CA Kuldeep Gupta

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Past **CHAIRMAN** of Jaipur Branch of ICAI (2022-23) (Largest branch of CIRC)

Also Served as **VICE - CHAIRMAN** for the year 21-22 & **SECRETARY** of Jaipur Branch of ICAI for two consecutive year (2019-20 & 2020-21)

Independent Director of ICSI Registered Valuers Organization, New Delhi (2017-2019)

Well versed in the area of Corporate / Bank Audits, particularly Statutory Audit, concurrent Audit etc.

Mere give the main audit report and bunch of certificates to the Bank management, RBI and their stake holders are not enough in the current era of CBS banking. To give detailed comments/reports on procedures, practices and internal controls over the business affairs of any bank or their branches, a separate report is to be submitted by the statutory auditor yearly.

To curb the fraud cases and establish strong internal control, Reserve Bank of India (RBI) first time advised to banks (including private banks and foreign banks) to get the LFAR from the statutory auditor in year 1985. Till date, in line with business environment and technological changes, the LFAR format is constantly amended. Last revisions in the format of such report were made in year 2020.

LFAR- a basic layout

Statutory auditors of any bank are divided in two categories:

1. Statutory Central Auditor (SCA)
2. Statutory Branch Auditor (SBA)

On the above basis and different work profile, LFARs are drafted in 2 approaches. Initially branch auditors have to submit the LFAR in the specified format made available for bank branches. The entire branch LFARs required to be submitted to the bank H.O. and statutory central auditors (SCA) as well.

Subsequently, SCA go through these LFARs thoroughly and prepare a consolidated long form audit report of the Bank as a whole.

Submission of LFAR by Concurrent Auditors:

RBI/2014-15/626 - DBS.CO.ARS.BC.8/08.91.001/ 2014-15 dated June 4, 2015

In respect of branches below the cut-off point, which are subject to concurrent audit by chartered accountants, henceforth, LFARs and other certifications done earlier by SBAs will now be submitted by the concurrent auditors and such branches may not generally be subject to statutory audit.

3. You are advised that henceforth Concurrent Auditors, who are chartered accountants, of branches below the cut-off point will submit LFAR only to the Chairman of the bank. The banks in turn will consolidate/compile all such LFARs submitted by the Concurrent Auditors and submit to Statutory Central Auditor as an internal document of the bank.

About LFAR:

- There is no one to one relation between observations of LFAR and main report. There may be case where any matter is highlighted in LFAR (matter of emphasis) but main report is unqualified.

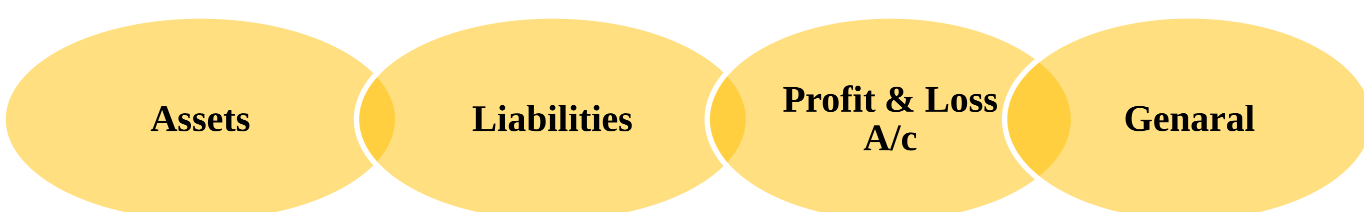
- LFAR is submitted by statutory auditor to bank on RBI advice whereas main audit report is mandatory in nature pursuant to section 143 of Companies Act, 2013 and provisions of Banking Regulation Act, 1949.

- It is not necessary that every adverse comment in LFAR is to be reported in main audit report, or vice-versa.

- Both main audit report and LFAR are separate and not a substitute.

LFAR

Broader classification



I. ASSETS:

<table>
<tr><td colspan="4">1. CASH</td></tr>
<tr><th></th><th>Questionnaire</th><th>Audit Approach</th><th>Sample Remarks/ observations of Branch auditor</th></tr>
<tr><td>a)</td><td>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?</td><td>- Check Daily cash position register
- Verify Periodical verification report of cash (done by other auditors also).
- Surprise check
- Also check authorization letter of joint Custodians</td><td>Yes. Cash is being maintained in effective joint custody of two officials. (Name of concerned persons)</td></tr>
<tr><td>b)</td><td>Have the cash balances at the branch/ATMs been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?</td><td>- Enquire bank policy
- Verify Periodical verification report of cash at Branch and ATM (Done by other auditors also).
- Check Concurrent Audit report also to check any observation in this regard.</td><td>Yes, cash balances at the branch and ATM have been checked at periodic intervals as per procedure prescribed by controlling authorities of the Bank.</td></tr>
<tr><td>c)</td><td>Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank? No. of days during the financial year, wherein cash balance has exceeded the retention limit/ Date- wise instances of excessive cash should be reported</td><td>- Take copy of letter from controlling office to ascertain the cash retention limit.
- Obtain system generated cash position report.
- Verify cash register on daily basis.
- Physical verification of cash including cash at ATM/ balance with intermediary and cross check with cash position report.
-</td><td>We have been informed that Controlling Office had fixed Cash retention Limit of Rs. -------- lakhs.

During the year, …….Days were observed wherein cash balances exceeded the retention limit.

The date wise details are as follows where cash balance was excess:<table><tr><th>Date</th><th>Excess Cash Balance</th></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr></table></td></tr>
<tr><td>d)</td><td>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.</td><td>- As a test purpose, cross check the ATM cash balance as per branch books and physical cash in ATM basis
- By using this process, we can also verify the actual custodian of ATM as compared to delegated persons. Report, if any deviation observed.
- Check Concurrent Audit report / other reports also to check any observation in this regard during the year.</td><td>Based on our verification, 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 ATM.</td></tr>
<tr><td>e)</td><td>Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit?</td><td>- Generally, such policies are supervised at HO level.
- Take Xerox copy of original policies received from HO.</td><td>We have been informed by the branch management that insurance cover for cash–on-hand and cash-in-transit is taken by Head Office.

As per the details provided, cases where excess cash balance in hand and Transit were observed as compared to the insurance cover are given in Annexure:</td></tr>
<tr><td colspan="4">2. BALANCES WITH RESERVE BANK OF INDIA, STATE BANK OF INDIA AND OTHER BANKS</td></tr>
<tr><td>a)</td><td>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.</td><td>- Mostly branches do not maintain such balances with other banks including RBI.
- Obtain balance Conformation certificates, if any.</td><td>The branch does not operate any bank accounts with other banks including Reserve Bank of India.
Or
Branch operates the accounts with other banks as given in Annexure..... .
Reconciliation and comment on deviation, if any should be given in annexure.</td></tr>
</table>

		- Check reconciliation statement and report accordingly.	
b)	Observations on the reconciliation statements may be reported in the following manner:	- Prepare annexure of observations in the prescribed format.	
i.	Cash transactions remaining un-responded (give details)	- Ask Bank to provide the necessary details generated from CBS or reporting portal with Narration - Verify the data and report the transaction which are necessity to disclose	Refer Annexure…. .
ii.	Revenue items requiring adjustments / write-off (give details)	- Ask Bank to provide the necessary details generated from CBS or reporting portal with Narration - Verify the data and report the transaction which are necessity to disclose	Refer Annexure…. .
iii.	Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days:	- Age wise details of transactions should be asked from bank - Specific comment must be asked from the bank on entries pending from more than 15 days	Refer Annexure…. .
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)	- Scrutinized the Annexures/ reports available along with BSPL - Analyze exceptional report - Ask for clarification and review according to the guidelines prescribed by RBI	No such cases found Or Refer Annexure…. .
v.	In case, any matter deserves special attention of the management, the same may be reported.	- Auditor may report any serious lacuna based on best judgment.	Full details of irregularity.
3.	**MONEY AT CALL AND SHORT NOTICE**		
a)	Has the branch kept money-at-call and short notice during the year?	- Currently such type of activities is handled by Treasury Department. - Take necessary documents from branch in this regard. - Check final accounts of branch that no such balances are present. - If branch engaged in such type of transactions, go through the authoritative guidelines of the bank and check compliance with regard to the same.	We have been informed that the branch has not kept money-at-call and short notice during the year. Such transactions are performed by Treasury department.
b)	Has the year-end balance been duly confirmed and reconciled?	- If branch engaged in such type of transactions, go through the authoritative guidelines of the bank and check compliance with regard to the same.	Not Applicable Or Branch has complied the guidelines subject to observation given in annexure…..
c)	Has interest accrued up to the year-end been properly recorded?	- If branch engaged in such type of transactions, go through the	Not Applicable Or

		authoritative guidelines of the bank and check compliance with regard to the same.	Branch has complied the guidelines subject to observation given in annexure…..
d)	Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with?	- If branch engaged in such type of transactions, go through the authoritative guidelines of the bank and check compliance with regard to the same.	Not Applicable Or Branch has complied the guidelines subject to observation given in annexure…..
4.	**INVESTMENTS (for branches outside India)**		
a)	In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions/ guidelines in this behalf issued by the controlling authorities of the bank?	- Check as per HO circulars/ instructions. - For this purpose, refer latest RBI's master circular on "Prudential Norms for Classification, Valuation and Operation of Investment portfolio by FIs".	Transactions related to purchase and sale of investments were found satisfactory w.r.t. HO circulars/instructions
b)	Have the investments held by the branch whether on its own account or on behalf of the Head Office/other branches been made available for physical verification? Where the investments are not in the possession of the branch, whether evidences with regard to their physical verification have been produced?	- Check as per HO circulars/ instructions. - For this purpose, refer latest RBI's master circular on "Prudential Norms for Classification, Valuation and Operation of Investment portfolio by FIs".	As certify by the branch, there are no Investments held by the branch on behalf of Head Office/other offices of the Bank, as investments are taken care at Head Office level only. **or** Physical verification of securities carried out and no observation/following observations were found.
c)	Is the mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located whichever are more stringent?	- Check as per HO circulars/ instructions. - For this purpose, refer latest RBI's master circular on "Prudential Norms for Classification, Valuation and Operation of Investment portfolio by FIs".	Transactions related to securities were found satisfactory w.r.t. HO circulars/instructions
d)	Whether there are any matured or overdue investments which have not been encashed and / or has not been serviced? If so, give details?	- Check as per HO circulars/ instructions. - For this purpose, refer latest RBI's master circular on "Prudential Norms for Classification, Valuation and Operation of Investment portfolio by FIs".	No Such cases observed Or Cases are given in Annexure…

5. ADVANCES

General Instructions:

(i) *The answers to the following questions may be based on the auditor's examination of all large advances. 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****. 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.*

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.

a. **LIST OF ACCOUNTS EXAMINED FOR AUDIT**

Account Number	Account Name	Balance as at year end …. Funded	Balance as at year end… non-funded	Total
Total		**A**	**B**	**C (A+B)**
Total Outstanding of the branch		**X**	**Y**	**Z= (X+Y)**
% Examined		**A as % of X**	**B as % of Y**	**C as % of Z**

b. **CREDIT APPRAISAL**

i.	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.	- Refer circular issued by HO in respect of procedure and documentation to be completed in respect of proposals, appraisals, renewal or enhancement of limits etc. - Verify documentation and formats of loan documents on test check basis. - Ask bank to provide Facility wise or Scheme wise borrower list and verify master document files of each facility on sample basis to assess the internal controls and adequacy of documentation.	We have carried out test checking of advances and ascertained that the branch has generally complied with 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. **Or** On test check basis, we observed some cases where respective guidelines not followed by the branch. Details of such cases are given in **Annexure**…
ii.	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:- • Account No. • Account Name • Balance as at year end	- Get list of new NPA accounts from bank - Verify it from the date of sanction to check the status of quick mortality - In some banks, there are some reports available who specifically provide such list. - Check reason of such NPA - Try to identify the reason of such NPA - Report as fraud if involvement of any staff or concerned persons identified.	Based on our verification of advances on sample basis, we have not 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. Or On test check basis, we observed some cases where quick mortality of loans observed . Details of such cases are given in **Annexure**…
iii.	Whether in borrowal accounts the applicable interest rate is correctly fed into the system?	- Generate Interest Dump report from the reporting software - Get Interest rate change circulars and test interest rate change effective date on sample check but at least 5-6 types of facilities should be covered. - Check interest rate in new loan accounts sanctioned during the year w.r.t. sanction letter and interest rate circulars. - Read concurrent / Revenue / RBI Inspections reports to identify cases of such deviation.	Based on sample verification of advances, the applicable interest rate is correctly fed into the system Or On test check basis, we observed some cases where interest rate not fed correctly details of which are given in **Annexure**…
iv.	Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked	- Generate Interest Dump report from the reporting software	Based on sample verification of advances, the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR

	to MCLR / EBLR (External Benchmark Lending Rate)?	- Get Interest rate change circulars and test interest rate change effective date on sample check but at least 5-6 types of facilities should be covered. - Read concurrent / Revenue / RBI Inspections reports to identify cases of such deviation.	Or On test check basic, we have observed some cases which are given in Annexure…
v.	Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.	- Check renewal register and verify it through system reports - Thoroughly check the account and its business conduct - Read and apply bank inhouse policy related to renewal / rollover - Also read and review the RBI guidelines related to rollover - Sometimes, it found that on some points bank's internal circular is different from RBI guidelines due to difference of opinion and thus being an auditor, it is our utmost responsibility to perform the audit as per RBI guidelines	Based on sample verification of advances, we have not come across cases of frequent renewal / rollover of short-term loans. Or On test check basic, we have observed some cases which are given in Annexure…
vi.	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?	- Ask banks to provide the list of accounts where credit rating is required. - Check period validity of credit rating report - If expired, then apply the consequences of non – availability of Credit rating report (interest, penalty others)	Based on verification of advances on sample basis, the correct and valid credit rating available on the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system. Or On test check basic, we have observed some cases which are given in Annexure…
C.	**SANCTIONING/ DISBURSEMENT**		
i.	In the cases examined by you, have you come across instances of: (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?	- Confirm sanctioning / disbursement discretionary power regarding advances. - Verify correspondence with higher authority in the cases of beyond delegated limit.	Based on verification of advances on sample basis, credit facilities have not been sanctioned beyond the delegated authority or limit fixed for the branch. **Or** Cases where discrepancies were observed are given in **Annexure…**
ii.	Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.	- Check the sanction files, related documents in detail manner. - Verify the disbursement w.r.t. sanction's terms and conditions.	Based on verification of advances on sample basis, we have not come across advances which have been disbursed without complying with the terms and conditions of the sanction. **Or** Cases where discrepancies were observed are given in **Annexure…**
iii.	Did the bank provide loans to companies for buy-back of shares/securities?	- Check Bank policy - Ask about it to bank and report the cases if, any	As informed, the bank does not provide loans to companies for buy-back of shares/securities

d.	**DOCUMENTATION**		
	In the cases examined by you, have you come across instances of:		
i.	Credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.	- Check documentation of various types of loans sanctioned and disbursed as per HO circular and RBI guidelines issued time to time in this regard. - Prepare annexure where irregularity was observed containing full details of the case with nature of irregularity.	In the cases examined by us, we have not come across instances of credit facilities released by the branch without execution of all the necessary documents. **Or** Details where discrepancies were observed are given in **Annexure…**
ii.	Deficiencies in documentation, including non-registration of charges, : non-obtaining of guarantees, etc.? If so, give details of such cases	- Check whether all the documents are stamped adequately and executed within 6 months from the date of purchasing the stamp paper. - Check whether any documents became time barred or not. - If found any discrepancy, then classified these accounts as per IRAC norms. - Also check the system controls & reporting thereof.	In so far as we examined, we have not come across instances of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees, etc. **Or** Details where discrepancies were observed are given in **Annexure…**
iii.	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.	- Extract the report from system where advances given by marking lien on the deposits (NSCs, Paper securities etc.). - Do sample check from the documents file of the borrower - Check whether securities matured or not. - If matured, verify that they have been adjusted against the advances or not.	Yes. Advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the controlling authorities of the Bank. **Or** Details where discrepancies were observed are given in **Annexure…**
e.	**REVIEW/MONITORING/ SUPERVISION**		
i.	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.	- Check whether Periodical statements like stock/debt statements, quarterly limited review report, insurance policy etc. have been taken or not. - Check whether Periodical review of overdue accounts by branch performed or not. - Check whether penal interest is being charged or not on account of review of account.	Based on verification of advances on sample basis, the procedure laid down by the controlling authorities of the bank, for periodic review of advances, including periodic balance confirmation / acknowledgement of debts, are generally followed by the branch. **Or** We observe that there are few accounts which have become overdue for periodic review/renewal. However, the branch has obtained short extension of tenability of the limits from the controlling/ sanctioning authorities.
	a) between 3 to 6 months, and	-	Mention Observations, if any
	b) over 6 months	-	Mention Observations, if any
ii.	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? b) Is the DP properly computed?	- Check party wise statements of stock and book debts whether they are properly segregated as per their aging - Check past years financial statements of the borrower and match with the projections - Some times it was observed that same type of stock statements was available with bank staff and they just put date on it as per requirement. In such case, kindly go through it properly and	Based on verification of advances on sample basis, the stock/book debt statements and other periodic operational data and financial statements, etc., are received regularly from the borrowers and duly scrutinized

	c) Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?	found dissatisfactory, report accordingly.	
iii.	a) Whether there exists a system of obtaining reports on stock audits periodically? b) If so, whether the branch has complied with such system? c) Details of: ➢ cases where stock audit was required but was not conducted ➢ where stock audit was conducted but no action was taken on adverse features	- Analyses of Stock/receivables Audit register and scrutinize it - Checking of Drawing Power (DP) calculation on test check basis. - In case of consortium advances, check whether guidelines issued by IBA followed by bank. - Get details from bank and review it. - Also, check whether interest or/ and penalty has been imposed or not. - If Something found adverse, then report it in LFAR and also reclassify the account according to the IRAC Norms	Yes. The branch is receiving stock/book debts statements, operational data and financial statements etc. regularly from the borrowers and subjects the same for scrutiny. **Or** Details where discrepancies were observed are given in **Annexure…**
iv.	Indicate the cases of advances to non-corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.	- Generally, branches maintain manual register to record such transaction. - Check such register with physical Statements file. - Extract report from system of non-corporate entities (proprietorship / partnership/HUF etc.) enjoying facilities exceeding prescribed limit. - Report only those cases where audit report not made available with branch. - Ask for clarification from branch and report accordingly	Based on verification of advances on sample basis, no such cases of advances to non-corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers was observed. Or Details of such cases are given in **Annexure…**
v.	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. (In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)	- Get report from bank related to advances under consortium or multiple banking arrangements - Review the due diligence report submitted and report the adverse points in LFAR, if any - Check securities details and their valuation	Based on verification of advances on sample basis, the branch has 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. **Or** Details where discrepancies were observed are given in **Annexure…**
vi.	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? 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?	- It has to be checked according the guidelines issued by HO. - Check manual register of inspection maintained by branch. - If required, ask for valuation report from independent valuer - Ask for latest photographs of property, wherever necessary - Check title documents of property very carefully	The branch is generally carrying out the inspection or physical verification of securities charged to the bank as per the procedure laid down by controlling authorities. However cases where discrepancies observed reported in **Annexure**…
vii.	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	- Analyze the calculation of working capital/ drawing power (DP) work out by branch from latest available data. - Check adequacy of stock insurance taken by party.	Based on verification of advances on sample basis, we have not come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as

	frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?	- Study the correspondence between branch and zonal/circle/HO. - Check various audit reports and observations	frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc. **Or** Details where discrepancies were observed are given in **Annexure…**
viii.	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?	- Take report from CBS about red flagged Accounts - Scrutinize the transactions and authenticity of the transactions - Review business purpose of the borrower company - To check such transactions, read related guidelines issued by regulatory authorities. - Mention in LFAR about any suspicious accounts with proper and detailed explanation received from the bank and borrower, if any - If necessity, report to the regulators separately.	Based on verification of reports, no such deviation related to bank policy observed. **Or** Details where discrepancies were observed are given in **Annexure…**
ix.	Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.	- Scrutinize the top borrowers accounts very diligently - Check transactions of the Accounts, documentation, repayment, securities, management and governance - Extract important and considerable points from Concurrent audit, RBI Audit, Rating report, valuation report etc.	Details where adverse features were observed are given in **Annexure…**
x.	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?	- Most of the branches do not deal in leasing financing activities. - To check such transactions, read related guidelines issued by regulatory authorities. -	Except the cases given in annexure, no deviation was found with regard to leasing financing activities. **Or** The branch management informed that there is no case of leasing activities.
xi.	List the major deficiencies in credit review, monitoring and supervision	- Point out the weaknesses in review/ monitoring and controlling process of the branch which was not discussed earlier.	No major deficiencies were observed. Following are the deficiencies which were observes by us during review:
f.	**ASSET CLASSIFICATION, PROVISIONING OF ADVANCES AND RESOLUTION OF STRESSED ASSETS**		
i.	a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention? b) Is this identification & classification in line with the norms prescribed by the Reserve Bank of India 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	- Check whether guidelines prescribed in *Master Circular on Prudential Norms* have been complied for assets classification. - Auditor also verifies the deposits accounts having Dr. Balances (due to interest /service charges). - Loan master data should be check w.r.t. sanction letter.	Based on verification of advances on sample basis, the Branch has identified and classified advances into standard / doubtful / loss assets through the computer system, without manual intervention **subject to the MOC given in the annexure …**

	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. d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes. e) 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. f) Whether RBI guidelines on income recognition and provisioning have been followed	- Moratorium conditions (like moratorium period, interest /principal serving, EMI calculation etc.) should be checked in system.	The Branch does not have any accounts (with outstanding in excess of Rs 10 Crores) which have either been downgraded or upgraded with regard to their classification as Non-Performing Asset or Standard Asset during the year. Or List of accounts given in annexure … Based on our verification of advances on sample basis, RBI guidelines on income recognition and provisioning have been followed subject to the MOC
ii.	a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank? b) Whether the RBI Guidelines for restructuring on all such cases have been followed. c) 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?	- Refer Master Circular on restructuring of accounts issued by RBI. - Read bank guidelines and sanction letter and mentioned conditions in related to restructuring of accounts but keep in mind that RBI guidelines will always prevail over bank's internal circulars in case of contradiction, if any - Proper documentation, approval and communication and borrower's intention should be ensured. - Ensure genuine hardship to the borrower and for the time being. In case, if we observed permanent limitation into the business of borrower, take decision accordingly.	Based on our review of advances on sample basis, the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank ***subject to the cases in annexure given…*** Or Branch does not have such type of account RBI Guidelines for restructuring on all such cases have been followed subject to the cases given in annexure…
iii.	a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India b) Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.	- Go through the transactions and business of the borrower - Check whether these transactions are genuine or accommodation in nature - Refer *Master Circular on Prudential Norms* issued *by RBI.* - If you disagree with the upgradation of account/s, discuss with the bank officers first and then report through MOC and/ or otherwise WITH COMPLETE DOCUMENTATION & BASIS OF OPINION	Based on our verification of advances on sample basis, the upgradations in nonperforming advances is in line with the norms of Reserve Bank of India ***subject to the observations given in Annexure…***
iv.	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.	- Take report of such communication in writing from branch - Verify all the accounts given in such report - Mention your comment and auditee comments with reasons of non-compliance also in such report	Based on our verification of advances on sample basis, we have not came 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 ***subject to the cases given in annexure …***

<table>
<tr><td></td><td></td><td>- Refer bank circular/ guidelines in this matter
- Review the account from the point of view of intentional act of any branch staff</td><td></td></tr>
<tr><td>v.</td><td>Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch?

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?</td><td>- Ask for such reports or communication from the controlling authority

- Identify and report the transactions and reasons thereof

- Check the adequacy of the provisioning as per IRAC and Master circular</td><td>Based on our verification of advances on sample basis, there are no accounts wherein process under IBC is mandated but not initiated by the branch

Or

Detailed observations given in annexure…</td></tr>
<tr><td>vi.</td><td>a) Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled?

b) Give details of claims rejected? (As per the given table)

c) Whether the rejection is appropriately considered while determining the provisioning requirements</td><td>- Auditor ensures that branch has established the process of identifying and reporting the claims to various departments (DICGC, ECGC).

- Obtain and verify the claims pending with departments.

- Check provisioning rules and compliance thereof

- If deviation, pass MOC accordingly</td><td>Based on our verification of advances on sample basis, the appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled

Based on our verification of advances on sample basis, no claims lodged have been rejected.

<table>
<tr><th>Particulars</th><th>Number</th><th>Amount</th></tr>
<tr><td>Claim at the beginning of the year</td><td></td><td></td></tr>
<tr><td>Further claim lodged during the year</td><td></td><td></td></tr>
<tr><td>TOTAL (A)</td><td></td><td></td></tr>
<tr><td>Amounts representing</td><td></td><td></td></tr>
<tr><td>(i) Claims accepted /settled

(ii) Claims rejected</td><td></td><td></td></tr>
<tr><td>TOTAL (B)</td><td></td><td></td></tr>
<tr><td>Balance as at year end (A-B)</td><td></td><td></td></tr>
</table>

The rejection is appropriately considered while determining the provisioning requirements.</td></tr>
<tr><td>vii.</td><td>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?</td><td>- Get list the NPA accounts where fixed assets charged to bank as security.
- Check whether valuation from appropriate valuation authority have been done once in a three year or as prescribed by bank time to time
- Check compliance of prudential norms issued.</td><td>Based on our verification of advances on sample basis, in respect of nonperforming assets, the branch has obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration.
Or
Details of such cases where non compliance observed given in annexure: …</td></tr>
<tr><td>viii.</td><td>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.</td><td>- Obtain list from the branch where settlements were executed.

- Refer guideline issued by appropriate authority.</td><td>Branch generally followed the guidelines of compromise/settlement or write-off.

From the given cases by branch, we observed some deficiencies which are given in Annexure…</td></tr>
<tr><td>ix.</td><td>Is the branch prompt in ensuring execution of decrees obtained for</td><td>- Get list of such type of accounts from branch</td><td>Based on our verification of advances on sample basis, the branch is prompt in ensuring execution of</td></tr>
</table>

<table>
<tr><td></td><td>recovery from the defaulting borrowers?

Give Age-wise analysis of decrees obtained and pending execution.</td><td>- Review in detailed manner of such accounts and mention comments in report given by bank after duly discussion
- Prepare age wise report</td><td>decrees obtained for recovery from the defaulting borrowers.
However, some observations are given in annexure:</td></tr>
<tr><td>x.</td><td>Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?</td><td>- Read the related guidelines of the bank and mechanism to conclude the recoveries.

- Ask bank to provide such report and check such cases in accordance with the prescribed guidelines.</td><td>In the cases concluded, the recoveries have been properly appropriated against the principal / interest as per the policy of the bank.

However, some discrepancies observed details of which given in annexure:</td></tr>
<tr><td>xi.</td><td>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</td><td>- It is important to mention here that to comment on such point, we must have documentary evidence about “what we asked to bank” and “what actually we got”.

- Regular follow up must be done from auditor side

- After one- or two-times reminder to junior staff, escalate the list of pendency to the senior officer of the branch to get the desired information in stipulated period</td><td>We have received the relevant documents asked by us from the branch in cases where documents are held at centralized processing centers / office except the cases in given in the annexure:</td></tr>
<tr><td>xii.</td><td>List the major deficiencies in credit review, monitoring and supervision.</td><td>- Point out the weaknesses in review/ monitoring and controlling process of the branch which was not discussed earlier.</td><td>No major deficiencies were observed.

Deficiencies which were observes by us during review were given in annexure:</td></tr>
<tr><td>g.</td><td colspan="3">NON-FUND BASED FACILITIES</td></tr>
<tr><td>i.</td><td>List of borrowers with details of LCs devolved or guarantees invoked during the year.</td><td>- Get report from CBS or reporting portal of Banks
- Get report from bank showing status and reconciliation of LCs and BGs</td><td>As informed, no LCs have devolved or guarantees invoked during the year.

Or
List of LCs devolved or guarantees invoked during the year given in Annexure…
<table><tr><th>S. No</th><th>Invocation Date</th><th>Party name</th><th>Beneficiary Name</th><th>Amount</th><th>Recovery Date</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td></tr></table></td></tr>
<tr><td>ii.</td><td>List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.</td><td>- Read RBI master circular and Bank’s internal circular to deal with it

- Get report from CBS or reporting portal of Banks</td><td>As informed, the branch does not have any LCs that have devolved or guarantees invoked during the year which are not paid.

Or

Cases reported in Annexure where the LCs have been devolved or guarantees have been invoked but not paid.
<table><tr><th>S. No</th><th>Invocation Date</th><th>Party name</th><th>Beneficiary Name</th><th>Amount</th><th>Reason for non-payment</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td></tr></table></td></tr>
<tr><td>iii.</td><td>List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.</td><td>- Verify the cases given by banks on test check basis

- Refer Bank circular and IRAC Norms</td><td>As informed, there were no instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.

Or</td></tr>
</table>

		- Review the account on the ground of Credit Risk Management - Check whether any balances are kept in any separate account. - If amount is funded from principal operate account, then such account should be classified as NPA and MOC should be passed	Refer Annexure …
6.	**OTHER ASSETS:**		
a)	Suspense Accounts/Sundry Assets		
i.	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.	- This is a fraud prone area so scrutiny of this return should be done carefully. - All the entries lying in suspense account / sundry assets must be checked thoroughly. - Clarification of all the pending entries from branch manager should be documented. - Age-wise analysis should be done of pending entries. - Check according to guidelines of prudential norms. - Provisioning of entries having debit balance and not recoverable should be done.	Based on test check performed by us, the system of the bank ensures expeditious clearance of items debited to Suspense Account. Or Some entries found irrecoverable in nature and no satisfactory replies were received from branch therefore provisioning have been provided for the same. Details of such cases are given in **Annexure:**
ii.	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?	- Identify and scrutinize the transactions very carefully. - Ask every clarification and prepare proper documents of each matter - If necessary, get clarification from RO/ ZO / HO because sometimes it observed during audit that some bank officers give confusing statement just to cover up.	No, our test checks did not indicate any unusual items in these accounts. Or Details of such cases are given in **Annexure:**

II. LIABILITIES:

1.	**Deposits**		
a)	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	- Very sensitive and much scope of fraudulent activities - Read bank guidelines related to dormant/ inactive account. - Inquire for procedure to be followed for inoperative accounts. - Review some non-operative accounts on test check basis. Check	Based on our process review, the bank has a system of identification of dormant / inoperative accounts and internal controls with regard to operations in such accounts. We did not find any cases where guidelines issued by the authority not been followed. Or Cases where the guidelines laid down in this regard have not been followed are given in annexure …

		transactions and their nature on test check basis - Ask bank to provide the list of accounts which were inoperative earlier and being operated in the audit period - Check KYC including request letter by customer. If KYC documents attached to the application looks fabricated/ ingenuine or bogus, do verify from govt website etc. on test check basis. - Check whether approvals from appropriate authority have been taken.	
b)	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.	- This is the most commonly used practice of window dressing by bank branches - To meet the target, some times unused amount of loan account (CC/ OD) transferred to deposit account. - By doing this, they are violating the rules and norms of Bank whereas by utilizing the limit of loan account, bank is losing the revenue loss on account of commitment charges/ penalty. - Analysis of deposits from 25th March to 5th April. - Obtain reasons for unusual movements (+/-). - Report the cases where no proper reasons were provided by the branch.	No. Our test check didn't reveal any unusual large movements in the aggregate deposits held by the branch in between the year-end balance sheet date and till the date of audit. Or After the balance sheet date and till the date of our audit, there were unusual large movements in the aggregate deposits held at year-end. The detailed unusual movements of deposits are given in **Annexure-**
c)	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.	- Read bank circular on deposits - Download report from bank server or ask bank to provide such report. - Check on sample basis and ensure proper documentation and compliance of guidelines	Not Applicable Or Bank has followed the guidelines as prescribed by bank in relation to FCNR (B) deposits. Or Some discrepancies observed details of which are given in annexure…
d)	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?	- Check relevant report extracted from CBS or other reporting portal - Report the cases where non maintenance charges not debited by the branch	The branch is complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts is made through the system automatically. Or Some discrepancies observed details of which are given in Annexure…

<table>
<tr><td>2.</td><td colspan="3">OTHER LIABILITIES</td></tr>
<tr><td></td><td colspan="3">Bills Payable, Sundry Deposits, etc.</td></tr>
<tr><td>a)</td><td>The number of items and the aggregate amount of old outstanding items pending for one years or more be obtained from the branch and reported under appropriate heads.
Give details thereof.</td><td>- Obtain list of all the outstanding items under the heads bills payable, sundry deposits etc. for 1 year or more.
(in prescribed format)
- Whether guidelines issued by HO in this regard are followed by branch strictly.
- verify entries in these accounts carefully on materiality basis.
- Auditor must file the details provided by branch in this regard.</td><td>No items are pending for one year or more.

Or

Details of such cases are as follows:<table><tr><td>Year</td><td>Number of Items</td><td>Amount</td><td>Remarks</td></tr><tr><td></td><td></td><td></td><td></td></tr></table></td></tr>
<tr><td>b)</td><td>Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, give details thereof.</td><td>- Ask clarification and proper & satisfactory evidences for each unusual transaction.

- Also ask to RO/ ZO/ HO for any type of explanation/ remarks, if necessity</td><td>Our test check does not indicate any unusual items or material withdrawals or debits in these accounts.

Or

Details of such cases are as given in Annexure:</td></tr>
<tr><td>3.</td><td colspan="3">Contingent Liabilities:</td></tr>
<tr><td></td><td>List of major items of the contingent liabilities (other than constituent's liabilities such as guarantees, letter of credit, acceptances, endorsements, etc.) not acknowledged by the branch?</td><td>- Obtain list of all the cases filed by the consumers against the branch in any court.
- List of pending litigation matters raised by any govt. department or any other office.
- Auditor should compare the contingent liabilities with last year's list and valuation thereof.
- Take representation from management.</td><td>It is informed by the branch management that there no contingent liabilities in the nature of pending claims against the bank not acknowledged as debts.

Or

Details of such cases given in Annexure …</td></tr>
</table>

III. PROFIT & LOSS ACCOUNT:

<table>
<tr><td>a)</td><td>Has the test checking of interest/discount/ commission/ fees etc. revealed excess/short credit of a material amount? If so, give details thereof</td><td>- Verify interest dump report on sample basis with interest rate circulars
- Check borrower master in system to check effective date of any changes in interest / penalty etc. on test basis.
- Take system generated account statement of some accounts from all the segments and ensure that in no case, interest is skipped by the banking software due to system error/fault.
- Check whether all the updation in master data is effective properly and timely.</td><td>The test checking of interest/ discount/ commission/ fees etc. has not revealed any excess/short credit of a material amount.

Or
Details of such cases given in Annexure…</td></tr>
<tr><td>b)</td><td>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).</td><td>- Read IRAC Norms, Master Circular and Closing Circular
- Income on NPA accounts required to be booked on cash basis</td><td>The branch has complied with the Income Recognition norms prescribed by R.B.I. subject to the MOC given.</td></tr>
</table>

c)	Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.	- Read concurrent audit report, revenue audit report and other reports carefully. - Verify that all the discrepancies observed by these auditors/ inspectors have been accounted for. - Check whether guidelines issued by the regulatory authority regarding manual calculation of interest on test check basis have been followed by branch. -	The test checking of interest on deposits has not revealed any excess/short debit of a material amount. Or details of such cases given in Annexure…
d)	Does the bank have a system of estimating and providing interest accrued on overdue/matured/ unpaid/ unclaimed term deposits including in respect of deceased depositors?	- Review bank policy in this regard. - If such estimation is done at HO, comment accordingly. - Test checking of interest paid on matured but not paid FDRs. - (Refer circular no. RBI/201-15/63 DBOD. No. Dir.BC.15/ 13.03.00/ 2014-15 July 1st , 2014)	The bank is having the system of estimating and providing interest accrued on overdue /matured/ unpaid/ unclaimed term deposits including in respect of deceased depositors. Or Details of such cases given in Annexure…
e)	Are there any divergent trends in major items of income and expenditure, in comparison with corresponding previous year, which are not satisfactorily explained by the branch? If so, the same may be reported.	- Prepare comparative statement of last some cut of date financials. - Identify whether there are any transfers of undrawn portion from the loan accounts to current account or deposit account. - Co-relate total interest on average deposits and average loans and report if any divergent trend observed and not replied by branch satisfactorily.	Divergent trends have been satisfactorily explained by the branch.

IV. GENERAL:

1.	**GOLD/ BULLION / SECURITY ITEMS**		
a)	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?	- Read Guidelines related to gold loan etc. - Take copy of authority letter of persons who are responsible or custodian	The system ensures that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank
b)	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?	- Review various audit report and get details of verifications done by other authorities and incorporate any points which seems material and sensitive - Review the treatment done by branch in case of any shortage / excess found during physical verification - Also take copy of communication done by branch with higher authority and check their timeliness and completeness. -	The branch maintains adequate records for receipt, issues and balances of gold/bullion and the same are updated regularly. The periodic verification does not reveal any excess/shortage of stocks as compared to book records. Or Refer Annexure:
c)	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	- Carry out the phy. Verification of all the security items incl. ATM cards & PIN Card and make entry in manual register maintained by branch of it.	The system of the Bank ensures adequate internal control over issue and custody of stationery comprising security items.

<table>
<tr><td></td><td>system is being followed by the branch? Have you come across cases of missing/lost items?</td><td>- Point out the lacunas observed in issuance, storage and controlling of the same.
- Verify that branch having policy of periodical verification of the security items</td><td></td></tr>
<tr><td>2.</td><td colspan="3">BOOKS AND RECORDS</td></tr>
<tr><td>a.</td><td>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.</td><td>- Discuss and analysis the branch working and various software and portals</td><td>There are no software / systems (manual or otherwise) used at the branch which are not integrated with the CBS</td></tr>
<tr><td>b.</td><td>i. 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 are pending compliance? If yes give details</td><td>- Take copy of IS Audit report
- Review the Action Taken report
- Ask for clarification on the observations where compliances not yet done by the branch</td><td>There are no adverse features reported in IS audit which have a direct/ indirect bearing on the branch accounts and are pending compliance.</td></tr>
<tr><td></td><td>ii. Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank.</td><td>- Get list of all the report being generated at branch regularly from branch management.
- Ensure that all the reports are being documented properly and necessary action have been taken by the branch.
. Sample list of some reports are as follows:<table><tr><td>Day book</td><td>STR-11</td></tr><tr><td>TOD report</td><td>Exceptional report</td></tr><tr><td>Master data change</td><td>Daily Login-logout report</td></tr><tr><td>Overdue balance</td><td>Inoperative accounts- transaction report</td></tr></table></td><td>Based on the process review the branch is generating, and verifying exception reports at the periodicity as prescribed by the bank.</td></tr>
<tr><td></td><td>iv. 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.</td><td>- Review the compliance report of Daily exceptional report
- Analysis the major observation
- Report accordingly</td><td>The system of bank warrants expeditious compliance of daily exception reports and there are no major observations pending for such compliance at the year end.

Or

Refer Annexure …</td></tr>
<tr><td></td><td>v. 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.</td><td>- Indicate the areas where manual intervention is required/ performed.
- Specific report is being generated from system which showing the details of manual interventions.</td><td>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.

or

This is fully computerized branch using CBS. However, following work is being performed with the help of manual intervention…</td></tr>
<tr><td></td><td>vi. 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.</td><td>- Mention any points you observed during the audit process which is related to data integrity.
Few examples are as follows:
- Time out option is available or not.
- Password policy is effective.
- Login id and password not sharing between staff.</td><td>No adverse observation was noted on data integrity (including data entry, checking orrectness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level</td></tr>
</table>

		- No ID is active of staff that had left the branch. - Rights related to entries in inoperative accounts. - Other security and internal control issues	
3.	**INTER-BRANCH ACCOUNTS**		
➢	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?	- Auditor should ask for correspondence file between HO & branch in this relation. - If any non-responded amount is still lying in ledger, it should be reported in LFAR.	The branch expeditiously complies with/respond to the communications from the designated cell/Head Office as regards unmatched transactions. Further, there are no such un- responded/un-complied queries or communications beyond 7 days. Or Details of such cases given in Annexure:
4.	**FRAUDS**		
	Furnish particulars of: a. Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.	- Take report from bank staff as branches has to file a specific report with regular interval to the authority - Prepare point after discussion with branch authority, if necessary	No such cases are there in the branch Or Refer Annexure:
	b. 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.	- Take report from bank staff as branches has to file a specific report with regular interval to the authority - Prepare point after discussion with branch authority	No such cases are there in the branch Or Refer Annexure:
	c. 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. **Few examples:** ❖ 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;	Following techniques can be used to identify the potential risk areas and reporting thereof: - Enhanced Scrutiny by Implementing professional skepticism - Questioning Assumptions & Thorough Examination - Investigative Approach - Utilizing Data Analytics by Leveraging data analytics tools - Conducting interviews with key personnel of the organization. - Conducting a thorough risk assessment to identify areas of heightened fraud risk and allocating audit resources accordingly. - Documenting all findings, suspicions, and conclusions regarding potential fraud instances and reporting them to appropriate stakeholders.	No such cases are there in the branch Or Refer Annexure:

CA. Kuldeep Gupta (KD) | Chairman – Jaipur Branch of ICAI (2022-23)
M. com, F.C.A., DISA, IFRS, CCCA, FAFD, Arbitration (London), Q.I.A, PFGA, BRSR
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	❖ 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 units etc. aren't available on the registered addresses; ❖ Round Tripping of funds, etc.		
	d. 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.	- Check status of Exceptional Reports for the year - Review Red Flag Accounts Report - Review of Concurrent/ RBI / IS Audit report and observe serious observations, if any	Based on sample verification and process review the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as Red Flag Accounts (RFA)
5.	**IMPLEMENTATION OF KYCAML GUIDELINES**		
	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	- Review of Cash deposits / withdrawals in accounts of EWS Persons (Ex. Jandhan Accounts) - Heavy and regular transactions in account with suspicious parties or organizations - Activation and transactions in dormant accounts without following the guidelines	Based on process review and sample verification the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing. Or Cases are given in annexure:
	Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors	- Reply accordingly based on your audit experiences and observations	Based on the test check carried out by us the branch has generally followed the KYC/AML guidelines
6.	**MANAGEMENT INFORMATION SYSTEM / IT**		
	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?	- Mention the observation, if any , you observed during the audit	Based on the process review 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. Based on our test checks no such cases were observed where in data integrity was compromised
7.	**MISCELLANEOUS**		
a)	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;	- Reply accordingly based on your audit experiences and observations	Yes Following observations are significant and serious in nature which require management attention. Or No such adverse comment

	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?		
b)	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?	- Reply accordingly based on your audit experiences and observations	Following observations are significant and serious in nature which require management attention. Or No such adverse comment

LFAR- important steps towards finalization:

- Read various audit reports vigilantly.
- Before finalization the LFAR, discuss with branch manager so that correct facts should be presented.
- Divide the LFAR questionnaire work between audit team members on the basis of work handled in relation to main audit report.

Conclusion

Although the time is constraint, applying proper planning and execution thereof, audit of banks would be performed very well. By avoiding the job repetition and study of various audit/inspection reports vigilantly, auditor can final the LFAR with significant findings.

As its name indicates, LFAR is a detail reports therefore branch statutory auditor should incorporate the observations in clear, quantifiable and meaningful manner after duly discussion with branch in-charge, so that proper presentation of facts would be ensured.

Disclaimer:

Although *author endeavor to take meticulous care, there can be no guarantee that such information is accurate. Author shall not be responsible for any kind of losses or damage caused to anyone on account of any error(s) or omission(s) which might have occurred.*

Also, *it is requested to readers if you found any error(s)/ omission(s) /suggestion(s), write on* kuldeepkg91@gmail.com.