Long Form Audit Report (LFAR) – A Sort of Ready Reckoner

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 or anywhere 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 cases of fraud, serious irregularities and establish strong internal control, 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 environmental and technological changes, the LFAR format is constantly amended. Last revisions in the format of such report were made in year 2003 which was made effective from 31st March, 2003.

LFAR - a basic layout

In current scenario, 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.

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 to the Chairman of the bank and such branches may not generally be subject to statutory audit. The banks in turn will consolidate/compile all such LFARs and other certifications submitted by the Concurrent Auditors and submit to Statutory Central Auditor as an internal document of the bank.
RBI/2014-15/626 - DBS.CO.ARS.BC.8/08.91.001/2014-15 dated June 2, 2015

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

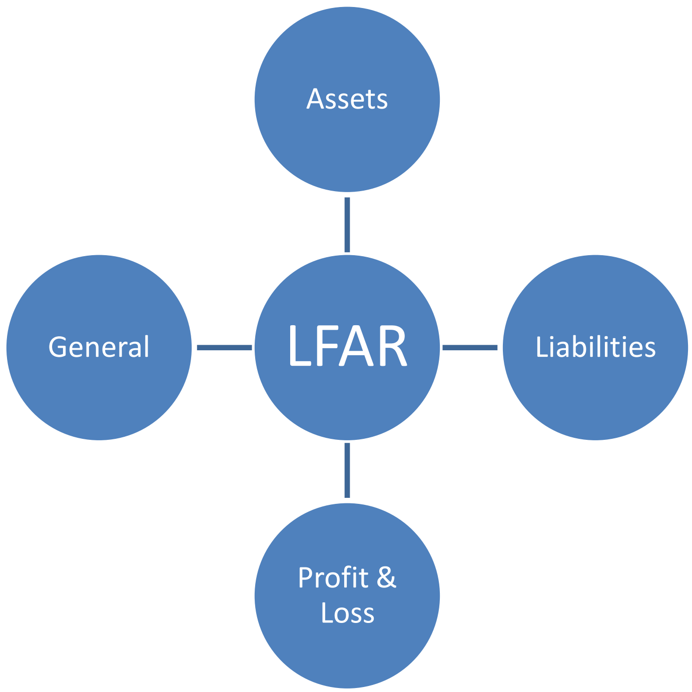
About LFAR:

- 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 / concurrent auditor to bank on RBI advice whereas main audit report is mandatory in nature pursuant to provisions 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- Formation step:

Solitary particulars on the subject of Bank **Branch** LFAR are discussed here.

Major heads of LFAR



I. ASSETS:

1. CASH

	Questionnaire	Audit Approach	Sample Remarks/ observations of Branch auditor
a)	Does the branch generally carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?	- Take copy of letter from controlling office to ascertain the cash retention limit. - Obtain system generated cash position report. - Verify cash register on random basis. - Physical verification of cash including cash at ATM/ balance with intermediary and cross check with cash position report.	We have been informed that Controlling Office had fixed Cash retention Limit of Rs. -------- lakhs. The instances where cash balance was excess are as follows: <table><tr><td>Date</td><td>Cash Balance</td></tr><tr><td></td><td></td></tr><tr><td></td><td></td></tr></table>
b)	Does the branch hold adequate insurance cover for cash-on-hand and Cash-in- transit?	- Generally such policies are supervised at HO level. - Take Xerox copy of original policies received from HO.	We have been informed by the branch management that insurance cover for cash–on-hand and cash-in-transit is taken by Head Office.
c)	Is cash maintained in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?	- Check cash position register - Verify Periodical verification report of cash (by other auditors also). - Surprise check	Yes. Cash is being maintained in effective joint custody of two officials.(name of concerned persons)
d)	Has the cash balances at the branch been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?	- Enquire bank policy - Verify Periodical verification report of cash (by other auditors also).	Yes, cash balances at the branch have been checked at periodic intervals as per procedure prescribed by controlling authorities of the Bank.

2. BALANCES WITH RESERVE BANK OF INDIA, STATE BANK OF INDIA AND OTHER BANKS

a)	Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? If not, the nature and extent of differences	- Mostly branches do not maintain such balances with other banks including RBI. - Obtain balance Conformation certificates, if any. - Check reconciliation statement	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..... .

CA. Kuldeep Gupta |M.com, A.C.A., IFRS (ICAI), CCCA +91-99299 27262 | kuldeepgupta15@hotmail.com

	should be reported.	and report accordingly.	
b)	Your observations on the reconciliation statements may be reported in the following manner:	- Prepare annexure of observations in the prescribed format.	Refer Annexure…. .
c)	In case any item 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			
	Has the Branch kept money-at-call and short notice during the year? If so, whether instructions/ guidelines, if any, lay down by the controlling authorities of the bank have been complied with?	- 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.
4. INVESTMENTS			
A.	**For Branches in India**		
a)	Are there any investments held by branches on behalf of Head Office/ other offices of the bank? If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?	- Generally such business activities are performed by Treasury Wing (HO) and no balance are available in branch books. - Obtain certificate from branch regarding investments held by branch on behalf of HO for documentation. - If branch Verify securities physically or obtain holding certificate/ confirmation.	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.
b)	Whether any amounts received as income on such investments have been reported to the Head Office?	- Check accounting of such income and confirm from branch Trial Balance. - Obtain correspondence between	Not applicable. or Accounting of income done properly.

		branch and HO for reporting purpose.	
c)	In respect of investments held by branches on behalf of Head Office /other offices of the bank whether any income is accrued/ received and recognized as income of the branch contrary to the instructions of the controlling authorities of the bank?	- Check accounting of such income and confirm from branch Trial Balance.	No such case was found.
d)	Whether there are any matured or overdue investments, which have not been encashed? If so, give details?	- Perform phy. Verification of securities/investments	No such cases were observed. Or Details of such cases are given in **Annexure…**
e)	Whether the guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with.	- Check as per HO circulars/ instructions.	Transactions related to securities were found satisfactory w.r.t. HO circulars/instructions
f)	Whether the guidelines of the Reserve Bank of India regarding valuation of Investments have been complied with.	- For this purpose, refer latest RBI's master circular on "Prudential Norms for Classification, Valuation and Operation of Investment portfolio by FIs". Note: Master circulars are issued on July 1 every year and automatically expire on June 30 next year.	Non-compliance of guidelines issued by RBI not observed.
B	**For Branches outside India**		
Reporting under this paragraph was not applicable because the audit of branches outside India is not allotted to Indian Chartered Accountants Firms. Therefore not detailed out here.			
5. ADVANCES			
i.	**Credit Appraisal**		
	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.	- 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.	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.

ii.	**Sanctioning/ Disbursement**		
i.	In the cases examined by you, have you come across instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? 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.	Generally No such cases. However, the branch is prompt in reporting all such cases to higher authorities seeking necessary ratifications/permissions. **Or** Cases where discrepancies were observed are given in **Annexure…**
ii.	In the cases examined by you, have you come across instances where 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.	In the cases examined by us, we have not come across instances where advances have been disbursed without complying with terms and conditions. **Or** Cases where discrepancies were observed are given in **Annexure…**
iii.	**Documentation**		
i.	In the cases examined by you, have you come across instances of 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.	In respect of advances examined by you, have you come across cases of deficiencies in documentation, 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.	Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the	- Extract the report from system where advances given by marking lien on the deposits	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

	guidelines of the controlling authorities of the bank	(NSCs, Paper securities etc.). - Check whether securities matured or not. - If matured, verify that they have been adjusted against the advances or not.	authorities of the Bank.
iv.	**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?	- 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.	Monitoring procedure followed by the branch found satisfactory. **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.
ii.	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?	- Age-wise analyses of Stock/debtors statement register. - Checking of Drawing Power (DP) calculation on test check basis. - In case of consortium advances, check whether guidelines issued by IBA followed by bank.	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.
iii.	Whether there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?	- Generally branches maintain manual register to record such transaction. - Check such register with physical Statements file.	Yes. The branch has complied with the system of obtaining reports on Stock Audits periodically.
iv.	Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakhs where the branch has not obtained the accounts of borrowers, duly audited under the RBI guidelines with regard to compulsory audit or under any other statute.	- Extract report from system of non-corporate entities enjoying facilities exceeding 10 Lakhs. - Report only those cases where audit report not made available with branch.	We observe that generally the branch has obtained audited accounts of borrowers in cases of advances to non-corporate entities as per Internal/RBI guidelines.
v.	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?	- It has to be checked according the guidelines issued by HO. - Check manual register of inspection maintained by branch.	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**…
vi.	In respect of advances examined by you, have you come across cases of deficiencies	- Analyze the calculation of working capital/ drawing power (DP) work	We checked some cases where no major discrepancies were observed. Details of such

	in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?	out by branch from latest available data. - Check adequacy of stock insurance taken by party. - Study the correspondence between branch and zonal/circle/HO.	cases are given in **Annexure…**
vii.	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.
viii.	Are credit card dues recovered promptly?	- Extract and scrutinize the system generated report of overdue credit card advances. - Test out the follow-up and recovery steps taken by branch. - If credit card facility is NPA, then check whether all other facilities enjoying by borrower became NPA or not. (Read master circular issued by RBI on July 1st, 2014 for guidelines on Credit card advances.)	On test check basis, we found that those credit card facility which is NPA, all the facilities availed by same borrower also treated as NPA from the same time and provisioning have been made thereof. The cases we have checked are given in **Annexure…** **or** Credit card dues are recovered promptly. No overdue thereof observed.
ix.	Has the branch identified and classified advances into standard/substandard/ doubtful/ loss assets in line with the norms prescribed by the Reserve Bank of India?	- 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. - Moratorium conditions (like moratorium period, interest /principal serving, EMI calculation etc.) should be checked in system.	With subject to the MOC given by us, branch generally classified their advances in lines with the norms prescribed by RBI.
x.	Where the auditor disagrees with the branch classification of advances into standard/ sub-standard/ doubtful/ loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated/ suggested	- Refer *Master Circular on Prudential Norms* issued *by RBI.*	Except the cases given in MOC, we agree with the branch classification of advances into Standard/ Substandard/Doubtful/Loss assets.

	in the Memorandum of Changes.		
xi.	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 list of these cases from the branch management. - Verify the actions taken by the branch for recovery of such loan.	We checked all the cases which was provided by bank branch and observed that all the loans were recovered promptly except the cases given in **Annexure…**
xii.	Have all non-performing advances been promptly reported to the relevant Controlling Authority of the bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.	- In CBS, no separate reporting of NPA accounts is required to be submitted by the branch to the controlling authority. - Auditor should get the details of rehabilitation program carry out by the branch and status thereof. - Check whether guidelines of rehabilitation have been followed by the branch or not.	As branch informed to us that all the reporting regarding NPA accounts are available with controlling authority through CBS. Details of rehabilitation programs for NPA accounts are given in annexure with current status.
xiii.	Have appropriate claims for DICGC/CGSTE and Export Credit Guarantee/ Insurance and subsidies, if any, been duly lodged and settled? The status of pending claims giving year wise break-up of number and amounts involved should be given in the following format:	- 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.	Management provides us the year wise details of the cases pending with DICGC, ECGC. Except the cases given in annexure with current status, all the claims were settled promptly.
xiv.	In respect of non-performing assets, has the branch obtained Valuation reports from approved valuers for the fixed assets charged to the bank, once in three years, unless the circumstances warrant a shorter duration?	- Get list the NPA accounts where fixed assets charged to bank as security. - Check valuation from appropriate authority have been done once in a three year or as prescribed by bank time to time - Check compliance of prudential norms (July 1st, 2015).	We check on sample basis and found that valuation report of fixed assets and stock has been taken by the branch except the cases given in **Annexure…**
xv.	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 lakhs may be given.	- Obtain list from the branch where settlements was executed. - Refer guideline issued by appropriate authority.	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…**

CA. Kuldeep Gupta |M.com, A.C.A., IFRS (ICAI), CCCA +91-99299 27262 | kuldeepgupta15@hotmail.com

xvi.	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:
V.	**Guarantees and Letters of Credit**		
i.	Details of outstanding amounts of guarantees invoked and funded by the branch at the end of the year may be obtained from the management and reported in the following format:	- Obtain certificate in given format from branch. - Check whether any balances are kept in any separate account. - If such amount is funded from principal operate account then such account should be classified as NPA and MOC should be passed.	We verified the details given by branch and observations are mentioned in following **Annexure**:
6.	**Other Assets:**		
a)	**Stationery and Stamps**		
i.	Does the system of the Bank ensure adequate internal control over issue and custody of stationery comprising security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveler's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch?	- 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. - 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	The system of the Bank ensures adequate internal control over issue and custody of stationery comprising security items. However, We have come across the instance that there is no proper record being maintained for ATM cards and PIN cards in the Bank. Branch manager replied that it is maintained by the head office itself.
ii.	Have you come across cases of missing/ lost items of such stationery?	- Put in order the documentation of phy. Verification properly and in detail. - Read all the audit reports (like concurrent audit, RBI inspection) and report about lost/missing security items mentioned in that report. - Obtain a certificate from manager incharge that items are found in order and no difference was found.	We have physically verified some security items on sample basis and some observations were observed which are given in annexure in detail format.

b)	Suspense Accounts/ Sundry Assets		
iii.	Does the system of the Bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries 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 in the following format:	- This is a fraud prone area so scrutiny of this return should be done carefully. - Clarification of all the pending entries from branch manager should be documented. - Provisioning of entries having debit balance and not recoverable should be done. - Age-wise analysis should be done of pending entries. - Check according to guidelines of prudential norms.	All the entries lying in suspense account / sundry assets were checked thoroughly. 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. <u>LIABILITIES:</u>

1.	Deposits		
a)	Have the controlling authorities of the bank laid down any guidelines with respect to conduct and operations of **Inoperative 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.	- Inquire for procedure to be followed for inoperative accounts. - Check KYC including request letter by customer. - Check whether approvals from appropriate authority have been taken. - Review some non-operative accounts on test check basis.	Yes, the controlling authorities of the bank laid down guidelines with respect to conduct and operations of Inoperative Accounts. In the cases examined by us, we have not come across instances where the guidelines laid down in this regard have not been followed.
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 management and give your comments thereon.	- This is the area where branch can window dressing. - Analysis of deposits from 25th March to last date of audit. - Obtain reasons for unusual movements (+/-). - Report the cases where no proper reasons were provided by the branch. - TDS effective date should be checked in system on Term deposits particularly in case of renewal.	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 is given in **Annexure-**

c)	Are there any overdue/ matured term deposits at the end of the year? If so, amounts thereof should be indicated.	- Extract report of overdue/matured term deposits from system. - Check whether interest is provided as per RBI guidelines.	There are overdue/matured term deposits amounting to Rs…………at the end of the year.
2.	**Other Liabilities**		
	Bills Payable, Sundry Deposits, etc.		
a)	The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained from the branch and reported under appropriate heads. Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details in the following format:	- Obtain **certified list** of all the outstanding items under the heads bills payable, sundry deposits etc. for 3 years or more. (in prescribed format) - Whether guidelines issued by HO in this regard are followed by branch strictly.	Based on details provided by the branch, all the outstanding items under the heads bills payable, sundry deposits etc. for 3 years or more are given in **Annexure:…**
b)	Does your test check indicate any unusual items or material Withdrawals or debits in these accounts? If so, report their nature and the amounts involved.	- Auditor should verify entries in these accounts carefully on materiality basis. - Auditor must file the details provided by branch in this regard.	On test check, no such observation was observed.
3.	**Contingent Liabilities:**		
	List of major items of the contingent liabilities (other than constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc.) not acknowledged by the branch?	- 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.	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 and these are valued properly also.

III. <u>PROFIT & LOSS ACCOUNT:</u>

a)	Whether the branch has a system to compute discrepancies in interest/ discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the controlling authorities of the bank? Has	- 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.	Any discrepancies observed were incorporated in various audit reports and branch rectifies the discrepancies pointed out in the audit report promptly.

CA. Kuldeep Gupta |M.com, A.C.A., IFRS (ICAI), CCCA +91-99299 27262 | kuldeepgupta15@hotmail.com

	the test checking of interest revealed excess/ short credit of a material amount? If so, give details thereof.	- Check whether guidelines issued by the regulatory authority regarding manual calculation of interest /discount on test check basis have been followed by branch. - 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.	
b)	Has the branch complied with the Income Recognition norms prescribed by the RBI?	- Refer Master Circular-prudential norms on income recognition issued by RBI. - Income recognition in case of locker rent, NPA accounts etc. should be reviewed carefully.	Yes, the branch has complied with the income recognition norms prescribed by the Reserve Bank of India. However, in the case of M/s …………Limited, the account was NPA and we have issued MOC for further interest reversal of Rs. ……………..
c)	Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid down in this regard by the controlling authorities of the bank? Has the test check of interest on deposits revealed any excess/ short debit of material amount? If so, give details thereof.	- Verify the branch system of reviewing those discrepancies and corrections thereof. - Calculation of interest accrued on deposits on cut of date. - Check documentation in respect of calculation of Interest on large FDRs carried out by branch staff.	The computed interest is authorized by the manager/officer of the relevant sections. The Branch is subject to monthly continuous audit. Our test check of interest on deposits did not reveal any excess/short debit of material amount.
d)	Does the bank have a system of estimating and providing interest accrued on overdue/ matured term deposits?	- 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/2014-15/63 DBOD. No. Dir.BC.15/ 13.03.00/ 2014-15 July 1st , 2014)	No such interest is provided at branch.
e)	Are there any divergent trends in major items of income and Expenditure, which are not satisfactorily explained by the branch? If so, the same	- Prepare comparative statement of last some cut of date financials. - Identify whether there are any transfers of undrawn portion from	Divergent trends have been satisfactorily explained by the branch.

	may be reported upon. For this purpose, an appropriate statement may be obtained from the branch management explaining the divergent trends in major items of income and expenditure.	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.	

IV. GENERAL:

1.	**Books & Records**		
a)	In case any books of account are maintained manually, does general scrutiny thereof indicate whether they have been properly maintained, with balances duly inked out and authenticated by the authorized Signatories?	- Auditor should scrutinize : ✓Whether documents have been properly maintained. ✓Properly authorized. ✓Overwriting properly authorized	The Branch is under Core Banking System (CBS). Or Books of accounts, returns and register have been maintained properly and duly authorized.
b)	**In respect of computerized branches:**		
➢	Whether hard copies of accounts are printed regularly?	- Get list of all the report being printed at branch regularly from branch management. - Ensure that all the reports are being documented properly and duly authorized by appropriate authority. - List of some reports are as follows: Day book / STR-11 TOD report / Exceptional report Master data change / Daily Login-logout report Overdue balance / Inoperative accounts-transaction report	As branch management informed us, we have verified that hard copies of important statements like Day book, STR11, Daily login-logout reports, Exceptional transactions report, TOD in C/A, OCC OD a/c, etc are printed regularly.
➢	Indicate the extent of computerization and the areas of Operation covered through manual intervention.	- Indicate the areas where manual intervention is required/ performed.	This is fully computerized branch using CBS. However, following work is being performed with the help of manual intervention…
➢	Are the access and data security measures and other internal controls adequate?	Auditor should observe that: a) Time out option is available or not. b) Password policy is effective. c) Login id and password not sharing between staff.	By and large the access and data security measures and other internal control are adequate.

		d) No ID is active of staff that had left the branch. e) Rights related to entries in inoperative accounts. f) Other security and internal control issues	
➢	Whether regular back-ups of accounts and off-site storage are maintained as per the guidelines of the controlling authorities of the bank?	- Generally such activity is not performed at branch level under CBS. - Read HO guidelines in this regard.	This being a Branch running under the Core Banking System, no separate back up is required to be taken by the branch.
➢	Whether adequate contingency and disaster recovery plans are in place for loss/ encryption of data?	- Generally such activity is not performed at branch level under CBS. - Read HO guidelines in this regard.	Disaster recovery plans are taken care of by the DIT section at Head Office.
➢	Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch?	- Put suggestive comments to improve control.	Give suggestion, if any
2.	**<u>Reconciliation of Control and Subsidiary Records</u>**		
	Have the figures, as at the year-end, in the control and subsidiary records been reconciled? If not, the last date upto which such figures have been reconciled should be given under the respective heads, preferably in the following format	- Auditor should verify that reconciliation of GL. Sub-GL has been done by branch and balances are tallied. - Take management representation letter in relation to data migration report (manual to computer)	As informed by branch incharge, branch is under CBS and the control and subsidiary records have been reconciled at the year end. However, unreconciled amount since migration of data are still lying in ledgers which are given in Annexure….
3.	**<u>Inter-Branch Accounts</u>**		
i.	Does the branch forward on a daily basis to a designated cell/ Head Office, a statement of debit/ credit transactions in relation to other branches?	- Generally Since all the banking is on CBS environment, therefore no manual report is required to be submitted. - Take representation	We have been informed that being a CBS branch, no reports are required to be sent to cell.
ii.	Does a check of the balance in the Head Office Account as shown in the said statement during and as at the year-end reveal that the same is in agreement with the Head Office Account in the general ledger?	- Auditor should verify these balances in the books of branch in random basis. - Report if any discrepancy observed.	On verification of balances at specific date, no deviation in balances was observed.
iii.	Are there any outstanding debits in the Head Office Account in respect of inter-branch transactions?	- It is a fraud prone head in bank financials. - Ask to branch for debit balances. - Auditor should take judgment	No such observation found where provisioning is required except the cases given in **Annexure:**

		whether these entries to be de charged as expenses or provisioning is required. - Take reconciliation sheet of the ledger.	
iv.	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 unresponded / uncomplied queries or communications? If so, give details?	- Auditor should ask for correspondence file between HO & branch in this relation. - If any unresponded amount is still lying in ledger, it should be reported in LFAR.	Cases of unresponded/ uncomplied transactions are given in **Annexure:**
v.	Have you come across items of double responses in the Head Office Account? If so, give details.	- Review correspondence file carefully. - Obtain replies in this regard from respective authority.	Cases where double responses have been initiated are given in **Annexure:**
vi.	Are there any old/ large outstanding transaction/ entries at debits as at year-end which remain unexplained in the accounts relatable to inter- branch adjustments?	- Scrutinize the ledgers and obtain clarification in this regard.	Cases where old/large outstanding entries are lying and remain unexplained are detailed out in **Annexure:**
4.	**<u>Audits/Inspections</u>**		
i.	Is the branch covered by concurrent audit or any other audit/ inspection during the year?	- Ensure branch is covered by concurrent .revenue/inspection audits during the period. - Read such reports carefully and check whether all the discrepancies observed in these reports have been rectified.	The Branch is subject to Concurrent/Revenue Audit/RBI inspection. We were made available Concurrent Audit report up to _____month, 2015. Last RBI inspection was conducted for the period _______ and regular inspection by the inspection wing of the bank was carried out for the period _______
ii.	In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors or internal auditors, or in the special Audit report or in the inspection report of the Reserve Bank of India? State the various adverse features persisting in the branch though brought out in these audit/ inspection reports.	- Read such reports carefully.	Yes, while framing out our audit report, we have considered major adverse comments, if any, arising out of the reports of previous statutory auditors, latest concurrent audit report, Stock audit reports and RBI Inspection Report regular Inspection Report of the bank.

CA. Kuldeep Gupta |M.com, A.C.A., IFRS (ICAI), CCCA +91-99299 27262 | kuldeepgupta15@hotmail.com

5.	**Frauds**		
	Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimize the possibilities of their occurrence.	- Take representation from branch regarding the cases of fraud occurred during the year. - Read the case and find out the modus operandi of the case.	We have been informed by the branch that no frauds have been discovered during the year under audit. **Or** **Suggestion , if any**
6.	**Miscellaneous**		
i.	Does the examination of the accounts indicate possible window dressing?	- Prepare and analyze the advances /deposits comparative statement. - Analysis of high value transactions.	On examination of accounts we do not find any window dressing.
ii.	Does the branch maintains records of all the fixed assets acquired and held by it irrespective of whether the values thereof or depreciation thereon have been centralized? Where documents of title in relation to branch or other branches are available at the branch, whether the same have been verified.	- Obtain list of all the assets procured and / or held by the branch from branch and HO. - Do physical verification of high value inventories on test check basis. - Report the cases, where discrepancies observed.	Accounting of all inventories is centralized at Head Office. The branch has also received a computerized output of all inventories at the branch from Head Office for the position as of 31.03.20XX. Our test check of major inventories listed therein didn't reveal any discrepancies.
iii.	Are there any other matters, which you as a branch auditor would like to bring to the notice of the management or the Central Statutory Auditors?	- Comment accordingly	Comment accordingly

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.

(Source: Guidance note on Bank Audit, 2015 –ICAI, circulars issued by RBI)

CA. Kuldeep Gupta |M.com, A.C.A., IFRS (ICAI), CCCA +91-99299 27262 | kuldeepgupta15@hotmail.com