

## LONG FORM AUDIT REPORT – LFAR FOR BANK BRANCHES



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Long form Audit Report (LFAR) is Management Report submitted by Bank Auditors at Branch level. Reserve Bank of India had originally introduced system of LFAR submission by auditors in way back in 1985, same was subsequently revised in 1993, 2003 and 2020.

Branches LFAR are consolidated and Bank level LFAR is prepared. For branches that are below cut off level for statutory audit, LFAR is to be prepared by concurrent auditors. LFAR serves as vital tool for auditors and their team members, Auditors have to offer comments / feedback on the Profit & Loss Account, Balance sheet, Advances and all other matters. LFAR has questions for specialised branches such as Forex Branches, Service Branches and Branches having large advances. Normally auditors verify and offer their comments on the details complied by the branch management.

Normally audit team should go through LFAR well in advance and study the same thoroughly. Before any area is started, questions to be answered in LFAR should be kept in mind. Check list based on questions can be prepared same will help as ready tool for verification of that area by audit team. While replying to the questions LFAR auditor must be clear in his thoughts and to the point. Answer should be descriptive and Yes / NO/ Not applicable type of replies should be avoided. General comments / copy paste of previous should be strictly avoided. All irregularities pointed out should be specific and given with examples. Many time auditors are giving cross references in LFAR / of LFAR in other report, that needs to be avoided. Main Auditors Report is self-contained document. Same way matters of Main Statutory Auditors Report should not be reported in LFAR. Matter concerning subject of qualification and affecting true & fair view should be reported only in Main Auditor's Report. In whole exercise of Bank audit, Documentation plays very important role. Auditors should collect all important documents and create proper working papers. All documents should be persevered as required by SAs.

The overall objective of the branch audit should be to have transaction testing and provide inputs to the Statutory central Auditors on adequacy of implementation of various policy and regulatory requirements, including efficacy of the system and assurance functions (risk management, compliance and internal audit) at branch level. The threshold fixed for different purposes for comments in the LFAR will decide that above the threshold, the transaction detailing needs to be seen and commented upon. However, below the threshold, the system and processes should be checked and commented upon. Verification of data integrity and data related control systems and processes should be carried out and commented upon, with the special thrust on those data inputs which are to be used for MIS at corporate office level and for supervisory reporting purpose.

Where any of the comments made by the auditors in their LFAR is adverse, they should consider whether a qualification in their main report is necessary. It should not, however, be assumed that every adverse comment in the LFAR would necessarily result in a qualification in the main report. In deciding whether a qualification in the main report is necessary, the auditors should use their professional judgment in the facts and circumstances of each case

Following points are to be kept in mind while making audit plan and doing actual verification

I - Assets	1. CASH
<p>Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?</p>	<p>Do Cash verification surprise or at very short notice and when if cashier is not ready seat there in cash cabin so that no time is available to manage anything in actual cash and book balance. Always check few days entries in cash scroll (if maintained) and main cash book. If cash handled directly through entries CBS, check currency note denominations are entered in system or not?</p> <p>Verify the cash retention limits fixed for branch including ATM and exertion counters if any.</p> <p>Check cash balance for the year under audit and report excess cash hold if any.</p> <p>Check whether excess holding is reported in head office or not?</p> <p>Give your any other observations on cash handling</p>
<p>Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit</p>	<p>Cash Insurance is normally taken at Head office level. Hence include the point in management representation regarding the same.</p> <p>Verify Insurance Policy / Head office letter for insurance cover for branch and in transit.</p> <p>Verify cash in hand, it should be within insured limits and give your comments based on your verification of facts.</p> <p>Check cash in transit point in insurance as many branches will transfer cash from main branch to location of ATMs.</p>
<p>Does the system ensure that cash maintained is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?</p>	<p>Verify the facts through records kept for cash custody / changes in custody.</p> <p>Whenever cashier changes/ goes on leave, check key exchange between those two persons are recorded in register.</p>
<p>Does the figure of the balance in the branch books in respect of cash with its ATM(s) tally with the amounts of balances with the respective ATMs, based on the year end scrolls generated by the ATMs? If there is any difference, same should be reported.</p>	<p>Conduct physical verification of cash at branch and at ATMs</p> <p>Find out what is the policy of Bank with regards to cash verification by senior staff.</p> <p>Confirm whether such verification has been conducted during the year? Verify the records maintained of cash verification.</p>

I - Assets	2. Balance with RBI, SBI and Other Banks
<p>Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.</p>	<p>Find out whether branch has any accounts with RBI/ SBI / Other banks. Call for Balance confirmation Certificates and verify the same with books. If balance is not tallied call for Reconciliation and check the same is tallied.</p> <p>Must see that confirmation date is 31<sup>st</sup> March and not prior to that as many a time at year end charges are debited by RBI/SBI which needs to be booked as expenses.</p> <p>Report on transactions appearing in reconciliation</p> <p>Review reconciliation process and comment. There should not be delay in reconciliation.</p>
<p>Observations on the reconciliation statements may be reported in the following manner:</p> <ul style="list-style-type: none"> <li>(i) Cash transactions remaining un-responded (give details)</li> <li>(ii) Revenue items requiring adjustments / write off (give details)</li> <li>(iii) Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days</li> <li>(iv) Where the branch maintains an account with RBI, the following additional matter may be reported: Entries originated prior to, but communicated / recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest attached to such branches (Give details)</li> </ul>	<p>Auditor should verify that there are no abnormal items in Reconciliation. If there are any charges lying in reconciliation or old debit entries same should be provided for.</p> <p>Verify the Cash transactions remaining un-responded. Normally on second or third day response comes for yearend transactions. Report un-responded transactions at the yearend in LFAR.</p>
<p>In case, any matter deserves special attention of the management, the same may be reported</p>	<p>Any other item which may be reported to controlling office</p>

I - Assets	3. Money at Call and Short Notice
Has the branch kept money at call and short notice during the year?	<p>Normally there are no Money at call and short notice transaction at normal branches. Verify whether the branch has such transactions. If yes, verify all RBI / Bank's guidelines are followed.</p> <p>Conduct verification of the transactions with deal ticket, ledger accounts.</p>
Has the year-end balance been duly confirmed and reconciled?	Check year-end balance, it needs to be reconciled at year end.
Has interest accrued up to the year-end been properly recorded?	In case of money kept at year end, auditor needs to check interest accrued up to the year-end has been properly recorded.
Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with?	<p>Call for Bank's Polices and Check Bank Policies are being followed.</p> <p>Report Non-compliances if any.</p>
I - Assets 4. Investments	
Questions are for Investments (for branches outside India)	The same are not covered here in this article.
I - Assets 5. Advances	
<p><b>General Instructions</b></p> <p>I) The answers to the following questions may be based on the auditor's examination of all large advances.</p> <p>For this purpose, large advances are those in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less.</p> <p>Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.</p> <p>(ii) The critical comments based on the review of the above and other test check should be given in respective paragraphs as given in LFAR given below.</p>	

<b>(a) List of accounts examined for audit</b>				
<b>Account No.</b>	<b>Account Name</b>	<b>Balance as at year end - Funded</b>	<b>Balance as at year end - Nonfunded</b>	<b>Total</b>
Total		A	B	$C = A + B$
Total Outstanding of the branch		X	Y	$Z = X + Y$
Percentage examined		A as % of X	B as % of Y	C as % of Z
<b>Credit Appraisal</b>				
<p>In your opinion, has the branch generally complied with the procedures/ instructions of the controlling authorities of the bank regarding loan applications, preparation of proposals for grant / renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof. What, in your opinion, are the major shortcomings in credit appraisal, etc.</p>		<p>Carryout test check in advances verification and list all deficiencies which you found and based area in which there is a deficiency report that.</p> <p>For credit appraisal, verify the process to be carryout pre sanction and check whether the same is followed or not? Check all required documents are collected for appraising particular loan. Requisite Application Forms duly filled are collected.</p> <p>Document number of borrower accounts checked and then comment in separate annexure, giving details of account such as name, account number, sanctioned limits, balance outstanding, and your observations. Give reference of the annexure in this point.</p> <p>List major shortcomings in credit appraisal and report the same.</p>		

<p>Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner:-</p> <ul style="list-style-type: none"> <li>• Account No.</li> <li>• Account Name</li> </ul> <p>Balance as at year end</p>	<p>We need to check Date of sanction in case of NPA Accounts and find that they become have become NPA in 12 months the same needs to be reported under this clause.</p>
<p>Whether in borrowal accounts the applicable interest rate is correctly fed into the system?</p>	<p>We need to check applicable interest rates for each category of advances from current circular of bank. We need to check interest rates fed in computer system and find the same is correctly fed or not.</p>
<p>Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR (External Benchmark Lending Rate)?</p>	<p>We need to check, sanction letter of borrowers, for their interest rates communicated and basis of rate of interest to be charged to borrowal. Normally, based on credit worthiness, specified interest rates are charged in addition to MCLR/EBLR. For example 1% + MCLR.</p> <p>Auditor needs to find out, how many times interest rates are changed by RBI, Concerned Bank and check the changes are effected in system or not.</p>
<p>Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.</p>	<p>Take complete list of short-term loan. Check, their dates of sanction and renewals. Ask for report of loans repaid and sanctioned to same borrower on same day. If borrower's short loans are rolled over or renewed frequently, auditor needs to report the same.</p>
<p>Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?</p>	<p>Verify the credit ratings applicable to borrower. If credit ratings are not done report the same. If credit ratings are done, check whether the same are fed in system or not, if not fed, report the same here.</p>



	Sanctioned / Disbursed
<p>In the cases examined by you, have you come across instances of:</p> <p>(a) credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? (b) Are such cases promptly reported to higher authorities?</p>	<p>Find out what are delegated authorities at various level and check sanction letters so you can find whether person sanctioned the loan had authority do so. Test check all new loan sanctioned and verify this aspect.</p>
<p>Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.</p>	<p>Study terms and conditioned which bank has stipulated in sanction letter and verify the same are compiled or not if not report the same.</p>
<p>Did the bank provide loans to companies for buy-back of shares/securities?</p>	<p>Find the loans given to company, if any for buy back of shares/securities, if yes same needs to be reported under this clause.</p>
Documentation	
<p>Credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.</p>	<p>Verify the standard documents to be executed and if they are not completely filed or not executed properly report the same her.</p>
<p>Deficiencies in documentation, including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.</p>	<p>List all deficiency found in documentation in all advances verified and report the same.</p>
<p>Advances against lien of deposits have been granted without marking a lien on the bank's deposit receipts and the related accounts in accordance with the guidelines of the controlling authorities of the bank.</p>	<p>Verify the physical FD receipts and the CBS for Term Deposits lien marking and if lien is not marked comment accordingly.</p>

<b>Review/Monitoring/Supervision</b>	
<p>Is the procedure laid down by the controlling authorities of the bank, for periodic review of advances, including periodic balance confirmation / acknowledgement of debts, followed by the branch? Provide analysis of the accounts overdue for review/renewal. What, in your opinion, are major shortcomings in monitoring, etc.</p>	<p>Find out bank's guidelines for Periodic Review &amp; Balance confirmation of accounts.</p> <p>Verify accounts selected on test check basis and comment accordingly.</p>
<p>a) between 3 to 6 months, and</p>	
<p>b) over 6 months</p>	
<p>a) Are the stock/book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?</p> <p>b) Is the DP properly computed?</p> <p>c) Whether the latest audited financial statements are obtained for accounts reviewed/ renewed during the year?</p>	<p>Review the stock and book debt statements submitted by the borrowers. Check financial statements submitted by borrower. If bank has examined and called explanation on these statements check the same. Verify that stock &amp; book debt statements have been submitted with complete details along with movements. Compare credits in accounts with sales in financial statements along with receivable / payable position.</p> <p>Check margins as prescribed in sanctioned letters are deducted from stock and debtors.</p> <p>Verify on test check basis, accounts and comment irregularities if any observed</p> <p>Verify Drawing Power calculations and check accounts are overdrawn or not?</p> <p>Check Accounting software, whether DP is regularly updated or not and comment if not updated properly.</p> <p>Check Implication of NPA for non-submission of stock &amp; debtors statement / financial statements.</p> <p>If these statements are submitted late check penal interest as stipulated is applied or not ?</p>



<p>a) Whether there exists a system of obtaining reports on stock audits periodically?</p> <p>b) If so, whether the branch has complied with such system?</p> <p>c) Details of:</p> <p>➤ cases where stock audit was required but was not conducted where stock audit was conducted but no action was taken on adverse features</p>	<p>Check Banks requirements to conduct stock audit. If stock audits are required to be undertaken for a particular borrower accounts, whether the same is undertaken or not.</p> <p>Where stock audits are carried out, whether bank has called for explanation on negative remarks from borrower.</p> <p>If there is any impact on account classification , examine the same.</p>
<b>Review/Monitoring/Supervision</b>	
<p>Indicate the cases of advances to noncorporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.</p>	<p>Take list of non-corporate borrowers with limits of 10 Lakhs and above, check whether all borrowers have submitted audited financial statements or not, if not comment accordingly.</p>
<p>Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate/report is not obtained or not available on record.</p> <p>(In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)</p>	<p>Obtain list of the advance given under consortium and multiple banking arrangements. Find out due diligence reports (DDR) obtained or not for such advances. Cases where DDR is not obtained same needs to be reported. If your bank branch is not lead bank, obtained copy of the report from lead bank for review and records.</p>

<p>Has the inspection or physical verification of securities charged to the bank been carried out by the branch as per the procedure laid down by the controlling authorities of the bank?</p> <p>Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?</p>	<p>Verify the Visit report of bank official and check if any negative observations are reported and check explanations called from borrower of the same.</p> <p>Also Check valuation report of securities and if there is deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record, report the same.</p>
<p>In respect of advances examined by you, have you come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized over-drawing beyond limits, inadequate insurance coverage, etc.?</p>	<p>Verify and Report, deficiencies, including in value of securities. Auditor has to verify the cases of frequent overdrawn given and report the same.</p>
<p>Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flag Accounts?</p>	<p>Find out policy for red flagging of any account, if there is any deviation, report the same under this clause.</p>
<p>Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.</p>	<p>Auditor has to verify top 5 standard large advances. Find out adverse features and report the same under this clause.</p>
<p>In respect of leasing finance activities, has the branch complied with the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance, etc.? Has the branch complied with the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities?</p>	<p>Whether Branch has leasing finance activities? Take the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance, etc.? if those guidelines are not followed report the same.</p> <p>Check and report if the branch has not complied with the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities.</p>

<p><i>Asset Classification, Provisioning of Advances and Resolution of Stressed Assets</i></p>	
<p>a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?</p> <p>b) Is this identification &amp; classification in line with the norms prescribed by the Reserve Bank of India</p> <p>c) Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.</p> <p>d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes.</p> <p>List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as Non-Performing asset or Standard Asset during the year and the reason thereof.</p>	<p>Study Master Directions issued from time to time by Reserve Bank of India and check whether the same is being followed or not. If not report the same with reasons and issue, Memorandum of Changes for changes suggested as Branch Auditor.</p> <p>Verify Opening/ closing NPA statements, Movement in NPA, during the year.</p> <p>Check provisions based on respective IRAC classification. Check security value reported and its basis.</p> <p>Find out immovable properties are valued from government approved valuer every three years or not?</p> <p>List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as Non-Performing and report the same.</p>

<p>Whether RBI guidelines on income recognition and provisioning have been followed.</p>	<p>If branch has not followed the IRAC, auditor should report the same and issue Memorandum of Changes (MOC).</p>
<p>Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?</p>	<p>Check Stress assets guidelines and find whether the same is followed or not.</p>
<p>a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India</p> <p>Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.</p>	<p>Call for list of accounts upgraded, check whether the same is as per RBI guidelines, if not report the same under this clause.</p>
<p>Have you come across cases where the relevant Controlling Authority of the bank has authorized legal action for recovery of advances or recalling of advances, but no such action was taken by the branch? If so, give details of such cases.</p>	<p>Call for list of accounts where head office has authorised for legal actions and recalling of advances. If such actions are not taken as prescribed by head office report the same.</p>
<p>Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch?</p> <p>Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?</p>	<p>Find out borrowers if any where process under IBC is mandated but not initiated by the branch.</p> <p>Find out borrowers if any, at the branch, against whom the process of IBC is initiated by any of the creditors including bank, provide the list of such accounts and comment on the adequacy of provision made thereto.</p>

<p>a) Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled?</p> <p>b) Give details of claims rejected?</p> <p>(As per the given table)</p> <p>Whether the rejection is appropriately considered while determining the provisioning requirements</p>	<p>Provide complete details in given format about claim at the beginning of the year, Further claim lodged during the year Claims accepted/settled and Claims rejected.</p>
<p>In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?</p>	<p>Check valuation reports obtained from Government approved valuers and check its date, if same is older than three year demand for fresh valuation report. Check security value taken in NPA statement and same should not be higher than that of valuation report.</p>
<p>In the cases examined by you, has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise /settlement and write-off cases? Details of the cases of compromise/settlement and write-off cases involving write-offs/waivers in excess of Rs. 50.00 lakhs may be given.</p>	<p>Obtain banks policy for compromise/settlement and write-off cases.</p> <p>Take list of cases where there is settlement done, write off, waiver etc done and verify the policy of the bank is followed or not. If not report the same.</p> <p>Report such cases of Rs. 50 Lakhs and above.</p>
<p>Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.</p>	<p>Find the cases where decrees obtained for recovery from defaulting borrowers. Auditor has report age wise pending cases where decrees obtained but execution is pending.</p>
<p>Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?</p>	<p>Auditor has to verify the quantum of recovery and its appropriation between principal and interest as per bank's policy.</p>

<p>In cases where documents are held at centralized processing centres / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any</p>	<p>Auditors needs to report upon, verification of documents held at centralized processing centres and report exception if any in the same.</p>
<p>List the major deficiencies in credit review, monitoring and supervision.</p>	<p>If any major deficiencies are found in NPA statement correct the same by issuance of Memorandum Of Changes (MOC) statement. Give proper explanations and justification for Changes proposed in MOC.</p>
<p><b>Guarantees / Letter of Credits / Letter of Comforts</b></p>	
<p>List of borrowers with details of LCs devolved or guarantees invoked during the year.</p>	<p>Call for Guarantees issued and margin &amp; securities obtained against the same. Check charges are recovered as per Bank's Rules.</p> <p>Verify all the o/s guarantees. Examine List of guarantees invoked and funded by bank. Further examine steps taken for recovery from customers.</p>
<p>List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.</p>	<p>Report all cases of Guarantees invoked in LFAR</p> <p>Verify the details in prescribed format prepared by branch and comment.</p>
<p>List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.</p>	<p>Auditor has to report the cases, where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG</p> <p>Verify the details in prescribed format prepared by branch and comment. Examine if any LCs are issued from other independent systems are they recorded in books or not, further take management representation letter in this regard.</p>



<b>Other Assets</b>	
<b>Suspense Account / Sundry Assets</b>	
Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of outstanding entries in excess of 90 days may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained. Does your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision / write-off? If so, give details.	Review the system and comment. Scrutinise to evaluate normal time taken to clear such entries. Verify the items appearing in the list with sufficient details such as narration of the transaction. Check the year wise break up and tally it with trial balance.
Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved. Are there any intangible items under this head e.g. losses not provided / pending investigation?	Report all unusual items / material withdrawals in suspense / sundries.
<b>Liabilities 1. Deposits</b>	
Does the bank have a system of identification of dormant/ inoperative accounts and internal controls with regard to operations in such accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.	Check how system is flagging an account as inoperative.  Obtain list of inoperative accounts & verify the transaction on test check basis. Check bank policy for making accounts operative, & verify. Report deficiencies.
Unusual large movements (increase or decrease) in the aggregate deposit held at the year end	Take monthly average deposit figure and see if there are unusual movements at year end.  Obtain comments from branch management for unusual large movements and Also check figures after year end.

<p>Whether the scheme of automatic renewal of deposits applies to FCNR (B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.</p>	<p>Take list of NRI deposits if any and verify the renewal of the same. Verify how bank has seen NRI status of the depositor.</p>
<p>Is the branch complying with the regulations on minimum balance requirement and levy of charges on non maintenance of minimum balance in individual savings accounts?</p>	<p>Auditor has to obtained list of accounts where minimum balance was not maintained and find out system of debiting is charges for the same is working properly or not.</p>
<p><b>II - Liabilities 2. Other Liabilities</b></p>	
<p><b>3. Contingent Liabilities</b></p>	
<p><b>Bills Payable / Sundry Deposits</b></p>	
<p>Number of items &amp; the aggregate amount of old outstanding items pending for 3 years or more.</p>	<p>Obtain List and verify all items pending for more than three years and comments on the same.</p>
<p>Unusual items or material withdrawals or debits in these accounts</p>	<p>Verify transactions during the year and report such transactions. Examine debits are genuine.</p>
<p><b>Contingent Liabilities</b></p>	
<p>Contingent Liabilities Not acknowledged as debts (other than guarantees / letter of credits / acceptances / endorsements)</p>	<p>Verify previous year's Audited statements for list contingent liabilities at the beginning of the year. Take current list of contingent liabilities. Report the same under this clause.</p>

<b>III - Profit &amp; Loss Account</b>	
<p>Has the test checking of interest /discount/ commission/ fees etc. revealed excess/short credit of a material amount? If so, give details thereof.</p> <p>Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.</p>	<p>Verify the system for finding discrepancies in interest paid / received.</p> <p>Test Check the system followed by branch during the year.</p> <p>Comment on the same.</p>
<p>Has the branch complied with the Income Recognition norms prescribed by R.B.I.? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets).</p>	<p>Check the interest is derecognised if the same is not recovered on accounts classified as NPA during the year. Also check no interest is charged on old NPA accounts.</p> <p>Guidelines as given in Master Circular on IRAC issued by RBI needs to be followed.</p>
<p>Verification of provision for interest accrued on overdue / matured term deposits.</p>	<p>Check the policy of bank. Generally provided at HO through CBS. The same is not verifiable at Branch level.</p>
<p>Comment on any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch</p>	<p>Find out if there is divergent trends. Call for explanation on the same, If explanation is satisfactory report the same under this clause.</p>
<b>IV - General</b>	
<b>1. GOLD/ BULLION/ SECURITY ITEMS</b>	
<p>Does the system ensure that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?</p>	<p>Find out, is there a stock of gold and bullion for sale and kept as securities for loan against the same. Check HO instruction regarding joint custody and the same is being followed or not, if not report the same.</p>

<p>Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?</p>	<p>Find out records maintained for gold and bullion and check the same is proper or not. Is there a system of periodic verification? Any excess/shortage observed? Report all such cases.</p>
<p>Does the system of the Bank ensure adequate internal control over issue and custody of security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch? Have you come across cases of missing/lost item</p>	<p>Find our process and policy for holding stock of deposit receipts and security items, cheques. Carry out test of the same and report deviations if any.</p>
<p><b>Books and Records</b></p> <p>Whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS? If yes, give details thereof.</p>	<p>Obtain list of manual registers required to be maintained at branch level and examine the same are actually maintained or not?</p> <p>Records maintained in computer needs to be examined.</p>
<p>In case the branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts and is pending compliance? If yes give details.</p>	<p>Call for IS audit report and check the same, if there are adverse features reported and same has direct or indirect bearing on the branch accounts and are pending compliance? If yes give details.</p>
<p>ii) Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank</p>	<p>Obtained list of exceptional reports generated from the system and check the same. If prescribed process is not followed report the same.</p>

<p>iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end.</p>	<p>Check the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end, if yes report the same under this clause with complete details.</p>
<p>iv) Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.</p>	<p>Normally at Branch level no manual intervention is allowed however check the same and also take MR on the same.</p>
<p>v) Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level.</p>	<p>Collect the details regarding data used for MIS at HO level and check the same is correctly fed in system or not.</p>
<b>Inter Branch Accounts</b>	
<p>Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards unmatched transactions? As at the year-end are there any un-responded/un-complied queries or communications beyond 7 days? If so, give details?</p>	<p>Understand the system being followed at branch and role of branch for originating entries un-reconciled and same way error in responding entries originated by other branch this branch.</p> <p>Enquiry memos for un-reconciled entries must be attended and necessary action must be taken by branch official in timely manner.</p> <p>Report is there is any delay in sorting un-reconciled entries exist at branch level.</p>

	<b>Frauds</b>
<p>Furnish particulars of:</p> <p>(i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.</p> <p>(ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation</p> <p>In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud (e.g. falsification of accounts/false representation by the borrower; misappropriation of funds especially through related party/shell company transactions; forgery and fabrication of financial documents like invoices, debtor lists, stock statements, trade credit documents, shipping bills, work orders and encumbrance certificates and avail credit; Use of current accounts outside consortium where Trust and Retention Account (TRA) is maintained, to divert funds; List of Debtors/ Creditors were being fabricated and receivables were not followed up/ write off of debt of related parties; Fake export /shipping bill, etc.; Over statement of invoice amounts, stock statements, shipping bills, turnover; fly by night operations -including the cases where vendors, related/ associate parties, manufacturing</p>	<p>Find out the same is reported in Higher authorities or not. Provide details of the same.</p> <p>Study fraud case and Provide your comments in detailed on potential risk areas.</p> <p>Check system of early warning is working at branch? If not comment upon the same.</p>



<p>units etc. aren't available on the registered addresses; Round Tripping of funds, etc.)</p> <p>(iv) Whether the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as RFA.</p>	
<p><b>Implementation of KYCAML Guidelines</b></p> <p>Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing</p>	<p>Check process of KYC and AML guidelines and check its implementation at branch level.</p>
<p>Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors</p>	<p>Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors</p>
<p><b>Management Information System</b></p>	
<p>Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. Have you come across any instances where data integrity was compromised?</p>	<p>Check all data (that is being used for MIS), being fed in system on test check basis and report on instances if any of data integrity compromised.</p>

<b>Miscellaneous</b>	
<p>In framing your audit report /LFAR, have you considered the major adverse comments arising out of the latest reports such as:</p> <p>i) Previous year's Branch Audit Report / LFAR;</p> <p>ii) Internal audit/ Snap Audit/ concurrent audit report(s); iii) Credit Audit Report; iv) Stock audit Report;</p> <p>v) RBI Inspection Report, if such inspection took place;</p> <p>vi) Income and Expenditure (Revenue) Audit;</p> <p>IS/IT/Computer/Systems Audit; and viii) Any special inspection / investigation report</p>	<p>Inquire &amp; report fact whether branch covered by any of the various audits listed in this clause. Check compliance reports submitted for irregularities pointed out in those report. Consider the same in framing your report.</p>
<p>Are there any other matters, which you, as branch auditor, would like to bring to the notice of the management or the Statutory Central Auditors?</p>	
<p>Any other matters for the notice of Statutory Central Auditors</p>	<p>Report matters for attention of SCA.</p>

### **Conclusion:**

Plan to update the LFAR simultaneously along with audit. Most of the time audit team fills the LFAR post completion and they find it difficult or they need go back to records to again note details to be reported in LFAR. Auditors Team should bifurcate the questions based area being audited by each team member. When irregularities are reported, the same should be reported with sufficient details. Once the report is ready same need to be discussed with Branch Head. During the course of audit, where we are not able to verify the documents / we are relying on explanations we should obtain confirmations on such points in Management Representation letter.

## PART 2 OF THE ARTICLE

### Checklist for verification of advances & reporting in LFAR

1. In respect of common irregularities, the Auditors can give their comments borrower-wise in the LFAR in the format given hereunder:

Name of Borrower	Name of Branch	Region	IRAC Status	Sanctioning Authority	Facility	Limit	Amount o/s. as at the year	Irregularity No.
1	2	3	4	5	6	7	8	9

2. In respect of Column 9 above, "Irregularity No.", the number as given in the "Glossary to Irregularities" in Point 5, under the head "Item" below should be given for the irregularity applicable to respective borrower.

In case the auditors feel that in spite of the list of irregularities given below, there are some other irregularities, which the auditor would like to bring to notice, the auditor may separately disclose under the given head by giving "appropriate number".

For the aforesaid purpose, "appropriate number" would mean, for example, if the auditors feels that in case of "Review/ Monitoring/ Supervision", which has the number "4", any additional irregularity has to be incorporated, he may give a number after the last number appearing in the list, such as "4.62", and onwards.

Similarly, in case of "Credit Appraisal" which has the number "1", any additional irregularity may be given "1.19", and so on

3. The borrower-wise details may be given in **descending order based on the Amount outstanding**

#### 4. GLOSSARY TO IRREGULARITIES

##### Item    Remarks

##### 1.    **Credit Appraisal**

- 1.1    Loan application not on record at Branch
- 1.2    The appraisal form was not filled up correctly and thereby the appraisal and assessment was not done properly
- 1.3    Loan application is not in the form prescribed by Head Office
- 1.4    The Bank did not receive certain necessary documents and Annexures required with the application form
- 1.5    Basic documents such as Memorandum & Articles of Association, Partnership deed, etc., which are a pre-requisite to determine the status of the borrower, not obtained
- 1.6    Certain adverse features of the borrower not incorporated in the appraisal note forwarded to the management

- 1.7 Industry/ group exposure and past experience of the Bank is not dealt in the appraisal note sent to the management for sanction
- 1.8 The level for inventory/ book-debts/ creditors for finding out the working capital is not properly assessed
- 1.9 Techno-economic feasibility report, which is required to know the technical aspects of the borrower's business, is not obtained from Technical Cell
- 1.10 Credit report on principal borrowers and confidential report from their banks are not insisted from the borrowers
- 1.11 The opinion reports of the associate and/ or sister concerns of the borrower are not scrutinised
- 1.12 The opinion reports of the associate and/ or sister concerns of the borrower are not called for
- 1.13 The opinion reports of the associate and/ or sister concerns of the borrower are not updated
- 1.14 The opinion reports of the associate and/ or sister concerns of the borrower are not satisfactory
- 1.15 The procedure/ instructions of head office regarding preparation of proposals for grant not followed
- 1.16 The procedure/ instructions of head office regarding preparation of proposals for renewal of advances not followed
- 1.17 The procedure/ instructions of head office regarding preparation of proposals for enhancement of limits, etc. not followed
- 1.18 No exposure limits are fixed for forward contract for foreign exchange sales/ purchase transactions

## **2. Sanctioning and Disbursement**

- 2.1 Credit facility sanctioned beyond the delegated authority or limit of the branch
- 2.2 Certain proposals were sanctioned pending approval of higher authorities wherever required
- 2.3 Ad-hoc limits were granted for which sanctions were pending since long
- 2.4 Facilities were disbursed before completion of documentation
- 2.5 Facilities were disbursed without following sanction terms
- 2.6 Facilities were disbursed without any sanction
- 2.7 Sanction letter was missing in the branch
- 2.8 Guarantor as required in the sanction letter was not obtained
- 2.9 Required promoters stake not invested before disbursement of loan
- 2.10 Sanctions were made without proper appraisal
- 2.11 Security charge not created before disbursement as required by sanction letter/ renewed letter
- 2.12 Full disbursement of the facility not made
- 2.13 Sanction terms were not complied with or were not recorded
- 2.14 Disbursement Made without proper sanction
- 2.15 Term loan was disbursed by creating the cash credit or savings account of the borrower

## **3. Documentation**

- 3.1 The security against which the advance was sanction was not available/ was not on record
- 3.2 Mortgage for the property given as security is not created
- 3.3 Mortgage for the property given as security created, was inadequate, as compared to terms of sanction

- 3.4 Second charge as required, on assets is not created in favour of the bank
- 3.5 Documents of Second charge on assets is not on the record
- 3.6 Documents pertaining to registration of charges with ROC or any other concerned authority requiring charging of assets is not obtained
- 3.7 Copies evidencing lodgement of the original conveyance/ sale deeds with the Sub-Registrars for registration not on record
- 3.8 Authority letter/ Power of Attorney to the Bank to collect the original documents from the Sub-Registrar not on record
- 3.9 Documents pertaining to consortium advances not yet executed/ not available with bank
- 3.10 Documents signed by persons not duly authorised to sign or who have signed in other capacity accepted by the bank
- 3.11 Signatures of the executants were not found on all the pages of the documents
- 3.12 Some of the documents on record were blank, without signatures of Branch Manager, witnesses, or guarantors, etc.
- 3.13 Revival letters in respect of documents to be reviewed from the borrowers not received
- 3.14 Guarantors have expired
- 3.15 Guarantors not on record
- 3.16 Guarantors not renewed
- 3.17 Guarantors not assigned
- 3.18 Worth of the Guarantors not available
- 3.19 Stamping not as per the amended Stamps Act
- 3.20 Documents have become mutilated, soiled, time barred or not obtained
- 3.21 Opinion report by the field officer for the borrowers not found on record
- 3.23 "Nil Encumbrance Certificate/s" or "No Dues Certificate/s" or "No lien Letters" not obtained for the mortgage/s
- 3.24 Advances for vehicle loans, Registration certificate, transfer certificate, etc. not obtained
- 3.25 Work completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans
- 3.26 Documents are not duly attested/ signed by concerned officials/ not renewed
- 3.27 The agreements for hypothecation do not contain details regarding goods hypothecated
- 3.28 Copy of Bills/ receipts, on the basis of which the amount was disbursed not found on record. For e.g. Vehicle Loans, Plant & Machinery
- 3.29 Charge on main &/ or collateral securities not created in terms of sanction letter
- 3.30 Original security papers/ sale deed/ lease deed/ title deed/ agreement of sale not available on record
- 3.31 TDR are not discharged or renewed
- 3.32 Control returns not sent to the H.O.
- 3.33 The branch has not taken any action for not compliance with terms of agreement
- 3.34 No documents executed for enhancement of limit/ document not on record
- 3.35 ECGC Post shipment policy not obtained

- 3.36 Credit facility released without execution of all necessary documents
- 3.37 Common Seal not affixed on Letter of Comfort
- 3.38 Confirm orders for export credit not found on record for facilities released

#### **4. REVIEW/MONITORING/SUPERVISION**

- 4.1 The account is frequently overdrawn
- 4.2 The account is continuously overdrawn
- 4.3 The account is overdrawn and the branches have not taken sufficient steps to regularise the accounts promptly
- 4.4 The balance outstanding have exceeded the drawing power
- 4.5 Balance confirmation and acknowledgment of debt not obtained
- 4.6 The stock book-debts statements not received regularly/ promptly
- 4.7 The FFI/ financial statements/ audited statements/FFR 1 & 2/ other operational data, etc., not received regularly/ promptly
- 4.8 The stock, book-debts statements, etc., not scrutinised and no suitable action is taken
- 4.9 The FFI/ financial statements/ audited statements/FFR 1 & 2/ other operational data, etc., not received regularly/ promptly/ not scrutinised and no suitable action is taken
- 4.10 Non-moving stock is not deducted to arrive at the drawing power
- 4.11 The age-wise break-up of debtors is not found on record. The borrowers are allowed to draw money on entire outstanding debt, which must rather be for the recent debts as prescribed for particular industries and as per margin prescribed in the sanction letter
- 4.12 Wide discrepancies observed in the stock statements and stock figures in the annual audited financial statements
- 4.13 No penal interest has been charged for delay in submission of various statements as per the terms of agreement depending upon the type of loan/ credit availed by the borrower
- 4.14 Many branches have not adhered to the prescribed frequency of physical verification of securities given against loans & advances
- 4.15 Drawing power limits are not revised as per market value of shares for advances against security of shares
- 4.16 End-use of funds not ensured/ not known funds utilised for purpose other than for which granted
- 4.17 The projections submitted by the borrower stay far beyond the actual performance. Further, no explanation for the same is taken from the borrower
- 4.18 Major sale proceeds of the borrower not routed through the Bank
- 4.19 Audited statements of non-corporate borrowers having limit beyond ` 10 lakh not received
- 4.20 Renewal proposals of advances not received on time and in many cases the limits are not renewed
- 4.21 Application of wrong rate of interest, processing charges, commission, other charges, etc. resulting in income leakage/ excess booking of interest of the bank
- 4.22 Insurance cover for stock/ property is inadequate/ not on record/ not renewed/ not endorsed in favour of the Bank
- 4.23 Inspection/ physical verification of security charged, not been carried out
- 4.24 Expired bills/ foreign currency sight bills which are outstanding, have not been crystallised



- 4.25 EBW statements on write-off of overdue export bills of ECM not found on record
- 4.26 Confirmation as to genuineness of export transactions not obtained from Bank's foreign offices/correspondents/ customs department
- 4.27 Import credit, bill of entry evidencing imports of goods not found
- 4.28 Documents are not obtained for bills discounted under Letter of Credit
- 4.29 Advances, which are eligible for whole turnover packing credit guarantee cover of ECGC, are not brought under its cover
- 4.30 Though government guaranteed accounts are irregular since long, the issue of invocation of guarantee does not seem to have been considered
- 4.31 Prescribed margins not maintained as per sanctions
- 4.32 Allocated limits, full terms of sanctions, stock statements, inspection reports, margin, etc. not available at monitoring branches
- 4.33 For allocated limits, inordinate delays were noticed in responding to transfer by the allocator branch
- 4.34 Regular meetings not held with other consortium members to review the performance of borrowers and to assess the current state of affairs/ not been held as per norms
- 4.35 Individual members of the consortium are not advised about the quarterly operating limits/ D. P. allocated to each one of them
- 4.36 Minutes of the consortium meetings not found on record/ not been held as per norms
- 4.37 Inspection report from the consortium members not obtained
- 4.38 The capital of the borrower has eroded/ net worth is negative/ decreasing. Close monitoring needs to be done
- 4.39 The drawing power is calculated wrongly and/or hence the borrower is allowed to enjoy excess credit than actually eligible
- 4.40 Signboard of the bank is not displayed in godown, where the pledged/ hypothecated stock is stored
- 4.41 Limit not fully utilised by the borrower/No commitment charge is levied for the limit not fully utilised by the borrower
- 4.42 Loan against TDR/ STDR, which is matured, is neither renewed nor credited to loan account
- 4.43 The Stock and Debtors Audit Report not found on record. No audit has been done for accounts of the borrower
- 4.44 The valuation report in respect of tangible security from Government approved valuer have not been obtained
- 4.45 Guarantees, Opinion Reports Financial statements, IT assessment orders and etc. of the guarantor are not found on record
- 4.46 Opinion report on guarantor is not obtained
- 4.47 For Small Government Sponsored loan accounts, security cover could not be ascertained since neither any record was available at branch nor physical verification conducted by the branch
- 4.48 Pre-sanctions and/or post-sanctions inspection reports were not on record
- 4.49 The account was overdue for repayment and/or no credit was received from the borrower for a long time
- 4.50 The borrower is absconding or deceased and legal formalities are incomplete and there is wilful

default from the borrower. Either establishment was closed or security was disposed off or no action taken by the branch

- 4.51 Subsidy claim process was incomplete or subsidy was yet to be received or needs follow-up
- 4.52 Security disposed off/ Entity closed by borrower and no action taken by the branch
- 4.53 Irregularity not advised to controllers
- 4.54 Letter of subordination of deposits not taken
- 4.55 Secured and unsecured portion not segregated properly in advance return of the branch
- 4.56 Renewal of limits was done before the receipt of financial statements
- 4.57 Heavy cash withdrawal for which consent of corporate Guarantor is not taken
- 4.58 Proper valuation of stock not done/ needs critical scrutiny
- 4.59 Security obtained is inadequate/lower as compared to amount of outstanding/ no collateral security
- 4.60 The party was dealing with other bank also though it was not permitted
- 4.61 Sticky accounts require close follow-up by the management

## **5. BAD AND DOUBTFUL DEBTS**

- 5.1 The IRAC norms for classification of advances were not followed and the same is implemented through Memorandum of Changes by auditors during audit
- 5.2 Instalments were not received from the borrowers
- 5.3 Interest was not received from the borrowers
- 5.4 Legal action for recovery of advances was not taken although authorised by the Board/ Controlling Authority
- 5.5 Discontinuance of application of interest not followed although authorised by the Board/ Controlling Authority
- 5.6 Government guarantees have expired and fresh guarantees not obtained/ not renewed
- 5.7 Terms of the BIFR scheme not complied
- 5.8 Payment from Government not received although guarantees were unconditional, irrevocable and payable on demand
- 5.9 Delays in the settlement/ repayment in respect of sanctioned proposals
- 5.10 The repayment accepted in case of compromise cases inadequate *vis-à-vis* value of security
- 5.11 Compromise proposals pending at various levels where local government/ outside agencies are involved as guarantors
- 5.12 Copy of Search Report not on record
- 5.13 Decree awarded but no further steps taken for recovery
- 5.14 DI&CGC claims submitted/ rejected/ pending data not available
- 5.15 Irregular/ sticky advance not reported to the controlling authority promptly
- 5.16 Compromise/ OTS proposal is recommended and is under negotiation since long but not finalised. Suit is filed in the court/ DRT and pending to be finalised
- 5.17 ECGC claim not submitted/ lodged for recovery