led to:

(a) Heightened awareness of Risk management    ☐ Yes ☐ No
(b) Reduction in time taken for conduct of Audit    ☐ Yes ☐ No
(c) Reduction in manpower requirements of Audit department    ☐ Yes ☐ No
(d) A more focused audit of areas of high risk to bank    ☐ Yes ☐ No
(e) Any other (please specify)

(Note: Wherever possible, kindly provide some estimates of change e.g. 20% reduction in manpower of audit cell etc.)

8. Has the bank undertaken a review of the progress in implementation & effectiveness of RBIA?

☐ Yes    ☐ No
If Yes, how often has the review been made & what are the major findings of the review:

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

9. Please offer any other suggestions/information regarding the implementation and effectiveness of RBIA in your bank.

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
1. Have you studied the RBIA Policy of your bank?
□ Yes □ No

2. Have you gone through the RBI Guidance Note of 27th December 2002 on implementation of Risk Based Internal Audit (RBIA) in banks and the subsequent clarifications of 5th February 2005?
□ Yes □ No

3. Has any Manual of Inspection / Audit, containing procedures for conduct of RBIA been prepared by your bank?
□ Yes □ No

4. Have you studied the RBIA Manual?
□ Yes □ No

5. How is RBIA being conducted in your Bank:

   1. Along with Regular Inspection □ Yes □ No
   2. Independent of Regular Inspection □ Yes □ No

6. Has your bank discontinued any one/more of the following audits after implementation of RBIA?

   Regular Inspection □ Yes □ No
   Concurrent audit □ Yes □ No
   Revenue audit □ Yes □ No
   Credit audit □ Yes □ No
   Stock audit □ Yes □ No
   Management Audit □ Yes □ No
   Any other (pi. specify) □ Yes □ No
7. Have you identified and understood the meaning/application of the various Risks faced by your bank?

- Capital □ Yes □ No
- Credit □ Yes □ No
- Market □ Yes □ No
- Liquidity □ Yes □ No
- Operational □ Yes □ No
- Earnings □ Yes □ No
- Business Environment & Strategy □ Yes □ No
- Group □ Yes □ No
- Internal Control & Housekeeping □ Yes □ No
- Organizational □ Yes □ No
- Management □ Yes □ No
- Compliance □ Yes □ No
- Any other (Specify)---------

8. Have you carried out the Risk assessment of any activities/locations?

□ Yes □ No

If Yes, which of these activities have you covered under Risk assessment?

1. Branches □ Yes □ No
2. Currency chest □ Yes □ No
3. ATMs □ Yes □ No
4. Controlling offices □ Yes □ No
5. Treasury □ Yes □ No
6. Risk Management department □ Yes □ No
7. Forex department □ Yes □ No
8. Centralized Processing cells □ Yes □ No
9. Merchant Banking & Advisory services □ Yes □ No
10. IT Systems □ Yes □ No
11. Any other , specify----
9. When is the Risk assessment carried out?
   □ Off-site (before conduct of audit)
   □ On site (during the audit)
   □ At Head office (after on site audit)

10. Is Risk assessment being conducted activity-wise / location-wise separately for Business risks and Control risks?
   □ Yes □ No

11. Do you prepare the Composite Risk Matrix after assessing the level of Business risks & Control risks separately?
   □ Yes □ No

12. Do you identify the 'Direction' of risk of activity/location into 'Increasing', 'Decreasing' or 'Stable' separately for Business & Control risks?
   □ Yes □ No

13. Do you determine the Direction of Composite risk of activity/location?
   □ Yes □ No

14. Do you assign a 'Risk assessment rating' for branches/functions/activities/locations etc?
   □ Yes □ No

15. Which of the following sources of information do you rely upon for Risk assessment in your bank?
   □ Previous internal audit report and compliance
   □ Report of external auditors
   □ Significant change in management / key personnel
   □ Volume of business and complexity of activities – recent trends
   □ Change in business lines or change in business focus
   □ Industry trend and other environmental factors
   □ Any Other (please specify) ________________________________

16. Whether the MIS available from various sources is adequate and timely to conduct Risk assessment?
   □ Yes □ No

17. Whether there is a system within the bank of an independent quality check or validation of the 'Risk Assessment Ratings' assigned by you?
   □ Yes □ No
18. Do you prepare an "Annual Audit Plan"?
   □ Yes □ No

19. Is the Annual Audit plan prepared for:
   The Audit Universe (All activities of the bank) □ Yes □ No
   For each activity/location separately □ Yes □ No

20. Is the Annual Audit Plan prepared based on the "Risk assessment Ratings" of the various activities/locations carried out by the bank?
   1. Previous Audit ratings □ Yes □ No
   2. Risk assessment carried out specifically for preparation of Annual Audit Plan □ Yes □ No

21. Are the "Risk assessment ratings" being used by you to determine:
   Priority for allocation of audit resources □ Yes □ No
   Periodicity of audit of various activities/locations □ Yes □ No
   Extent of Transaction Testing during on site audit □ Yes □ No

22. Do you make use of the "Risk Audit Matrix" to determine the areas that need priority of audit Resources?
   □ Yes □ No

23. What is the scope of "on-site audit" under RBIA based on:
   (a) The off-site Risk Assessment □ Yes □ No
   (b) Previous Audit Risk assessment □ Yes □ No
   (c) Any other (please specify) □ Yes □ No

24. Is the auditee (such as branch/department) activity/location informed in advance the schedule & scope of RBIA?
   □ Yes □ No

25. Does the RBIA reporting format cover the following:
   (a) Process by which Risks are identified □ Yes □ No
   (b) Process by which Risks are managed □ Yes □ No
   (c) Control environment in various areas □ Yes □ No
   (d) Identification of Frauds & Fraud prone areas □ Yes □ No
   (e) Data integrity & reliability □ Yes □ No
   (f) Integrity of MIS □ Yes □ No
(g) Internal, Regulatory & Statutory compliance □ Yes □ No
(h) Budgetary controls □ Yes □ No
(i) Performance reviews □ Yes □ No
(j) Compliance with earlier RBIA reports □ Yes □ No
(k) Compliance with Money laundering controls □ Yes □ No
(l) Identification of potential Inherent Business risks & Control risks □ Yes □ No
(m) Any other (please specify) ______________________________________

26. Do you have a system of Interim/Flash report for:
   (a) Reporting major Exceptions & Excesses □ Yes □ No
   (b) Reporting Negative & Sensitive findings □ Yes □ No

27. When is the Audit report under RBIA finalized?
   On site by the Audit team □
   At the Inspectorate □
   At the Head Office (Inspectorate) □
   Any other (please specify) ______________________________________

28. Before finalization of the Audit report under RBIA, does the audit team have a detailed discussion with the branch manager/operation head explaining its findings and recommendations?
   □ Yes □ No

29. Has your bank identified the “Acceptable level of Risk” for the various risk assessment parameters?
   □ Yes □ No

30. Does the audit team recommend the measures to be taken to Mitigate the risks faced by the auditee activity/location?
   □ Yes □ No

31. Do you feel any need for preparing a checklist for Risk Mitigation Techniques’?
   □ Yes □ No

   If yes, has such checklist been prepared?
   □ Yes □ No

32. Does the bank prepare a time bound “Action Plan” after completion of RBIA for Risk mitigation/rectification of audit findings?
   □ Yes □ No
33. Who is responsible for implementation of this Action plan?
   □ Branch functionaries
   □ Controlling offices
   □ Inspectorate
   □ Risk management department
   □ Any other (please specify) ______________________

34. Who monitors the progress in implementation of this Action plan?
   □ Branch functionaries
   □ Controlling offices
   □ Inspectorate
   □ Risk management department
   □ Any other (please specify) ______________________

35. Does your Bank undertake a comparison of the Risk assessment for the Audit plan & the Risk assessment under RBIA after ‘on site audit’?
   □ Yes □ No

   If yes, have any material variations been observed;
   □ Yes □ No

   If Yes, can you outline some of the important reasons for the variations:
   □ Incorrect MIS
   □ Changes in Management or Key Personnel
   □ Change in Focus of Business
   □ Change in Control Environment
   □ Substantial time lapsed since last risk assessment
   □ Compliance reported but actually not carried out
   □ Any other (please specify)

36. When is the audit report under RBIA deemed to be closed by the inspectorate?
   □ After rectification of major deficiencies
   □ After finalization of Action Plan
   □ Within a stipulated period
   □ Any other (please specify)

37. Do the Regional or Zonal Offices (Operations) make use of the Risk assessment under RBIA for improving the risk profile of the activities under their jurisdiction?
   □ Yes □ No
If Yes, please share your experiences regarding the advantages/effectiveness of this methodology:

38. Is there a system in your bank of keeping Internal Audit Department informed of any change in business plans, practices, products and services, risk management tools, changes in reporting lines, changes in accounting practices, policies, by the Top Management, etc.?

☐ Yes ☐ No

39. Whether any assessment has been done by your bank about the manpower required by the Internal Audit Department for conduct of RBIA keeping in view the special skills required?

☐ Yes ☐ No

40. (a) Whether the executives manning the various activities/functions/locations are aware of the Risk management Policies & practices of the bank?

☐ Yes ☐ No

(b) Whether officers in your bank have been regularly trained to implement & assess the Risk management practices & policies at the branch / functional level?

☐ Yes ☐ No

(c) Are the officers in the Inspection department adequately trained to arrive at the level of risk of various activities/functions and prepare the Composite Risk Matrix?

☐ Yes ☐ No

(d) Has appropriate training been imparted/awareness created to Branch Managers/operational functionaries/ senior executives of controlling offices for adoption & successful implementation of RBIA?

☐ Yes ☐ No

41. Is the technology support provided for conduct of RBIA & Risk assessment adequate in your bank?

☐ Yes ☐ No

If No, please state any constraints that exist in your bank.
42. Has the bank developed/purchased any software for risk assessment under RBIA?
   □ Yes       □ No

43. Has the implementation of RBIA in your bank led to:
   (a) Heightened awareness of Risk management  □ Yes □ No
   (b) Reduction in time taken for conduct of Audit  □ Yes □ No
   (c) Reduction in manpower requirements of Audit department  □ Yes □ No
   (d) A more focused audit of areas of high risk to bank  □ Yes □ No
   (e) Any other (please specify)

   (Note: Wherever possible, kindly provide some estimates of change e.g. 20% reduction in manpower of audit cell etc.)

44. Please offer any other suggestions/information regarding the implementation and effectiveness of RBIA in your bank.

_______________________________________________________________________________

_______________________________________________________________________________

_______________________________________________________________________________

Name: ____________________________

Designation: _______________________

Name of Bank: _______________________

Signature: __________________       Date: ________________

Kindly forward the filled in questionnaire by email to rbia@nibmindia.org or by post to:
Shri Vijay K Khanna, Associate Professor,
National Institute of Bank Management
NiIBM Post Office, Kondhwe Khurd, Pune 411 048
ANNEXURE III

List of Executives met by Researcher for Discussions

Banks:

1. Shri R G Kulkarni
   Senior Manager
   Audit & Inspection Department
   Central Bank of India
   Navi Mumbai

2. Shri S S Jadhav
   AGM
   Zonal Audit office
   Union Bank of India
   Pune

3. Shri R S Kulkarni
   DGM
   Inspection & Audit
   Head office
   Bank of Maharashtra
   Pune

4. Shri S N Verma
   General Manager
   Inspection & Audit
   Punjab National Bank
   New Delhi

5. Shri M S Shetty
   General Manager
   Inspection
   Oriental Bank of Commerce
   New Delhi

6. Shri Jaideep Kaul
   Vice President
   Internal Audit office
   Axis bank
   New Delhi
7. Shri G B Shenoy  
Chief Manager  
Central Inspection department  
Vijaya Bank  
Bangalore

8. Shri M B V Subba Rao  
Chief Manager  
Inspection department  
Head Office  
Syndicate Bank  
Manipal

Reserve Bank of India

1. Ms Theresa Karunakaran  
General Manager  
Department of Banking Supervision  
Central Office  
Reserve Bank of India  
Mumbai

2. Shri A K Choudhary  
Deputy General Manager  
Department of Banking Supervision  
Central Office  
Reserve Bank of India  
Mumbai

3. Ms R Devi  
Deputy General Manager  
Department of Banking Supervision  
Reserve Bank of India  
Ahmedabad
### Annexure IV

**Responses Received from following Banks**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Allahabad</td>
<td>Andhra Bank</td>
<td>Bank of Baroda</td>
<td>Bank of India</td>
<td>BOM</td>
<td>Canara</td>
<td>Central Bank</td>
<td>Corporation</td>
<td>Dena</td>
<td>Indian</td>
<td>Indian Overseas</td>
<td>OBC</td>
<td>PNB</td>
<td>Syndicate Bank</td>
<td>UCO</td>
<td>United</td>
<td>Union</td>
<td>Vijaya</td>
<td>SBI</td>
<td>SBBJ</td>
<td>SBM</td>
<td>SBT</td>
<td>SB Indore</td>
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</table>
## ANNEXURE V

### BANK RATINGS - SCORE SHEET SUMMARY

<table>
<thead>
<tr>
<th>S.No</th>
<th>Title</th>
<th>Max. Marks</th>
<th>Marks Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Implementation of Risk Based Internal Audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Was a Task Force of Senior executives formed in your bank to chalk out an Action Plan for implementation of Risk Based Internal Audit (RBIA)?</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Has your bank drawn up a 'Road Map' for implementation of RBIA?</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If yes, in which of the following locations/activities of the Bank has RBIA been implemented?</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>a.</td>
<td>Branches</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Currency Chest</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>ATMs</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Controlling Offices</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>Treasury</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>f.</td>
<td>Risk Management Department</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>g.</td>
<td>Forex Department</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>h.</td>
<td>Centralized Processing Cells</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>i.</td>
<td>Merchant Banking &amp; Advisory Services</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>j.</td>
<td>IT Systems</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>How is RBIA being conducted in your Bank</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>What is expected to be the coverage of locations/activities under RBIA by 31st March, 2009? (By number of branches/locations etc)</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>a.</td>
<td>Branches</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Currency Chest</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>ATMs</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Controlling Offices</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>Treasury</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>f.</td>
<td>Risk Management Department</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>g.</td>
<td>Forex Department</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>h.</td>
<td>Centralized Processing Cells</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>i.</td>
<td>Merchant Banking &amp; Advisory Services</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>j.</td>
<td>IT Systems</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Do you undertake a review of the progress of implementation of RBIA in your Bank?</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Has the implementation of RBIA in your bank been in line with the identified Road Map?</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Has any Manual of Inspection / Audit, containing procedures for conduct of RBIA been prepared by your bank?</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>SUB-TOTAL (A)</strong></td>
<td><strong>260</strong></td>
<td></td>
</tr>
</tbody>
</table>
### Policy Formulation

1. Have you developed a 'Policy on RBIA'?  
2. Whether the policy on RBIA has been approved by Audit Committee of the Board (ACB) / the Board of Directors (BoD)?  
3. Has the RBIA Policy initially drafted and adopted by the bank undergone any material changes during its implementation over the years?

**SUB-TOTAL (B)** 30

### Risk Assessment

1. Has your Bank identified the various Risks it faces in its business, as stated under?

#### Inherent Risks
- Capital 5
- Credit 5
- Market 5
- Liquidity 5
- Operational 5
- Earnings 5
- Business Environment & Strategy 5
- Group 5

#### Control Risks
- Internal Control & Housekeeping 5
- Organizational 5
- Management 5
- Compliance 5

2. Does the bank carry out Risk assessment of various activities/locations? If yes, which of these activities are covered under Risk assessment?

- Branches 30
- Currency Chest 5
- ATMs 5
- Controlling Offices 5
- Treasury 15
- Risk Management Department 10
- Forex Department 10
- Centralized Processing Cells 5
- Merchant Banking & Advisory Services 5
- IT Systems 10

3. When is the Risk assessment carried out?  
4. Who conduct the Risk assessment  
5. Is Risk assessment being conducted activity-wise / location-wise separately for Business risks and Control risks?  
6. Does the bank assess the level of Business risks & Control risks separately and rate them as 'Low', 'Medium' or 'High'?  
7. Does the bank incorporate the magnitude of risk based on volume of business and any other factors in determining the level of risk?
<table>
<thead>
<tr>
<th></th>
<th>Question</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td>Does the bank prepare the Composite Risk Matrix after assessing the level of Business risks &amp; Control risks separately?</td>
<td>10</td>
</tr>
<tr>
<td>10.</td>
<td>Does the bank determine Direction of Composite risk of activity/location?</td>
<td>10</td>
</tr>
<tr>
<td>11.</td>
<td>Whether there is a system within the bank of an independent quality check of the ‘Risk Assessment Ratings’ assigned by the auditors?</td>
<td>10</td>
</tr>
<tr>
<td>12.</td>
<td>Does your bank adopt the following ‘Risk assessment ratings’ for branches/functions/activities/locations etc?</td>
<td>20</td>
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</tbody>
</table>

**SUB-TOTAL (C) 320**

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
<th>Score</th>
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<tbody>
<tr>
<td>D</td>
<td>Audit Plan</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Does the bank prepare an ‘Annual Audit Plan’?</td>
<td>10</td>
</tr>
<tr>
<td>2.</td>
<td>Is the Annual Audit plan prepared for:</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>The Audit Universe</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For each activity/location separately</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Is the Annual Audit Plan prepared based on the ‘Risk assessment Ratings’ of the various activities/locations carried out by the bank?</td>
<td>10</td>
</tr>
<tr>
<td>4.</td>
<td>If the bank is conducting Risk assessment specifically for preparation of Annual Audit plan, are the formats presently used for risk assessment the same as those used for on-site audit?</td>
<td>10</td>
</tr>
<tr>
<td>5.</td>
<td>Are the ‘Risk assessment ratings’ being used in your bank to determine the Priority &amp; Periodicity of audit of various activities/locations as well as the extent of Transaction Testing during on site audit?</td>
<td>10</td>
</tr>
<tr>
<td>6.</td>
<td>Do you have a system in place to ensure that no activity/location is left unaudited for a period beyond 18 months?</td>
<td>10</td>
</tr>
<tr>
<td>7.</td>
<td>Do you make use of the ‘Risk Audit Matrix’ (as indicated in the RBI Guidance Note of 27/12/2002) to determine the areas that need priority of audit Resources?</td>
<td>10</td>
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</table>

**SUB-TOTAL (D) 70**
### E. RBIA Report and Closure

<p>| | | |</p>
<table>
<thead>
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<tbody>
<tr>
<td>1.</td>
<td>What is the scope of <code>on-site audit</code> under RBIA based on:</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>The off-site Risk Assessment</td>
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</tr>
<tr>
<td></td>
<td>Previous Audit Risk Assessment</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Is the auditee (such as branch/department) activity/location informed in advance the schedule &amp; scope of RBIA?</td>
<td>10</td>
</tr>
<tr>
<td>3.</td>
<td>Is the extent of transaction testing during on site audit based on the Risk Assessment?</td>
<td>10</td>
</tr>
<tr>
<td>4.</td>
<td>Whether any separate format has been developed in your bank to report the Audit findings under RBIA?</td>
<td>10</td>
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<tr>
<td>5.</td>
<td>Do you have a system of Interim/Flash report for:</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Reporting major Exceptions &amp; Excesses</td>
<td></td>
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<td></td>
<td>Reporting Negative &amp; Sensitive findings</td>
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<tr>
<td>6.</td>
<td>Before finalization of the Audit report under RBIA, does the audit team have a detailed discussion with the branch manager/operation head explaining its findings and recommendations?</td>
<td>10</td>
</tr>
<tr>
<td>7.</td>
<td>Has your bank identified the &quot;Acceptable level of Risk&quot; for the various risk assessment parameters?</td>
<td>20</td>
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<tr>
<td>8.</td>
<td>Does the audit team recommend the measures to be taken to Mitigate the risks faced by the auditee activity/location?</td>
<td>10</td>
</tr>
<tr>
<td>9.</td>
<td>Do you feel any need for preparing a <code>checklist for Risk Mitigation Techniques</code>? If yes, has such checklist been prepared?</td>
<td>10</td>
</tr>
<tr>
<td>10.</td>
<td>Does the bank prepare a time bound &quot;Action Plan&quot; after completion of RBIA for Risk mitigation/rectification of audit findings?</td>
<td>10</td>
</tr>
<tr>
<td>11.</td>
<td>Who monitors the progress in implementation of this Action plan?</td>
<td>10</td>
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<tr>
<td>12.</td>
<td>Does your Bank undertake a comparison of the Risk assessment for the Audit plan &amp; the Risk assessment under RBIA after `on site audit'?</td>
<td>10</td>
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<tr>
<td>13.</td>
<td>When is the audit report under RBIA deemed to be closed by the inspectorate?</td>
<td>10</td>
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<tr>
<td>14.</td>
<td>Do the Regional or Zonal Offices (Operations) make use of the Risk assessment under RBIA for improving the risk profile of the activities under their jurisdiction?</td>
<td>20</td>
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<tr>
<td><strong>SUB-TOTAL (E)</strong></td>
<td><strong>170</strong></td>
<td><strong>238</strong></td>
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<tr>
<td></td>
<td>Organizational Aspects</td>
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<tr>
<td>---</td>
<td>----------------------------------------------------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>1.</td>
<td>Whether the ‘Task Force’ of senior executives set up for implementation of RBIA in the bank has identified the transitional and change management issues?</td>
<td>10</td>
</tr>
<tr>
<td>2.</td>
<td>What are the steps initiated by the bank to address these issues?</td>
<td>20</td>
</tr>
<tr>
<td>3.</td>
<td>Is there a system in your bank of keeping Internal Audit Department informed of any change in business plans, practices, products and services, risk management tools, changes in reporting lines, changes in accounting practices, policies, by the Top Management, etc.?</td>
<td>10</td>
</tr>
<tr>
<td>4.</td>
<td>Whether any assessment has been done by your bank about the manpower required by the Internal Audit Department for conduct of RBIA keeping in view the special skills required?</td>
<td>10</td>
</tr>
<tr>
<td>5.</td>
<td>Whether the executives manning the various activities/functions/locations are aware of the Risk management Policies &amp; practices of the bank?</td>
<td>10</td>
</tr>
<tr>
<td>6.</td>
<td>Whether officers in your bank have been regularly trained to implement &amp; assess the Risk management practices &amp; policies at the branch / functional level?</td>
<td>10</td>
</tr>
<tr>
<td>7.</td>
<td>Are the officers in the Inspection department adequately trained to arrive at the level of risk of various activities/functions and prepare the Composite Risk Matrix?</td>
<td>10</td>
</tr>
<tr>
<td>8.</td>
<td>Has appropriate training been imparted/awareness created to Branch Managers/operational functionaries/ senior executives of controlling offices for adoption &amp; successful implementation of RBIA?</td>
<td>10</td>
</tr>
<tr>
<td>9.</td>
<td>Is the technology support provided for conduct of RBIA &amp; Risk assessment adequate in your bank?</td>
<td>30</td>
</tr>
<tr>
<td>10.</td>
<td>Has the bank developed/purchased any software for risk assessment under RBIA?</td>
<td>20</td>
</tr>
<tr>
<td>11.</td>
<td>Has the bank undertaken a review of the progress in implementation &amp; effectiveness of RBIA?</td>
<td>10</td>
</tr>
<tr>
<td>SUB-TOTAL (E)</td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>1000</td>
</tr>
</tbody>
</table>
# ANNEXURE VI

## 5 day training module on Risk Based Internal Audit in Banks

<table>
<thead>
<tr>
<th>Day</th>
<th>No of sessions</th>
<th>Topic</th>
<th>Learning objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Linkages between RBIA &amp; RBS under Basel II</td>
<td>The genesis of RBIA lies in RBS. An overview of the &quot;Core Principles of Bank supervision&quot;</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>Move towards Risk based Supervision</td>
<td>Bank level preparedness for implementation of RBS and it's framework</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Risk faced by banks</td>
<td>An overview of important Business risks and Control risks in banks</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Credit risk</td>
<td>Measurement and management of Credit risk in banks</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Liquidity &amp; Market risk</td>
<td>Components and measurement</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>Operational risk</td>
<td>Measurement and management</td>
</tr>
<tr>
<td>3</td>
<td>2</td>
<td>Earnings risk, Business strategy &amp; environment risk</td>
<td>Measurement and management</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>Capital &amp; Group risk</td>
<td>An overview</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>Framework of RBIA</td>
<td>Understanding the RBIA framework as per the RBI guidance note by a step by Step approach</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>Off-site risk assessment</td>
<td>Conduct of off-site risk assessment step by step through a case study</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>Annual Audit plan</td>
<td>Preparation of Annual audit plan based on off-site risk assessment</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>On-site audit and risk assessment</td>
<td>Scope and conduct based on off-site risk assessment</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>Audit report &amp; risk mitigation</td>
<td>Report finalization based on on-site audit, risk assessment &amp; exit meeting</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>Monitor able action plan</td>
<td>Finalization of MAP based on report and discussions with Controlling offices</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>Closure of audit report</td>
<td>Criterion for closure</td>
</tr>
</tbody>
</table>