

**RBI Working Group on Risk based  
Internal Inspection/Audit in Banks**

**November 29, 2000**

The Reserve Bank of India has set up a multi-disciplinary working group to look into introduction of risk based internal inspection/audit in banks in India and to make suitable recommendations. The composition of the Working Group is:

1. Shri G. Sitharaman : Chairman  
President  
The Institute of Chartered Accountants of India
2. Shri K. L. Khetarpaul : Member  
Chief General Manager-in-Charge  
Reserve Bank of India  
Department of Banking Supervision  
Central Office, Mumbai
3. Shri A. L. Narasimhan : Member  
Chief General Manager  
Reserve Bank of India  
Department of Banking Operations & Development  
Central Office, Mumbai
4. Shri N. L. Ajwalia : Member  
General Manager  
Bank of India, Head Office, Mumbai
5. Shri N. S. Srinivasan : Member  
General Manager  
Bank of Baroda  
Head Office, Mumbai
6. Shri R. Nagarajan : Member  
Dy. General Manager  
State Bank of India
7. Shri R. M. Thakkar : Member-Secretary  
Dy. General Manager  
Reserve Bank of India  
Department of Banking Supervision  
Mumbai

Secretarial support to the Working Group will be provided by the Central Office of the Department of Banking Supervision of the Reserve Bank of India. The terms of reference of the Working Group are :

1. To examine the applicability of the risk based internal audit and to propose the methodology for implementing the shift in focus from transaction to risk based approach.
2. To prepare guidelines to be issued to the banks with regard to risk assessment methodology and audit plan.
3. To suggest modifications with regard to the existing internal audit practices in banks which may be required to implement the shift in focus to risk based approach.
4. To outline timeframe and sequencing of the measures required for implementation of the Group's recommendations.
5. Any other matter which the Working Group may think as of relevance to risk based internal audit in the banks.

The Working Group at its first meeting may decide the exact issues for deliberation within the parameters outlined above. The Group will submit its report by January 31, 2001.

Internal audit procedures have been defined as an independent, objective assurance and consultative activity. These procedures help an organisation to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Adherence to the internal operational guidelines and procedures has gained more importance in recent times in view of the deregulatory process initiated by the Reserve Bank of India in important areas of banking operations, particularly in regard to prudential concerns and risk management practices. Recent international experience has also highlighted the need to have risk based internal inspection/audit in the banks. The Basel Committee on Banking Supervision, used in July 2000 a consultative paper on 'Internal Audit in Banking Organisations and the Relationship of the Supervisory Authorities with Internal and External Auditors'. The paper lays emphasis on risk focussed internal audit.

**Alpana Killawala**  
**General Manager**

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