



# LONG FORM AUDIT REPORT & CERTIFICATION

*Presented by*

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# LFAR

- It is in 2 formats
  - ❖ One for Branches and
  - ❖ One for Bank as a whole.
- Responsibility of Branch Auditors to submit LFAR for the Branches allotted to them.
- LFAR is in a questionnaire format which asks specific questions for which replies should be specific.
- The replies are relevant for the Bank Management for improving the working of the Bank.

# LFAR

- Auditor should seek written representation from the management regarding changes in CBS, Policy Guidelines, Accounting Policy, etc., adopted during the period under review. He should also go through Internal inspection/Concurrent Audit/RBI AFI Reports etc.
- For most of LFAR comments auditors are required to evaluate and comment on adherence of various Bank Policies, Procedures, Guidelines, and Instructions of Higher Authorities.
- Illustrative list of data required to be collected by the auditor for the purpose of compiling LFAR, is given in Chapter IV, page 4 of Guidance Note on Audit of Banks.

# LFAR

- LFAR and Statutory Audit Reports are separate and no cross reference to be made. However matters in the main report may be elaborated in LFAR
- Where any of the comments made by the Auditors in LFAR is adverse, he should consider whether qualification in the main report is necessary. In this regard, the auditor should use the judgement depending upon facts and circumstances of the case.
- Also where relevant instances of situations giving rise to their reservations or adverse remarks may also be given.

# LFAR

- An oft repeated problem faced by most Statutory Central Auditors relates to the Branch Auditors reporting issues relating to Audit Reports in Branch LFARs instead of making the same a part of the qualifications, etc., of the Audit Report .In most cases Branch Auditors adopt this practice at the request of the branch incumbent in order to avoid issuance of an MOC .
- As far as possible both the reports should be submitted simultaneously. In any case submission of main report should not be delayed merely because LFAR is pending for completion

# LFAR

- Data required for LFAR questionnaire should be broadly kept in mind while planning audit work since inception and as and when the audit progresses, the Auditor should concurrently note the areas/cases to be covered in LFAR.
- The Auditor should not shirk his responsibility by keeping silent. Observations should not be vague/general but clear and quantifiable. At the same time he should not answer facts for which replies were not sought.
- There is no need to take/accept more responsibility and thereby liability (Visits to borrower's place/units) unless the situation is serious and warrants such an action.

# LFAR

- The Auditor may also give disclaimers in LFAR with respect to any significant problems faced by him in the preparation of LFAR .Some of the problems generally faced may be :
  1. Required information not provided.
  2. Non availability of computer systems to conduct Audit.
  3. LFAR is only indicative in nature and additional areas like KYC, Lockers, Demat Accounts, etc., may be covered.
- Finally, contents of LFAR should be discussed with the Branch head before finalising the report.
- Management Representation Letter should be demanded for matters as considered appropriate

# Areas covered in LFAR

## **A. Assets**

- i. Cash
- ii. Balance with R.B.I, SBI & Other Banks
- iii. Money at call and Short Notice
- iv. Investments
- v. Advances
- vi. Other Assets



# Areas covered in LFAR

## **B. Liabilities**

- i. Deposits
- ii. Other Liabilities
- iii. Contingent Liabilities

## **C. Profit And Loss Account**

# Areas covered in LFAR

## **D. General**

- i. Books and Records
- ii. Reconciliation of Control and Subsidiary Records
- iii. Inter Branch Accounts
- iv. Audit / Inspection
- v. Frauds
- vi. Miscellaneous

# Areas covered in LFAR

## **E. Questionnaire Relating To Specialised Branches**

- i. Foreign Exchange Transactions
- ii. Large Corporate / IFBs
- iii. Asset Recovery Branches
- iv. Service Branches

## **E. Format Of Critical / Large Advances To Be Prepared By The Branch But Verified By Branch Auditors.**

# Broad Guidelines

## 1. Cash

- Cash holdings VS Retention Limit.
- Verification of Cash at Branch as well as ATM.
- Insurance of Cash done at C.O.
- Joint Custody and Independent Verification.
- Soiled Notes/ Counterfeit Notes/ Stapling of Notes/ use of UVL/ Note Counting Machine, etc.
- Machines to be in working condition.

# Broad Guidelines

## 2. Balances With R.B.I And S.B.I. / Other Banks

- Statement of Account / Balance Confirmation from the Bank to be on record.
- Reconciliation Statement – entries o/s for more than 6 months to be examined.

# Broad Guidelines

## 3. Money At Call And Short Notice

- Normally done at C.O.
- In case such transactions found, examine specific authority / approvals

# Broad Guidelines

## 4. INVESTMENTS

- Even investments are normally done at H.O
- Few large branches hold investments on behalf of HO.
- Verify security physically/ holding Certificate.
- Income to be reported to HO/ accounting to be done properly.
- In case the income/ interest is overdue for more than 90 days, the relevant investment should be classified as NPI
- Matured investments to be encashed/ valued as per RBI guidelines- any deviation to be reported.

# Broad Guidelines

## 5. Advances

- Report should cover Credit Appraisal, Sanctions, Disbursement, Documentation, Review/Renewal, Monitoring and Supervision.



# Broad Guidelines

## 6. Other Assets

- Other Assets cover residual items such as Stationery, Stamps, Sundries/ Suspense, etc.
- Check Stationery/ Stamps.
- Dual Custody – Proper Records to be maintained
- Secured stationery include –Deposit Receipt, Pay Order, etc.
- Age wise analysis of entries outstanding in sundries/ suspense to be examined.
- Also check entries adjusted/ reversed during the year of review.

# Broad Guidelines

## 7. Liabilities- Deposits

- Inoperative Accounts- Fraud Prone
- KYC Compliances
- Window Dressing
- Overdue/Matured Deposits- to be mentioned in the report
- Deposits in Inoperative Accounts for more than 10 years to be transferred to DEAF Account. (Deposits Education and Awareness Fund Account)

# Broad Guidelines

## 8. Other Liabilities

- Bills Payable/ Sundry Deposits
- Age wise entries to be obtained along with reasons
- Any unusual entries to be investigated and reported

# Broad Guidelines

## 9. Contingent Liabilities

- All Contingent liabilities to be identified and disclosed.
- List of items of contingent liabilities not acknowledged by the branch.

# Broad Guidelines

## **10.** Profit/ Loss

- Existing system to be reviewed so as to identify accounts where variance in interest rate is noticed.
- Calculation of Interest and Commission should be checked on test check basis
- Income recognition norms to be adhered to at each branch
- Estimation and provision for interest accrued on the Overdue/ Matured Deposits

# Broad Guidelines

## **10.** Profit/ Loss

- Major variation in items of income and expenditure compared to previous year to be examined.
- Ensure whether Prepaid expenses are properly accounted for.
- Discrepancies relating to TDS and Service Tax
- Adequacy of provisions made for expenditure.

# Broad Guidelines

## **11.** Book And Records

- Hard copies of certain Accounts/ Returns to be maintained at the Branch level. For Eg. Exceptional Report, EOD, etc.
- Extent of Computerisation (Areas not covered under CBS)
- Administrative control on creation of new log in, password, etc.
- Existence of Maker and Checker System and its efficacy
- Contingency and Disaster Plan

# Broad Guidelines

## **12.** Reconciliation Of Control And Subsidiary Reports

- All records to be reconciled.

## **13.** Inter Branch Accounts

- Pending entries, if any to be scrutinised and reported.



# Broad Guidelines

## **14.** Review Of Audit And Inspections

- Efficacy of such inspection in the branch. Compliance / Rectification of the same.
- Major observations found in these reports should be incorporated in LFAR.

## **15.** OTHER MATTERS

- Fixed Assets - maintenance of proper records. (Physical inventory as well as valuation)
- Window dressing.

# Broad Guidelines

## **16.** Specialised Branches


- Functions of the branch to be understood and apply audit check.

## **17.** Status Reports On Large Advances Of Rs. 1 Crore And Above

# Broad Guidelines

## **18.** Finalisation Of LFAR

- Information/ data given by the branch should be checked by the auditor
- Contents to be discussed with the Branch Manager
- Comments should not be vague and should be specific as far as possible supported by facts and figures.



# **Certification by Branch Statutory Auditors**

# Certification

## 1. Besides Audit Report and LFAR there are various certificates to be issued by the Branch Statutory Auditors

Few of the important Certificates and aspects to be considered while issuing them are :

### a. Certificate on DICGC Claims

- Whether appropriate claims have been lodged with DICGC.
- Whether the claims received are appropriated to the respective accounts.
- In case of recovery, proportionate claims have been refunded to DICGC.

### b. Over the years in majority of Banks subscription to DICGC was discontinued and in such a case NIL certificates may be issued.

# Certification

## 2. Certificate on claims of PMRY Subsidy

Auditors should go through the Bank Circular on the subject and certify that the Subsidy claimed is correct.

## 3. Certificate of Cash and Bank Balance

- a. In a CBS scenario, this Certificate may not be required.
- b. Whenever required, such certificates are to be given especially for 26 non reporting Fridays in the whole year.
- c. Cash Balances also include connected ATM balance.
- d. Bank Balances where reconciliation items have not been accounted for should be considered in the Bank Balance and suitable MOC should be passed.

# Certification

## 4. Certificate of Investments held

- a. This certificate may be required in case any investments are held by the branches.
- b. Investments held by branch should be physically checked if held in physical form or Demat Accounts.

## 5. Certificate on risk weighted assets for Basel II CRAR:

This Certificate is issued by the Branch Auditors to enable CSA's to certify the whole Bank CRAR. Branch Auditors should educate themselves with relevant RBI Circular on CRAR.

## 6. Certificate of NPA's

In case the Auditor identifies new NPA's, he should bring out in the said Report and also pass MOC.

## 7. Certificate on amounts transferred to DEAF

*Thank  
you*

