

PRESENTATION ON LONG FORM AUDIT REPORT

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Introduction

- ✓ Long form Audit Report (LFAR) is a requirement of RBI from an Auditor.
- ✓ It was devised by RBI in 1985 and has been revised in 1992-93, 2003 and 2020.
- ✓ LFAR includes questionnaires for specialized branches –
 - For branches dealing in foreign exchange transactions.
 - For branches dealing in very large advances.
 - For branches dealing in recovery of NPA.
 - For branches dealing in clearing house operations (service branches).

Objectives of LFAR

- ✓ Focus not only on advances but also on operational areas in the Branch.
- ✓ Covers operational Risk extensively.
- ✓ A tool for early warning signals.

Coverage

I. **Assets**

- Cash (4 Clauses)
- Balance with Reserve bank of India, State Bank of India and Other Banks
- Money at Call and Short Notice
- Investments
- Advances
- Other Assets

Coverage

II. Liabilities

- Deposits
- Other Liabilities
- Contingent Liabilities

Coverage

III. Profit & Loss Account

- Interest Income/ Bill Discounting Income
- IRAC Norms
- Interest on Deposits
- Interest on Overdue / Matured Deposits
- Analytical Procedures for Income & Expenses

Coverage

IV. General

- Books & Records
- Reconciliation of Controls & Subsidiary Records
- Inter Branch Accounts
- Audit / Inspection
- Frauds
- Implementation of KYC/ AML Guidelines
- Management Information System
- IT System

Cash & Bank Balance

- Report of Excess Cash holding and its reporting to Controlling Authority
- Adequacy of Cash Insurance w.r.t. Cash in hand & Cash in Transit
- Report on mismatch in Key movement vis- à-vis leave records
- Cash balance as per books tally with ATM balance.
- Periodicity of checking Balances with Reserve Bank of India, State Bank of India and Other Banks & reconciliation of the same.

Investments

- a) Physical verification of investments.
- b) Valuation of investments is as per RBI or as per guidelines of the respective country whichever are more stringent?
- c) details of matured or overdue investments which have not been encashed and / or has not been serviced?

Advances

- **Large Advances**-Outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the Bank or Rs.10 crores, whichever is less
- The transaction audit/account specific details to be seen and commented

Advances(FB & NFB)

- Credit Policy
- Credit Appraisal
- Sanctioning & Disbursement
- Documentation
- Review & Monitoring
- LC's devolved & Bank Guarantees Invoked
- LC's devolved & Bank Guarantees Invoked, paid & not adjusted
- List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.

Other Assets

- **Suspense Account/ Sundry Assets-**

- Details of outstanding entries in suspense account in excess of 90 days along with the reasons for delay in adjusting the entries may be provided. If not recoverable whether provision/write-off is required?
- Are there any intangible items under this head e.g. losses not provided / pending investigation?

Deposits

- Identification of dormant/ inoperative accounts and internal controls with regard to operations in such accounts?
- After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year-end? If so, obtain the clarifications from the branch and give your comments thereon.
- Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits?
- Levy of charges on non-maintenance of minimum balance in individual savings accounts?

Other Liabilities

- Sundry Deposit / Bills Payable
 - Nature of item outstanding for more than 1 year (Revenue / Capital)
 - Adjustment if any required to revenue/ capita
 - Exceptional Transaction reported

Contingent Liability

- Contingent Liability or Liability testing as per AS 29
- Provision against these contingent liabilities

Profit & Loss Account

- Divergent trends in major items of income and expenditure, in comparison with corresponding previous year and responses for the same by the bank
- Provision on NPA and Interest on the same
- System of estimating and providing interest accrued on overdue/matured/ unpaid/ unclaimed term deposits including in respect of deceased depositors
- Test checking of interest/discount/ commission/ fees etc. revealed excess/short credit of a material amount
- Test check of interest on deposits revealed any excess/short debit of material amount

General- Frauds

- Whether the reporting of the fraud is done as per the instructions from Controlling authority
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- 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.
- 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

General- Inter Branch Account

- Items outstanding for more than six months in reconciliation statement
- Un-reconciled balances, if any
- Nature of items pending under inter branch reconciliation (if its of revenue or capital nature having

General- Audit & Inspection

In framing your audit report/LFAR, have you considered the major adverse comments arising out of the latest reports such as:

- i. Previous year's Branch Audit Report / LFAR;
- ii. Internal audit/ Snap Audit/ concurrent audit report(s);
- iii. Credit Audit Report;
- iv. Stock audit Report;
- v. RBI Inspection Report, if such inspection took place;
- vi. Income and Expenditure (Revenue) Audit;
- vii. IS/IT/Computer/Systems Audit; and
- viii. Any special inspection / investigation report

General- Implementation of KYC & MIS

- 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
- Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors
- 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?

General- IT System

- Comment on the robustness of IT systems covering all the software used by the bank along with functions thereof
- Updated and approved IT Security and IS Policy and whether the bank has complied with the RBI advisory/directives relating to IS environment/cyber security
- Whether there is an effective system of inter-linkage including seamless flow of data under Straight Through Process (STP) amongst various software / packages deployed.
- Special emphasis should be placed on outsourced activities and bank's control over them

General- Books & Records

- Whether the instructions of controlling authorities have been complied with
- Whether Back ups are being taken and stored at a secured place
- 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.

General- Control & Subsidiary Records

- Date up to which control and subsidiary ledger are reconciled
- If Control and subsidiary records are not reconciled report the instances of such discrepancy

General - Miscellaneous

- Any window dressing observed
- System related issues
- Security related issue
- Compliance with the requirement of RBI and Head office
- ATM related issues
- Other areas which auditor would like to report

Consolidation of LFAR

- Regional/Zonal office & at Head office the Questionnaire remains the same
- The adverse observations at Branches level get consolidated at regional / zonal office level and subsequently the same gets consolidated at Head Office level

LFAR – Forex Branches

- Any material adverse feature pointed out in the reports of Concurrent Auditors, Internal Auditors and/or the Reserve Bank India Inspection Report.
- Instructions and guidelines of the controlling authorities of the Bank (Deposits, advances, Export Bills, Bills for Collection, Dealing Room and any other area)
- Nostro Accounts
- Vostro Accounts

LFAR- Large Branches

- Borrowers with outstanding of Rs.2.00 crores and above, the information in the enclosed format should be obtained from the Branch Management.
- Major shortcomings
- List the accounts (with outstanding in excess of Rs.1.00 crore), which have either been downgraded or upgraded with regard to their classification as Non Performing Asset or Standard Asset during the year and reason thereof.

LFAR- Recovery Branches

- Advance amount in excess of Rs. 2 crore, the information in the enclosed format should be obtained from the Branch Management
- Accounts upgraded from NPA to Standard during the year & reason thereof
- Information related to Valuation of Security
- List the recoveries and their appropriation against the interest
- Age wise analysis of the recovery, suits- filled and pending
- Ensuring execution of decrees obtained for recovery from the defaulting borrowers

LFAR- Service Branches

- Periodic review of the outstanding entries in clearing adjustments accounts.
- Review of the clearing adjustments accounts (inwards/outwards) reveals any old/large/unusual outstanding entries, which remain unexplained.
- Branch strictly followed the guidelines of the controlling authority of the bank with respect to operations related to clearing transaction?

Thank You..!