

LONG FORM AUDIT REPORT OF BANK BRANCHES

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INTRODUCTION

- Introduced in 1985 by RBI
- Report on adherence to Internal Control Measures
- Revised in 2003
- To be submitted by Concurrent Auditors' for Branches below cut off point

APPROACH TO LFAR

- ➡ Study LFAR Questionnaire
 - ✓ Limits fixed / Instructions of controlling authority
 - ✓ Answers based on opinion
 - ✓ Answers based on Test Checks
 - ✓ Answers based on System in Operation
 - ✓ Questions relating to suggestions
- ➡ LFAR questions are only indicative in nature.

APPROACH TO LFAR

- ➡ Plan LFAR work
- ➡ Ask information on day one of Audit
- ➡ Do simultaneously with main audit
- ➡ No vague or general comments

APPROACH TO LFAR

- Shortcoming/weaknesses/reservations / adverse comments with reasons
- Do not copy from previous year
- Repeat major qualifications in main report

APPROACH TO LFAR

- ➡ Discuss contents with branch head
- ➡ Make correct representation of facts
- ➡ Give bank's point of view
- ➡ Give specific disclosures on nature and extent of work done and limitations
- ➡ Give disclaimer for non-availability of records

CASH

- ➡ Balance in excess of limit fixed
- ➡ Adequate Insurance cover
- ➡ Effective joint custody
- ➡ Verification at periodic intervals

BALANCES WITH BANKS

- ➡ Confirmation
- ➡ Reconciliation differences
- ➡ Observations on reconciliation statements
- ➡ Items requiring special attention

MONEY AT CALL AND SHORT NOTICE

- ➡ Whether Money kept at call or short notice
- ➡ Whether instructions/guidelines followed

INVESTMENTS – BRANCHES IN INDIA

- ➡ Physical Verification
- ➡ Receipt of Income
- ➡ Claim for maturity
- ➡ Overdue status
- ➡ RBI Guidelines

INVESTMENTS – BRANCHES OUTSIDE INDIA

- ▶ Purchase/Sale within delegated authority and as per Guidelines
- ▶ Whether held on own account or on behalf of H.O.
- ▶ Evidence of possession and valuation
- ▶ Matured or overdue Investments

ADVANCES - COVERAGE

- Checking of large advances and test check of other advances
- To report adverse features
- To give instances giving rise to reservations and remarks
- Outstanding amount in excess of 5% or Rs.2 Crores whichever is less

ADVANCES – CREDIT APPRAISAL

- ➡ Compliance with instructions of Controlling authorities
 - ✓ Loan Application
 - ✓ Proposal for grant/renewal
 - ✓ Enhancement
 - ✓ Adequate appraisal
 - ✓ Documentation

ADVANCES – SANCTIONING/DISBURSEMENT

- ➡ Beyond Delegated Authority
- ➡ Disbursement without complying with Terms and Conditions of Sanction
 - ✓ Promoter's Contribution
 - ✓ Inspection
 - ✓ Security
 - ✓ End-use
 - ✓ Confidential Report/No dues Certificates

ADVANCES – DOCUMENTATION

- ➡ Credit facility released without execution of documents
- ➡ Incomplete Documents
- ➡ Deficiencies in Documentation
- ➡ Registration of charges
- ➡ Lien Noting

ADVANCES – REVIEW / MONITORING / SUPERVISION

- ➡ Procedure for periodic review
- ➡ Periodic balance confirmation
- ➡ Overdue for review / renewal
- ➡ Stock / Book debt statements, operational data and financial statements scrutiny
- ➡ Stock Auditor's Report

ADVANCES – REVIEW / MONITORING / SUPERVISION

- ➡ Advances to Non-Corporate entities
- ➡ Verification of Securities charged to the bank
- ➡ Valuation and Inspection of Securities
- ➡ Frequent overdrawing beyond limits
- ➡ Lease Financing
- ➡ Recovery of Credit Card Dues

ADVANCES – REVIEW / MONITORING / SUPERVISION

- ➡ Classification of advances into Standard and NPAs
- ➡ Memorandum of Changes
- ➡ Legal actions/ Recalling of advances
- ➡ Reporting of NPAs and progress of rehabilitation

ADVANCES – REVIEW / MONITORING / SUPERVISION

- ➡ Claims with CGC/DICGC
- ➡ Valuation of Non-performing assets
- ➡ Compromise/settlement and write-off
- ➡ Major deficiencies in credit review, monitoring and supervision

ADVANCES – GUARANTEES AND LETTERS OF CREDIT

- ➡ Details of outstanding amounts of guarantee invoked and funded by branch
- ➡ Details of outstanding amounts of L/Cs and co-acceptance funded by branch

OTHER ASSETS – STATIONERY AND STAMPS

- ➡ Internal control over security items of stationery and stamps
- ➡ Missing/lost items of sensitive stationery

OTHER ASSETS – SUSPENSE ACCOUNTS AND SUNDRY ASSETS

- ➡ Expeditious clearance
- ➡ Details of old outstanding with reasons for delay in adjustment
- ➡ Provision /write-off
- ➡ Nature and amount of unusual items

LIABILITIES - DEPOSITS

- ➡ Conduct and Operations of inoperative accounts
- ➡ Unusual large movements in aggregate deposits
- ➡ Overdue/matured deposits

LIABILITIES – OTHER LIABILITIES

- ➡ Bills payable, Sundry Deposits etc.
- ✓ Number of items and amount of old outstanding pending for three years or more
- ✓ Unusual items or material withdrawal or debits – Nature and amounts

LIABILITIES: CONTINGENT LIABILITIES

- ➡ Major items reported (Other than LCs, Guarantees, Acceptances, Endorsements etc.)
- ➡ Items not identified by the Branch

PROFIT & LOSS ACCOUNT

- ➡ Timely adjustment in Discrepancies in Interest/Discount on advances
- ➡ Findings on excess/short credit of material amounts
- ➡ Compliance with Income Recognition Norms for charging of interest on NPAs

PROFIT & LOSS ACCOUNT

- ➡ Timely adjustment in discrepancies in interest on deposits
- ➡ Excess short debit of material amount
- ➡ Estimation and provision of interest on overdue/matured term deposits
- ➡ Divergent trends in Income/Expenditure

GENERAL – BOOKS AND RECORDS

- ➡ Scrutiny of manual accounts and authorization thereof
- ➡ For computerized branches
 - ✓ Printing of Hard Copies of Accounts
 - ✓ Extent of Computerization and areas of operation covered

GENERAL – BOOKS AND RECORDS

- ➡ For computerized branches ..Contd
 - ✓ Adequacy of access and data security measures and other internal controls
 - ✓ Back up and off-site storage
 - ✓ Adequacy of contingency and disaster recovery plan
 - ✓ Suggestions for improvement

GENERAL – RECONCILIATION

- ➡ Reconciliation of control and subsidiary record
- ➡ Daily forward of transaction with H.O.
- ➡ Check balance in Head Office account agrees with H.O. Accounts
- ➡ Clearance of outstanding entries in inter branch transaction
- ➡ Double responses
- ➡ Old/Large outstanding/entries

GENERAL – AUDIT / INSPECTION

- Whether branch covered under Concurrent Audit
- Consideration major adverse comments from reports of other auditors and of RBI Inspection
- Reporting of persistent adverse features

GENERAL – FRAUDS

- ➡ Frauds discover during the year
- ➡ Suggestions on prevention

GENERAL – MISCELLANEOUS

- Indicating possible window dressing
- Fixed Assets record
- Compliance with Anti Money Laundering Law
- Compliance with Know Your Customer (KYC Norms)

THANK YOU.

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