BANK BRANCH AUDIT – YE MARCH 31, 2021

INTEGRATED WORK PAPER FILE

Dear Professional Colleague

This document is a Work Paper Template for Statutory Audit of Bank Branches for the year ended March 31, 2021 and is aligned to the latest LFAR as released by RBI.

The new LFAR introduced for 2020-21 branch audits covers a much larger scope and includes newer aspects such as detailed indication of samples verified, Fraud Risk Controls, specific comments on other Audits undergone by the branch and a host of other matters on which specific responses are required.

This is an indicative document which seeks to provide a comprehensive approach to managing and mitigating the Audit Risk. This has been prepared on a best effort basis and user discretion is recommended

You may write to me for a word copy of this template to sripriya@spka.in

Warm Regards

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BANK BRANCH AUDIT – YE MARCH 31, 2021

INTEGRATED WORK PAPER FILE

Bank Name	
Branch	
Year	2020-21
Date of Commencement	
Date of Completion	
Partner In Charge	
File reference **Number of Staff** **deployed** **Advances Value** **Address of the Branch** **Name of the Manager** **Phone Number** **Circle Office Contact**	

Contents

A Quick Checklist

S No	Task	Done By	Reviewed by
1.	Appointment letter from bank		
2.	No objection from retiring auditor		
3.	Letter to previous auditor		
4.	Representation Letter		
5.	Branch Auditors Report		
6.	Memorandum of Changes		
7.	Certified financial statements & Schedules		
8.	Long Form Audit Report		
9.	Certificates as per index attached		
10.	Tax Audit report Sec 44AB of Income tax Act		
11.	Audit team and time spent		
12.	Bank Officials met and discussed		
13.	Central Statutory Auditors &discussions		
14.	Scope Limitations, if any		
15.	Significant audit notes		
16.	RBI circulars		
17.	Bank Circulars		
18.	Standard Operating Procedure Manual		
19.	Guidance Note of ICAI		
20.	Audit reports of the previous year		
21.	Concurrent, Revenue Audit & Inspection reports		
22.	Stock audits of borrower accounts		
23.	Frauds reported in previous & present years		
24.	Suspense Accounts		
25.	Adverse information in public domain		
26.	Physical verification of cash and stationery		
27.	Audit Working Papers		
28.	Independent Valuation details		
29.	Forex transactions		
30.	Large advances checklist as audited		
31.	Special review of Loan accounts		
32.	Any other Working papers		

1. Appointment

a) Branch Assigned for Audit

We have been appointed as the Statutory Auditors of the ……………………… Branch of …………………………………….. ……………………………… Bank for the year 2020-21 The intimation from the bank is kept in Appendix 1

b) Audit Acceptance Letter

The audit acceptance letter has been provided to the CO and a copy is kept for our records. Related documentation including Declaration of fidelity and secrecy, Declaration of full time practice and Declaration of Indebtedness and other documents have also been attached to this section. Refer Appendix 1 for acceptance letter

c) Engagement Letter

An engagement letter has been issued and kept in Appendix 2

d) Letter of communication with previous auditor

Communication to the previous auditor M/s ………………………….. has been sent on ………………………. Vide courier ref & e mail ……………………… dated ……………………… and response has / has not been received.

Further the previous auditor has / has not been contacted over phone / e mail. Refer Appendix 3 for Communication sent and response received. Refer Appendix 3

e) Representation letter

Management Representation letter has been obtained at the conclusion of the audit as per the format prescribed and kept in Appendix 4

Notes and Remarks, if any on above aspects

2. Key Reports and Certificates

a) **The** following key reports / certificates are required to be issued by us

- Branch Auditors report
- **Memorandum of Changes if any**
- Certified / Attested financial statements including Schedules
- Long Form Audit Report
- Certificates as per CD provided by the bank / instructions of the bank
- Tax Audit report under Section 44AB of the Income tax Act (if required by the bank)

Notes and Remarks, if any on above aspects

3. Audit Instructions and Team

a) The Branch audit instructions as received from the Head / Circle office in a CD / hard copy have been duly cognised for in the preparation of this integrated work paper document. This is kept in Appendix 5

b) The audit was commenced on ……………. and completed on …………………. By the following team

Name	Designation	Days	From	To
	Partner			
	Qualified Paid Assistant			
	Audit Assistant			
	Articleship trainee			

4. Details of Bank Officials

a) The branch is classified as ELB / Large / Metro / Urban / Semi urban / Rural / Specialised / Retail Trade hub / Others ……………………….(specify) (note : ARMB / Treasury etc to be specified)

b) The details of Bank Staff from whom data / records / information and explanations were solicited / obtained for the purpose of this audit are as under

Designation	Name / Mobile Number	Grade
Branch Manager		
Loans Officer		
Deposit Officer		
Other Officers		

5. Details of Circle Auditors or Central Statutory Auditors

The Circle and Central Statutory Auditors attached to the branch and details of communication with them is as under. In addition to telephonic conversations , mails have also been sent to discuss key aspects as a matter of record. In case of telephonic conversations, the same have been minuted and sent to the CSA or Central Auditors

	Central Statutory Auditor	Circle Auditor
Name		
Address		
Phone number		
Partner in charge		
Dates of communication and reasons for being in touch with the auditor		
Matters, if any discussed with the auditor and Conclusion of such matters		
Details of mails sent and received from them		

Notes and Remarks, if any on above aspects

6. Report, Returns and Certificates

a) We are required to certify and complete the following individual reports / returns and certificates (modify as necessary based on banks standard instructions). The number of copies of each submission, applicability and / or completion status is also as under. (***Please specify the exact requirements of the bank audited by you instead of the below mentioned list of documents)***

b) Schedules initialed for Identification Purposes

In case of any schedules not audited by us (eg. Sep 30 A/L, P/L etc) these may be signed with a seal as "Initialled for Identification purposes only"

S No	Index (Illustrative)	No of copies	Completion Status
	RETURNS		
1	BS - 1 Liabilities		
2	BS - 2 Assets		
3	BS - 3 Expenditure for the half year ended ….		
4	BS - 4 Income for the half year ended …		
5	Final A & L as on 31-03-21		
6	Final P & L for the year 31-03-21		
7	BS - 7 Statement of Claims made against the bank not acknowledged as Debt		
8	BS - 8 Details of Restructured Account		
9	BS - 9 Details of Country wise, Risk Category wise exposure		
B	**Supplementary to BS Schedules**		
10	SUPP. B – BREAK UP OF LCS, GUARANTEES, ETC.		
11	SUPP. C – CLASSIFICATION OF ADVANCES		
12	Supp D - Break up of sundry receivables and sundry deposits.		
13	SUPP. E1 & E2 – EXPOSURE TO SENSITIVE SECTOR		
14	Supp F - information relating to DSB 1 and additional information		
15	SUPP. G – CASH & BANK BALANCE FOR SELECT NON-FRIDAYS		
16	Supp H - Residual maturity pattern of forex advances / deposits		
17	SUPP. K - PARTICULARS OF EXPENDITURE AND INCOME RELATING TO PREVIOUS YEARS		
18	SUPP. M – BREAK UP OF PAYMENTS TO AND PROVISIONS FOR EMPLOYEES		
C	LA General and LA Suit Filed as at 31-03-21		
19	Loan Analysis Summary		

S No	Index (Illustrative)	No of copies	Completion Status
20	Recoveries made in Select Borrowal accounts from April to March 2021		
21	Control Sheet for NPA, Income Recognition, Movement of NPA and Interest reversal of NPA		
22	BS - 3 Expenditure for the half year ended 30-09-20		
23	BS - 4 Income for the half year ended 30-09-20		
24	Supp M - 30-09-20		
25	SFVM inventory statement		
	Any others as may be specified		

Notes and Remarks, if any on above aspects

S **No**	**Index**	No of copies	Completion Status
	<u>CERTIFICATES</u>		
	Branch Audit Report		
	Annexure A to E (Memorandum of Changes) forming part of the Audit report		
	Questionnaire in addition to Branch Audit report		
	PMRY scheme		
	Form of Certificate on sharing of recoveries in claim settled accounts under SLGS 1971/SLGS(SSI) 1981		
	Interest Subvention claim		
	Interest relief on Rupee Export credit		
	Compliance of Accounting Standard 11 as per Annual Closing Circular		
	Technology upgradation fund scheme		
	Capital subsidy scheme for processing machinery		
	Long Form Audit report		
	Tax audit report		
	SLR / CRR		
	Ghosh Committee Report		
	Jhilani Committee Report		
	Statement of Capital Adequacy		
	Statement of Risk Weight Assets		
	Certificate of passing previous year MOC		
	Certificate of Compliance with Income recognition, Asset Classsification and provisioning norms		
	Provision for sacrifice under NPV method for restructured advances		
	Provision held on upgraded restructured advances for two years		
	Sector wise, security wise and asset classification wise statement		
	Certificate of Lending to Sensitive Sector		
	Certificate of Cash Margin held		
	<u>Specific reports and certificates if any on Covid 19 exempted accounts</u>		

7. Final Notes for Attention of Partner

a. Scope Limitations, if any

The following scope limitations have been appropriately dealt with in the Audit report of the branch / LFAR and suitably highlighted as matters of emphasis .

The Branch management has not been able to furnish the following details / records / explanations in connection with the audit

Information requested and not provided	Amount	Impact on audit, if any	Management Comments

b. The following unit visits requested by us could not be undertaken due to the following reasons

Information requested and not provided	Amount	Impact on audit, if any	Management Comments

c. Non availability of Reports

Reports	Available	Not Available
Branch Audit report		
Internal Audit report		
Concurrent audit reports		
RBI Inspection		
Others		

c) Significant Audit Notes

The following matters have been observed during the audit. These matters have been classified as

- Qualification in audit report
- MoC Prepared
- Discussion pending for attention of partner
- Taken to LFAR
- Ignored due to immateriality
- Any other

Matters for Consideration	Impact	Final Resolution

d) Signed Copies of Financial Statements

The final set of financial statements, reports , certificates etc as provided by us is kept in Appendix ..

Notes and Remarks, if any on above aspects

8. Guidance Documentation

a) **RBI Master Circular**	**Obtained and Reviewed**
RBI issues master circulars every year on July 1 of the year. This was discontinued on Jul 2015. Subsequent modifications have been made as standalone circulars.	
The specific circulars for the components to be audited need to be reviewed . Check RBI website for the key circulars and notifications	
b) **Closing Circular issued by the bank**	
All major banks provide a CD containing the Closing circular and Audit instructions which would include a description of the key risks, components, lists of returns and certificates and the target dates. This data needs to be reviewed before the commencement of the audit	
c) **Audit reports of the previous year**	
Signed copies of the financial statements and Audit reports of the previous year need to be obtained from the branch . If this is not available, the same needs to be highlighted to the Regional Office as well as indicated in the LFAR and to be considered as a Scope Limitation and document in the previous segment .	
d) **Various Audits / review reports / inspections conducted by the bank / RBI**	
Copies of above mentioned reports of the previous year need to be obtained from the branch. If this is not available, the same needs to be highlighted to the Regional Office as well as indicated in the LFAR and to be considered as a Scope Limitation and document in the previous segment . There is a specific segment on this in the new LFAR	
e) **Guidance Note on Bank Audits**	
The ICAI has published a detailed guidance note on Bank Audits. Specific segments of this guidance note may be referred for the components under audit. Please download from ICAI website	
The Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India has issued the Guidance Note on Audit of Banks. For the benefit of members, complete text of the Guidance Note and the contents of accompanying CD can be downloaded at:	
f) **Auditing Review and Other Standards** The work has been planned and performed in accordance with the following Auditing, Review and Other Standards as prescribed by the Institute of Chartered Accountants of India to the extent applicable for the engagement	
g) **Accounting Standards as may be relevant to banks to be considered**	

SA reference	Description
SA 200	OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING.
SA210	AGREEING THE TERMS OF AUDIT ENGAGEMENTS.
SA220	QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS.
SA230	AUDIT DOCUMENTATION.
SA240	THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS.
SA250	CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS.
SA260	COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE.
SA265	COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT.
SA299	RESPONSIBILITY OF JOINT AUDITORS.
SA300	PLANNING AN AUDIT OF FINANCIAL STATEMENTS.
SA315	IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT.
SA320	MATERIALITY IN PLANNING AND PERFORMING AN AUDIT.
SA330	THE AUDITOR'S RESPONSES TO ASSESSED RISKS.
SA402	AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION.
SA450	EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT.
SA500	AUDIT EVIDENCE.
SA501	AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS.
SA505	EXTERNAL CONFIRMATIONS.
SA510	INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES.
SA520	ANALYTICAL PROCEDURES.
SA530	AUDIT SAMPLING.
SA540	AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES.
SA550	RELATED PARTIES.
SA560	SUBSEQUENT EVENTS.
SA570	GOING CONCERN.
SA580	WRITTEN REPRESENTATIONS.
SA600	USING THE WORK OF ANOTHER AUDITOR.
SA610	USING THE WORK OF INTERNAL AUDITORS.
SA620	USING THE WORK OF AN AUDITOR'S EXPERT.
SA700	FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS.

SA reference	Description
SA705	MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT.
SA706	EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT.
SA710	COMPARATIVE INFORMATION— CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS.
SA720	THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS.
SA800	SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS.
SA805	SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT.
SA810	ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS.
SRE2400	ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS.
SRE2410	REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY.
SAE3400	THE EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION.
SAE3402	ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANISATION.
SRS4400	ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING FINANCIAL INFORMATION.
SRS4410	ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION.

9. **Key Risks**

The key **risks** in Bank Branch Audits are as under . All our audit procedures should be directed at minimizing these audit risks

- Material Misstatement of Income, Expenses, Assets or Liabilities.
- Unrecorded liabilities and Contingent liabilities
- Asset Classsification and NPA provisions not adequate for impaired assets
- Asset Classification and Income Recognition especially for restructured assets
- KYC / AML norm compliance related issues
- Internal control failures over banking operations including potential / undetected frauds
- Wrong certification
- Transactions not authorized or adequately authorized
- Transactions not in compliance with Bank / RBI guidelines
- Misapplication of advances not for intended end use
- Account level frauds and impact on Audit Opinion
- Non identification of NPA accounts

10. Branch Overview

a) Products dealt by the bank branch

Fund based Asset products	Fee based Asset Products	Liability Products
Cash credit	Bank Guarantees	Savings Accounts
Overdraft	Letters of credit	Current Accounts
Home loans	Money transfers	Recurring Deposits
Personal loans	Letters of Undertaking	Term Deposits
Vehicle Loans	Letter of Comfort	Any other
Jewel loans	Any other	
Business Loans		
Term loans		
Loans against financial assets		
Any other		

b) Key data

Description	2020-21	2019-20
	Rs. Lakhs	Rs. Lakhs
Total Assets		
Total liabilities		
Total Advances		
Total Deposits		
Income		
Expenditure		
Profit / Loss		

c) **Target Vs Accomplishment**

Description	2020-21	2019-20
	Target Rs . lakhs	Actual Rs . Lakhs
Total Advances		
Total Deposits		
Rating of the Branch		

d) Advances Overview - top 10 advance categories of the branch

S No	Category of advances	2020-21	2020-21	2019-20	2019-20
		Rs . lakhs	No of accts	Rs . lakhs	No of accts
1	Cash Credit				
2	Overdraft				
3	Term loans				
4	Crop loans		As attached		
5	Housing loans				
6	Jewel loans				
7	Personal loans				
8..					
10	Other advances				
	Total Advances				

e) Large Advance Profiling

List of advances greater than the specified value to be covered for detailed checking are as under

The LFAR 2021 requires that advances 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 needs to be checked**

S No	Account reference / name	2020-21	2020-21	2019-20	2019-20
		Rs. lakhs	No of accts	Rs. lakhs	No of accts
1					
2					
3					
4					
5					
6					

f) Customer wise advances

Based on our discussions with the branch manager, these advances belong to the same party and are considered for checking on a collective basis as slippage in one account could result in NPA status for all accounts

S No	Customer Name	Facilities	2020-21
			Rs. lakhs
1		1	
		2	
		3	
2		1	
		2	
		3	
3		1	
		2	
		3	

g) Advance profiling by value

S No	Slab - Rs Lakhs outstanding	2020-21	2019-20
		Rs. lakhs	No of accts
1	< Rs 1 lakh		
2	Rs 1 – 5 lakhs		
3	Rs 5 – 10 lakhs		
4	Rs 10 - 50 lakhs		
5	Rs 50 lakhs – Rs 1 Crore		
6	Rs 1 to 2 Crores		
7	Rs 2 to 5 Crores		
8	Rs 5 to 10 Crores		
9	> Rs 10 Crores		

h) Deposit profiling

S No	Category of deposit accounts	2020-21	2020-21	2019-20	2019-20
		Rs. lakhs	No of accts	Rs. lakhs	No of accts
1					
2					
3					
4					
5					
6	Others				
	Total Deposits				

i) Restructured advances

The following are the advances restructured by the branch and to be reviewed for compliance with restructuring terms and conditions as per revised sanctions. Repeated restructured accounts will also be reviewed

S No	Account reference / Name	During 2020-21	2019-20	2020-21
		Rs. lakhs	Rs. Lakhs	Rs. lakhs
1				
2				
3				
4				
5				

j) Interest rate and other charges on major advances (specify range)

Advances Type	Interest %	Charges %	Charges %	Charges %

k) Interest rate on deposits

Deposit type	Days	Interest %

l) Top Deposit Holders

Name	Acct Number	Amount

m) Any frauds reported in the present year

Note on frauds reported at the branch. If the manager has stated that no frauds have been occurred during the period, please note the date and time of such conversation and obtain a sign off in the representation letter . There is a specific segment on this in the new LFAR

n) Any frauds reported in the previous year

In respect of frauds in the previous year, note down the actions taken and adequacy of provisions for fraud related losses in the financials for such cases . There is a specific segment on this in the new LFAR

o) Items in suspense accounts

Review items in suspense accounts (Debit and credit) pending for a significant period of time. More than 6 months may need provisions. Less than six months also needs to be investigated for potential losses, fraud risks . There is a specific segment on this in the new LFAR

p) Information in the public domain

We have scanned the public domain for information pertaining to the Bank and we report as under, the relevant news clippings / video clips have been presented to the partner for review

q) Asset Classification as of date of audit

S No	Category	2020-21	2020-21	2019-20	2019-20
		Rs. lakhs	No of accts	Rs. lakhs	No of accts
1	Standard				
2	Substandard				
3	Doubtful				
4	Loss				
	Total advances				

r) NPA Movement

Account ref	Pre-Audit	NPA 2020-21
Opening NPA		
Add: Additions		
Add: Additions MoC	Nil	
Less: Repayments		
Add: Legal Costs etc.		
Closing NPA		

s) Details of NPA Accounts

Account ref	NPA – 2018-19	NPA 2020-21

t) Year end – post year end transactions

Significant movements in year end balances are as under. Significant changes after year end will also have to be reviewed to check for possible window dressing of account balances. This would be done by review of cash, clearing and transfer vouchers of the branch

Account ref	Date of audit	March 31, 2021	(Date of audit report)

u) MSME

In case of a borrower being an MSME, restructuring, if any has been done in accordance with the RBI notification reproduced as under:

shall be applicable.

v) COVID 19

All NPA classifications are done in accordance with the Covid 19 notification of the RBI

11. Audit Strategy

a) Overall Approach

Based on our high-level review of the branch data, loans and deposits CBS files and based on discussions with the Branch manager the following is proposed as the audit strategy. **-** The audit strategy will envisage a top-down approach which involves understanding the Balance Sheet and P & L and a drill down to perform compliance and substantive procedures at a component / transaction level

- Top-Down Approach to audit
- Understanding of the internal control framework
- Utilization of Other Audit reports – Revenue, Inspection and Concurrent audit reports
- Review of previous years audit reports
- Identification of high-risk areas which are also material
- Focus on Advances, Income, provisions and KYC for deposits
- Focus on revenue leakages and non-fund-based products
- Focus on foreign exchange transactions if any, by authorized branches
- Unit visits to confirm existence, End use of advances
- Compliance with Auditing Standards, including SA in reference to Documentation

b) Internal Control Framework

Discuss with the manager on the following elements of the Internal Control Framework and ensure that these are in place

- Detailed Operating Procedure manuals
- Delegation of powers and Authorization of transactions (Maker – Checker controls)
- Segregation of duties and Independent Checks and balances
- Controlled Maintenance of records and documents
- Elaborate system of Accountability for assets of the bank
- Extensive computerization and procedure standardization
- Basic IT General Controls compliance, including passwords, access restrictions etc.

12. Other Audits

Review Notes of Concurrent, RBA, Inspection Reports and Stock audit reports of borrower accounts (LFAR – MISCELLANEOUS)

Reports	Conducted / Report date
Previous year audit report	
Internal Audit under Companies Act 2013	
Risk based Internal Audit	
Revenue Audit	
Inspection	
Concurrent Audit	
Stock Audit	
Vigilance Audit	
Systems Audit	
RBI inspection	

S No / report	Account reference / nature of issue / date of report / Page number	Amount	Present Status – Rectified, LFAR, MoC, Unadjusted	Impact, if any on audit strategy

13. Cash

LFAR 20-21 Requirement	Comments
a. 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?	• Obtain the Bank Guidelines • Ensure Joint Custodians exist • Ensure that Joint Custodians are the relevant hierarchy • Ask for vault and ATM to be opened and ensure it is done by the Joint Custodians only • Verify Key register • Verify duplicate key protocols, if any • Document compliance in Working Papers • Obtain Cash Certificate from Branch
b. 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?	• Obtain the Bank Guidelines for verification • Guidelines would usually be daily or monthly • Ensure Compliance with the same • Ensure that the verification is evidenced • Document months / days verified in working papers
c. (i) Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?	• Obtain Cash Retention limit for Branch and ATM • Obtain Cash Retention limit ATM • Obtain Daily balance of Cash report for both • Verify Compliance • Record dates where balances are significantly higher • Check if these have been reported to HO
c. (ii) 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.	• Obtain balance as at 31 March 2021 from Books for ATM Cash • Conduct physical verification as at visit date • Perform roll back procedures if visit is not at closing of March 31, 2021 • In case of difference, the same must be reported • Obtain Cash Certificate from Branch
d. Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit?	• Check if insurance is obtained by HO • Obtain copy of policy or representation from HO • Obtain daily cash balance register • If Insurance copy is available, check if the cover is sufficient • If unable to perform this procedure, state so in the LFAR

14. Balances with RBI, SBI and other Banks

LFAR 20-21 Requirement	Comments
a. 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.	• Obtain Balance Confirmation • Obtain Bank Reconciliation Statement • Verify the reconciliation of balances as per confirmation • Trace the balance confirmations with the Books of account maintained by bank • To check the Old Reconciliation items
b. Observations on the reconciliation statements may be reported in the following manner: (i) Cash transactions remaining un-responded (give details)	• Identify cash transactions pending in reconciliation un-responded • Obtain and furnish details about the un-responded entries • Furnish reasons for such un-responded entries
b. (ii) Revenue items requiring adjustments / write-off (give details)	• Check Charge entries pending for adjustment and write off • Check for other entries pending for adjustments and write off • Comment on such charge entries which should have been debited to expenses account or provisions to be passed for amounts not recoverable • Such cases should also be recommended in MoC
b. (iii) Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days:	• Review Reconciliation of "Their Books" Vs "Branch books" • Non-revenue items which are featuring in the reconciliation to be reported • Test check the reconciliation
b. (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)	• All entries "in transit" as at year end need to be reported separately in relation to the aspect of only currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest

LFAR 20-21 Requirement	Comments
c. In case, any matter deserves special attention of the management, the same may be reported.	• Report entries that need special attention of the management in reconciliation which cannot be classified in the earlier paragraphs only

Notes and Observations to LFAR

15. Money at Call and Short Notice

LFAR 20-21 Requirement	Comments
a. Has the branch kept money-at-call and short notice during the year?	• State yes or no. This is not only as at year end but during the year • Check if this is applicable to the branch • Read instructions received from HO with regard to amount deposited. • Report unauthorised deposits.
b. Has the year-end balance been duly confirmed and reconciled?	• Obtain Confirmation of all such balances, if any • If Confirmation has not been obtainable, state so • Check Reconciliation • Report any pending items not subsequently cleared after March 31, 2021
c. Has interest accrued up to the year-end been properly recorded?	• Check if interest at applicable rates is properly recognised
d. Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with?	• Verify whether instructions/ guidelines laid down by the controlling authority been complied by branch. • Any deviation, same should be commented.

Notes and Observations to LFAR

16. Investments (for Branches Outside India)

LFAR 20-21 Requirement	Comments
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 if this was at all applicable to the branch • Verify instructions from Corporate office regarding accounting of income on investments. • Comment in case of breach of instructions of controlling authorities of the branch.
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?	• Obtain confirmation – Held or not held during the year • Physical verification of investment certificates with the investment register. • If not available, verify evidence for not keeping the same in possession. • If sent for realisation, verify acknowledgment. • Neither of the above comment.
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?	• Obtain corporate office guidelines for valuation of investment. • Obtain statement showing the basis of valuation of investment. If statement not received, comment accordingly in report. • In case valuation breaches guidelines, impact of the same on profit should be reported along with deviation details.
d. Whether there are any matured or overdue investments which have not been encashed **and / or has not been serviced?** If so, give details?	• Verify the Investment register • Give details of such investments

Notes and Observations to LFAR

17. Loans and Advances

LFAR 20-21 Requirement	Comments
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.	• Obtain a list of all large advances > 10% • All such advances have to be examined where they exceed Rs 10 crores. • For large advances, all details in the LFAR and for other advances, process to be commented upon. • If no large advances as per LFAR threshold, select the top most advances that amount to 60% (say) of the total advances for checking and reporting.
General Instructions 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.	• This requires a very qualitative comment by the Auditor and the results of all work papers needs to be summarised and presented •
(ii) The critical comments based on the review of the above and other test check should be given in respective paragraphs as given in LFAR given below.	• Same as above, the observations needed to be given in the specific paras. Example Roll over / documentation etc
(a) List of accounts examined for audit	• Need to make an excel checklist giving Account number, Name, (Type of Loan). Placing in descending order of value of advances is recommended

<table>
<tr><th>LFAR 20-21 Requirement</th><th>Comments</th></tr>
<tr><td>

Account No.	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
Percentage examined		A as % of X	B as % of Y	C as % of Z

</td><td></td></tr>
<tr><td>(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.</td><td>• Examine the related documents and appropriate forms as prescribed according to the nature of loan/limit
• Verify such documents and form opinion
• Comment on the key issues where there are deviations from the procedures/instructions of controlling authorities</td></tr>
<tr><td>(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</td><td>• All loan accounts and CCOD accounts in the last one year need to be identified in the Advances file and CCOD file to comment on the same. All NPA of new accounts needs to be reported here. For CC OD, the entire list may be reported here.</td></tr>
<tr><td>(iii) Whether in borrowal accounts the applicable interest rate is correctly fed into the system?</td><td>• Check the interest rate as per document and interest rate as per system to ensure that there are no mismatches. This can be a block check for large accounts and more random samples to cover all loan types and CCOD</td></tr>
<tr><td>(iv) Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR (External Benchmark Lending Rate)?</td><td>• Obtain interest rate master and check with interest rate circulars</td></tr>
</table>

LFAR 20-21 Requirement	Comments
	• Test check for dates when interest rate was revised for large accounts and sample of accounts across all loan types
(v) Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.	• Check CCOD accounts particularly where annual renewal has not been done and report on all such cases
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?	• Obtain the value of loans for which credit rating is applicable as per bank norms • Check if rating report is available • Check if correct rating has been fed
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?	• Identify the major instances which needs reporting if exceeds DFP • Verify whether the Credit facilities were sanctioned beyond limits defined as per delegation of financial powers • Check if such instances have been reported to the Higher authorities as per prescribed procedure • In case of Non-reporting, Report the same
(ii) Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.	• Identify the Terms and conditions to be fulfilled for the disbursement of Loan as per the Sanction Letter • Check Sanction letter with system data • Identify the instances where loan may be disbursed without complying the Terms and conditions mentioned in Sanction Letter • Report such instances
(iii) Did the bank provide loans to companies for buy-back of shares/securities?	• List all the Corporate Borrowers of the branch. • Check the purpose of the loan. • Check end use. Example, If for Plant and Machinery such invoices etc should be available.

LFAR 20-21 Requirement	Comments
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.	• Identify the list of documents to be obtained from borrower for various types of credit facilities, available in bank loan manual or bank circulars. • Comment on cases where there are deviations in execution of documents as per procedure • Comment on details of accounts and documents not obtained
(ii) Deficiencies in documentation, including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.	• Report the instances where there are deficiencies in documentation as mentioned. • Disclose the no. of such deficiencies to identify the pattern and the monetary value of such deficiencies.
(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.	• **Key points which can be verified by auditor are given below:** ✓ Lien of FDR receipt has been marked by branch officials. ✓ FDR is properly discharged by ✓ all the parties to deposit. ✓ Signature discharging the FDR has been verified by branch officials. ✓ In computerized branches, lien has been marked in computer also. ✓ Similarly, in case of loans against LIC/NSC/KVP, lien has been got marked in favour of bank from LIC/Post office as per prescribed procedure. ✓ All such securities matured but not adjusted in loan
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. a) between 3 to 6 months, and	• Verify whether branch has followed procedures laid down by bank for timely review/renewal. • Comment on any deviation in process. • Verify the following important aspects: ✓ At the time of review/renewal, there is system of recording adverse remarks already reported in internal audit

LFAR 20-21 Requirement	Comments
b) over 6 months	report/concurrent audit reports in review note. ✓ There is system of obtaining the latest balance sheet, other supporting papers, key information required for review/renewal.
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?	• Verify stock/book debt statements/ QIS data, other periodical operational data and financial details are being received regularly as prescribed. • Comment on statements not received with detailed particulars of account and period since when statements not received. • Review actions taken by the branch. If no action taken in terms of letters etc to borrowers then the same should be reported. • Verify that statements received are being scrutinized by branch officials and if there is any adverse observation, suitable action has been taken by branch. • Comment in report with details of accounts if process is not being followed.
(ii) b) Is the DP properly computed?	• Check the DP norms as per bank procedure. • Check computation of DP with reference to financial statements as furnished. • Test check with reference to Stock and Book Debts Reporting. • Review carefully and report suspicious DP.
(ii) c) Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?	• Check if latest financials are available on record. • Report all exceptions where this is not available. • While reporting also report the last audited financials which are available on file.

LFAR 20-21 Requirement	Comments
(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?	• Verify if that branch is obtaining stock audit reports periodically in all the cases as required by bank policy. • Comment in report of such non-compliances. • Further, verify deficiencies, reported in report, have since been rectified • If pending give the details of pending issues.
(iii) 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	• Stock and Book debts audit are the fundamental requirements for DP and sanction limits. • Report all exceptions.
(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.	• Obtain from branch a complete list of all the accounts where limits have been sanctioned or renewed say, beyond Rs.10 lacs. • Verify that in all cases, branch has obtained the latest audited accounts of borrowers. • In case of deviation, give the details of all such accounts along with sanctioned limit and outstanding balances
(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. (v) (In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)	• Obtain the list of all Consortium and multiple banking customers • Obtain the policy of the bank and the RBI directions. • Check compliance. • Report all non – compliances. • In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record.
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?	• Obtain a list of cases where physical verification is not done as per prescribed guidelines.

LFAR 20-21 Requirement	Comments
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?	• Review inspection register maintained by branch to find out such accounts
(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 frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?	• Identify any deficiencies in value of securities, frequent overdrawing, un-authorised overdrawing, inadequate insurance cover • Give detailed particulars of these accounts along with adverse features observed. • Verify that there should not be major variation between stock/ book debts/ creditors figures being submitted in monthly statement and audited accounts, in case of cash credit limits. • Comment on any material variation between both the figures, particularly at balance sheet date of the borrower without any justification
(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?	• Obtain bank policy on Red Flag of accounts • Review Framework for dealing with loan frauds from the RBI website • Perform review for such red flags independently also to the extent information is available
(ix) Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.	• Consider such accounts and report separately here even if the same has been reported in other clauses. Indicate the % to the total advances in such cases.
(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	• Verify whether prescribed guidelines on noted issues and comment if there is any deviation.

LFAR 20-21 Requirement	Comments
the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities?	
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	• Verify that branch has identified and classified advances as per following RBI circulars • Verify the deposit account having debit balances due to charging of service charges/interest time to time and pending for recovery since long. Verify whether, prudential norms on Income Recognition, Asset Classification and Provisioning have been followed. • Comment on any deviation to RBI circular and HO instructions and MOC should be given if required
c) Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA-1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.	• Understand SMA 0, 1, 2 classifications based on overdue of 30, 60, 90 days • Check the loan balance and CCOD file, the marking would be present • Comment on classifications not agreeable, given by branch, • Give details along with reasons for the same.
d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes.	• Indicate whether suitable changes have been incorporated in Memorandum of changes also
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.	• Obtain the list from the bank of such movements across categories. This is a compulsory list to be provided by the branch and can be used after Test Checks
f) Whether RBI guidelines on income recognition and provisioning have been followed.	• Obtain the IRAC norms • Check for compliance by review of master data and at an account level for selected large advances and other random sample

LFAR 20-21 Requirement	Comments
(ii) a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?	• Obtain the list from the bank • Enquire the system report reference which can provide this data from the Central Statutory or Circle auditors • Obtain list reported to controlling authority
(ii) b) Whether the RBI Guidelines for restructuring on all such cases have been followed.	• Review compliance with RBI guidelines on restructuring.
ii) 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?	• Review compliance with bank and RBI guidelines on such accounts. For example, repeated restructuring is not possible and the account has to be downgraded.
(iii) a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India	• Review compliance with bank and RBI guidelines on such accounts.
(iii) b) Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.	• All deviations as observed by the Auditor may be reported along with a small note on the matter and discussions with Branch Head.
(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.	• Obtain specific (seek and obtain) information from the Controlling office of the branch and maintain on Audit file. • Check compliance • If such list is not provided, state so
(v) 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?	• Obtain RBI circular and bank procedure in this regard • Ensure compliance • Obtain specific list of cases under IBC and report on the same
(vi) a) Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled?	• Verify that there is process of identifying the cases, where claims are required to be lodged with ECGC and any other department.

<table>
<tr><th>LFAR 20-21 Requirement</th><th>Comments</th></tr>
<tr><td></td><td>• Verify, whether in required case, branch has taken step for lodging the claims and same have been lodged. Obtain the numbers of accounts with outstanding balance relating to ECGC and any other claims.
• Furnish year-wise breakup of number of account with amount in prescribed format for claims as at beginning of the year, claims lodged, accepted /settled/ rejected during the year and balance at year end.
• However, banks have opted out of DICGC</td></tr>
<tr><td>(vi) b) Give details of claims rejected (As per the given table)</td><td>• As applicable</td></tr>
<tr><td>(vi) c) Whether the rejection is appropriately considered while determining the provisioning requirements

<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</td><td></td><td></td></tr><tr><td>(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></td><td>• As applicable</td></tr>
<tr><td>vii) 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>• Verify in case of NPA accounts, whether branch has obtained approved valuer report for fixed assets charged to bank once in three years or shorter duration as prescribed by the bank any deviation same should be commented upon.</td></tr>
</table>

LFAR 20-21 Requirement	Comments
	• Auditor should also verify compliance of Notes given at the end of clause 5.3 of prudential norms master circular dated July 1, 2015 for stock audit and valuation of collaterals by external agencies in case of NPAs with balance of Rs. 5 crore and above.
viii) 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.	• Verify that prescribed policy of the bank for compromise/settlement and write off is followed by the branch. Approval from designated authority has been obtained as per policy in all cases. • Details of all cases of compromise/ settlement and write off cases involving write off/waiver in excess of Rs. 50 lacs and submit along with report.
(x) Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?	• Check all recoveries • Ensure accuracy of accounting
(xi) In cases where documents are held at centralized processing centers/ 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	• The Auditor should ask for an receive such document samples (or visit) • If not obtained, disclaimer may be issued.
(xii) List the major deficiencies in credit review, monitoring and supervision	• Any deviation of RBI guidelines should also be commented upon.
g. Non-Fund Based facilities (i) List of borrowers with details of LCs devolved or guarantees invoked during the year.	• Obtain a list of guarantees invoked and funded by branch but not adjusted and kept in separate account. • All the details should be furnished in prescribed format. • While reporting these cases verify simultaneously that whether after considering above funds as part of principal operating account, the

<table>
<tr><th>LFAR 20-21 Requirement</th><th>Comments</th></tr>
<tr><td>
<table>
<tr><th>Sr. No.</th><th>Invocation Date</th><th>Party Name</th><th>Beneficiary Name</th><th>Amt</th><th>Recovery Date</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
</td><td>facility is becoming NPA, if yes, same should be reported in MOC also for income recognition, asset classification and provisioning.</td></tr>
<tr><td>(ii) List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.
<table>
<tr><th>Sr. No.</th><th>Invocation Date</th><th>Party Name</th><th>Beneficiary Name</th><th>Amt</th><th>Reason for Non Payment</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
</td><td>Obtain relevant data and furnish the details in the prescribed format.
In case of no such transaction obtain a certificate from the branch that no guarantee is pending for payment.</td></tr>
<tr><td>(iii) 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>Obtain all cases of devolvement / invocation and check whether any other facilities have been granted using the same sanctioned limits.</td></tr>
</table>

a) Identifying NPA

It is important to appreciate that NPA's are not caused only on account of payment defaults but advance impairment can also be caused on account of reasons such as

- Non renewal of limits
- CC / OD Account not in order or in operative except for some sporadic transactions
- Non submission of stock statements
- Inappropriate sanctions
- Inappropriate end use (diversion of funds)
- Non compliance with terms of sanction

b) Overall Audit Approach

The approach for Audit of advances envisages the following important phases

- Understanding the large types of advances
- Understanding the large value accounts where deficiencies will have a material impact
- Internal Controls – follow the questions in the LFAR and check samples against checklists so that each advance type can be checked with reference to its unique requirements

- Adherence to IRAC norms
- Review of NPA and provisions for the same in accordance with RBI guidelines

c) Planning for Audit of Advances (from the GN on Bank Audit of ICAI)

i. Obtain largest accounts of the branch.

ii. Obtain the list of Specially Mentioned Accounts or irregular accounts, These are published by the bank as daily exception reports . These are accounts which are most likely to slip to NPA

iii. Obtain the list of restructured accounts: as these require separate additional provisioning

iv. List of RBI commented accounts, if any

v. List of borrowers referred and cases admitted or filed under the Insolvency and Bankruptcy Code 2016

vi. Document the extent of reliance placed on third party experts such as valuers who have conducted the valuation of property , assets etc. If you have reasons to believe that these are not reliable, request the bank to obtain another valuation of the assets offered as security to the bank. Document all cases of such reliance separately

d) Summary of advances of the branch (as per Balance Comparison report)

Advance Category	Current year	Previous Year

e) Review of Top Advances

- The bank needs to provide the particulars of the top accounts in **the prescribed format** kept at the end of the LFAR

- The broad principles in relation to Appraisal, Sanctioning, Documentation and post disbursement review shall be adhered to

- Any deficiencies in the above accounts need to be viewed seriously and reported in the LFAR. In case the audit opinion is likely to be impacted, attention should be drawn to Matters of Emphasis paragraphs etc of the Auditors report

f) Restructured Advances

- Obtain a list of restructured advances
- Review the sanction of the restructuring
- Restructured advances to be reviewed with reference to revised terms of sanction properly approved by the relevant sanctioning authority
- Ensure compliance for the terms of restructuring (any non compliance will be regarded as a slippage)
- Obtain a general understanding of the type of advance which has been restructured – project / non project advances, prior to or after Commencement of Commercial production etc. as per the RBI master circular which deals in detail on manner and mode of treatment of restructured advances

- All terms of revised sanction are complied with (including but not limited to revision in commercial production, interest rate revision, rescheduling of repayments, additional security cover, promoter's contribution enhancements, escrow requirements etc.). In case of noncompliance, appropriate reclassifications have been considered

g) Advances Verification – Use attached Excel Template to document the checking

S No	Checklist
1	Cash credit and Overdarfts
2	Housing Loans
3	Term Loans
4	Education Loans
5	Vehicle loans
6	Jewel loans
7	Loans against deposits
8	Loans against financial assets
9	Interest on CCOD
10	Bank Guarantees

h) NPA Overview and movement

Account ref	NPA 2020-21
Opening NPA	
Add : Additions	
Add : Additions MoC	
Less : Repayments	
Add : Legal Costs etc	Not permitted

Closing NPA	

i) NPA review

- The NPA file was obtained from CBS as at date of audit
- The Specially Marked Accounts files were obtained
- The irregular files were obtained
- The files were cross referenced to the loan balance and CCOD file
- Clean loans – top value were test checked to ensure that there are no impairments
- Loans featuring in any of the above reports – NPA / SMA and IRR were considered for the review
- The accounts were reviewed individually with the Branch manager to determine the extent of slippage, possibility of recovery and the need for reclassification
- Additionally, accounts identified as potential NPA based on documentation / security lapses were also considered for the review and rectification before the Balance Sheet date
- Restructured accounts listing was obtained and reviewed in detail

j) Details of MoC's

S No	Nature of Issue	Debit Account	Credit Account	Amount	Remarks
	Rectification of Income recognition				
	Reclassification of NPA's (fresh)				
	Change in the status of Old NPA's				
	Account reclassifications within P&L: and A&L				
	Reclassification of Loans and Advances where done differently by the branch				
	Assets put to use and not capitalized				

k) NPA Movement statement

- Obtain the NPA movement statement from the branch
- Check opening NPA with reference to the previous year audited financial statements
- Check additions
- Check deletions
- Closing balance should tie to the closing NPA report
- All cases of deletions should be verified for payment by the borrower or for restructuring

18. Other Assets

LFAR 20-21 Requirement	Comments
Suspense Accounts/Sundry Assets 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.	• Verify the old outstanding entries pending for adjustment including reasons of delay in adjusting the entries. • Comment on procedure of clearance of items in suspense/sundry asset account if it is inadequate and entries are outstanding beyond prescribed time • Review the steps taken for reversal of old entries
(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?	• Report any unusual item same along with its nature and amount involved.

19. Deposits

LFAR 20-21 Requirement	Comments
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	• Read prescribed procedure with respect to conduct and operation in inoperative accounts in the bank. • Verify entries in inoperative accounts on test check basis.

LFAR 20-21 Requirement	Comments
laid down in this regard have not been followed? If yes, give details thereof.	• Comment on breach of guidelines.
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.	• Compare the figures of deposits after balance sheet date with deposit figure as on balance sheet and find out any unusual variation in various heads of deposits accounts. • Obtain clarification from the branch for unusual large movements of deposits and comment thereon.
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.	• Understand FCNR(B) deposit guidelines of RBI and bank. • Obtain list of FCNR(B) deposits. • Check Residential Status of the depositor (number of days etc). • Check Covid relaxations, if any. • Ensure compliance.
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?	• Enquire bank policy on such charges. • For a sample of accounts, check if the same has been complied with. • Report non compliances.

- Obtain the list of deposit samples to be verified
- If samples are not provided report to the partner under Scope Limitation segment
- Date of deposit
- If SB acct holder, give SB ref
- Application form and complete
- Photograph
- ID proof and age proof
- Address Proof
- Introducer
- Pan copy
- Pan related documentation
- Rate as per norm
- CBS updation done correctly
- Interest Computation is accurate
- Deposit file has been reviewed for interest rates on a substantive basis (sanity checks)

20. Other Liabilities – Bills Payable, Sundry Deposits etc

<table>
<tr><th>LFAR 20-21 Requirement</th><th>Comments</th></tr>
<tr><td>a. 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.
<table><tr><th>Year</th><th>Number of Items</th><th>Amounts</th><th>Remarks</th></tr><tr><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td></tr></table></td><td>• Obtain the list of all old items pending for a years or more under the heads bills payable, sundry deposits etc.
• And report in format given.</td></tr>
<tr><td>b. Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, give details thereof.</td><td>• Verify entries relating to material withdrawals or debits.
• Unusual transaction should be reported.</td></tr>
</table>

21. Contingent Liabilities

LFAR 20-21 Requirement	Comments
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?	• Verify the branch records and find out if branch is having proper controls for recording all the contingent liabilities. • Verify that all the contingent liabilities cases are included in that list and are correctly valued. • Obtain the representation from management that all contingent liabilities have been disclosed. • .In case of verification, if it appears that bank loss is clear, identified and not disputed, recommend for accounting of the liability for the same.

22. Profit and Loss Account

LFAR 20-21 Requirement	Comments
a. Has the test checking of interest/discount/ commission/ fees etc. revealed excess/short	• Verify whether there is a system to find out the discrepancies in interest/discount and timely adjustment for the same are being done as per prescribed guidelines.

LFAR 20-21 Requirement	Comments
credit of a material amount? If so, give details thereof.	• Comment on any deviation • Verify revenue audit report/ concurrent audit reports/ internal audit reports -- Ensure all errors reported here relating to incomes have been corrected in accounts. • Comment on corrections that are pending and MOC should be recommended if required
b. 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).	• Refer to Master circular and bank guidelines for income recognition. • And also refer to instruction issued by the respective bank on charging and recognition of interest on NPA accounts. • Report if there is breach in the compliance of guidelines. In case MOC is required same should be recommended.
c. Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof	• Verify whether branch is having system of finding out the discrepancies in interest on deposits and timely adjustment for the same are being done as per prescribed guidelines. • Comment on any deviations identified • Verify revenue audit report/ concurrent audit reports/ internal audit reports -- Ensure all errors reported in these reports relating to interest on deposits (excess/short debit) have been corrected in accounts. • Comment on corrections pending and MOC should be recommended if required.
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?	• Verify the bank accounting policy in this regard. • Comment if this activity is to be done at HO • Verify the basis of making provision of interest on overdue/matured deposits, in case, interest on overdue deposits is being accounted for at branch. It should be as per bank prescribed policy.
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.	• Do comparative study of all major income and expenditure accounts figures with the previous year figures. Co-relate total interest paid to average deposits figures and total interest income to average loans figures. • Comment on any major divergent trend in figures is observed • Obtain appropriate justification from branch explaining the divergent trends

LFAR 20-21 Requirement	Comments
	• Comment on branch that does not provide the justification for major divergent trends or justification provided is not satisfactory

Description	2020-21	2019-20		2019-20	2019-20	
	Amount Rs . lakhs	Amount Rs . Lakhs	% Change	Nos	Nos	% Change
Total Advances						
Total Deposits						
Interest on advances						
Interest on deposits						
Other Incomes						
Profit / Loss						
NPA Amount						
Ratios						
Interest to advances						
Interest to deposits						

23. General-Gold/ Bullion / Security Items

LFAR 20-21 Requirement	Comments
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?	• Review policy of the bank on Gold and bullion custody • Ensure compliance • Verify Key register
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?	• Obtain register for such assets • Obtain policy for verification • Check and note down dates on which verification has been conducted **<u>and documented</u>** • Discrepancies should be reported to the Controlling Authority
c. Does the system of the Bank ensure adequate internal control over issue and custody of security items (Term Deposit Receipts,	• Obtain Stationery register • Test Physical verification should be conducted

LFAR 20-21 Requirement	Comments
Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch? Have you come across cases of missing/lost items?	• Missing items, if any to be reported • Obtain the procedure for internal control • Verify compliance

24. General -Books and Records

LFAR 20-21 Requirement	Comments
a. 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.	• Enquire about the same • Ensure that all modules are integrated
b. (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.	• Obtain copy of IS Audit report • Review all non- compliances • Report impact on financial statements including internal controls.
(ii) Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank	• Obtain Bank policy in this regard • Get a list of all exception reports • Test check on follow up on such items in those reports.
(iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end.	• Review branch correspondence file with depositors and borrowers. If no such file is maintained and review of follow up is not possible state so.
(iv) Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained	• Obtain Bank policy • Check the master data which can be updated by the branch officials • Do manual trails exist – sanction letters, vouchers, applications etc
(v) Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level	• Updation of customer master information • NPA classification accuracy • Are the major items to be checked

25. General - Inter -Branch Accounts

LFAR 20-21 Requirement	Comments
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?	• Obtain the correspondence file with designated cell / Head office for unmatched transactions. • Comment on any unresponded/ uncomplied queries or communication, along with details of transactions.

26. General - Frauds

LFAR 20-21 Requirement	Comments
(i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.	• Obtain a written confirmation on frauds if any detected and not reported to CO / RBI
(ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation.	• Enquire for suspected fraud cases • Based on audit, if any fraud is suspected, obtain branch response on the same • Report frauds as per Audit directions
(iii) In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud (e.g. falsification of accounts/false representation by the borrower; misappropriation of funds especially through related party/ shell company transactions; forgery and fabrication of financial documents like invoices, debtor lists, stock statements, trade credit documents, shipping bills, work orders and encumbrance certificates and avail credit;	• Review the RBI Master directions on Frauds • Verify to the extent possible on such Red flag indicators • (see separate presentation as attached)
(iii) 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	• Review the RBI Master directions on Frauds • Verify to the extent possible on such Red flag indicators • (see separate presentation as attached)

LFAR 20-21 Requirement	Comments
related parties; Fake export/shipping bill, etc.; Over statement of invoice amounts, stock statements, shipping bills, turnover; fly by night operations - including the cases where vendors, related/ associate parties, manufacturing units etc. aren't available on the registered addresses; Round Tripping of funds, etc.)	
(iv) Whether the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as RFA.	• Review the RBI Master directions on Frauds • Verify to the extent possible on such Red flag indicators • (see separate presentation as attached)

Notes :

For the top 10 - 20 Accounts of the Branch, review Advance accounts with reference to the below mentioned parameters and report any unusual or suspicious trends

In case of very large accounts of the branch which may be systemically important to the branch due to the large value of exposure , check for the following

a. Address / phone number / Mail id
b. Last AGM date
c. Last financial statements as filed
d. Director names (perform further search on other companies where they are directors)
e. Obtain the last three years of financial statements and auditors reports as well as charges which have been created
f. Perform a Review of the account as well as the financial statements for important aspects set out in the below matrix. In case there is a predominance of any of the below mentioned indicators in any loan accounts and these are continued to be classified as Standard Accounts, then appropriate inquiries need to be made by the auditor

Warning Indicators	
1. Non submission of reports to the bank on time and evasive replies	
2. Movement of an account from one bank to another	
3. Request received from the borrower to postpone the inspection of the godown for flimsy reasons.	
4. Adverse industry regulations	
5. Adverse industry performance	
6. Emerging trends threatening the industry (example - aggregators)	

Warning Indicators	
7. Decline in share price if listed entity	
8. Material discrepancies in the annual report	
9. Significant inconsistencies within the annual report (between various sections)	
10. Poor disclosure of materially adverse information and no qualification by the statutory auditors	
11. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet	
12. Decline in share price if listed entity	
13. Frequent change in accounting period and/or accounting policies	
14. Claims not acknowledged as debt high	
15. Substantial increase in unbilled revenue year after year.	
16. Inflated Balance Sheets evidenced by significant year over year change as compared to past data	
17. Qualifications and Significant Matters of emphasis in the audit report	
18. Any Key Audit Matters in the Audit Report	
19. Any significant matters reported in the Auditors Report on Internal Financial Controls over Financial Reporting	
20. CARO qualifications by the auditor / No CARO at all ?	
21. Non maintenance / proper updation of books of accounts	
22. Frequent changes in auditors (average tenure would ideally be 5 years after the Companies Act 2013)	
23. AGM not held , Financial Statements not approved	
24. Financial Statements not prepared / not audited and filed with Income Tax and Companies Act before the relevant due dates	
25. Financial statements not approved by the BoD / Delays	
26. Significant disclosures under the head of Pending litigation in the Auditors report	
27. Any instances of misplaced / accounting and other records destroyed	
28. Audits not performed although they are mandated by law	
29. Non compliances with General laws and regulations as evident from the audit report	
30. Default in undisputed payment to the statutory bodies as declared in the Annual report.	
31. Raid by Income tax /sales tax/ central excise duty officials	
32. Non registration under relevant laws such as GST although the thresholds have been exceeded	
33. Foreign bills remaining outstanding with the bank for a long time and tendency for bills to remain overdue.	
34. Delay observed in payment of outstanding dues.	
35. Frequent invocation of BGs and devolvement of LCs.	
36. Under insured or over insured inventory.	

Warning Indicators	
37. Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.	
38. In merchanting trade, import leg not revealed to the bank.	
39. Funding of the interest by sanctioning additional facilities.	
40. Critical issues highlighted in the stock audit report.	
41. Frequent request for general purpose loans.	
42. Frequent ad hoc sanctions.	
43. Significant movements in inventory, disproportionately differing vis-a-vis change in the turnover.	
44. Significant movements in receivables, disproportionately differing vis-à-vis change in the turnover and/or increase in ageing of the receivables	
45. Disproportionate change in other current assets	
46. Significant increase in working capital borrowing as percentage of turnover	
47. Increase in Fixed Assets, without corresponding increase in long term sources (when project is implemented).	
48. Bouncing of high value cheques	
49. Significant pile up of slow moving / non moving inventory	
50. Delayed or missed employee payroll payments	
51. Payment defaults in other banks by the borrower	
52. Payment defaults by group concerns to other banks by the borrower	
53. Onerous Clause in issue of BG / LC / Standby LC	
54. Increased need for LC / Guarantees / supplier advances as compared to past indicating a decline in the credit worthiness of the borrower	
55. Bill of entry reference not updated for Outward remittances made for import transactions within a reasonable time	
56. Frequent Roll over of Packing credit	
57. Dispute on title of collateral securities.	
58. Exclusive collateral charged to a number of lenders without NOC of existing charge holders.	
59. Concealment of certain vital documents like master agreement, insurance coverage.	
60. Liabilities appearing in ROC search report, not reported by the borrower in its annual report	
61. Same collaterial charged to a number of lenders	
62. Heavy cash withdrawal in loan accounts. Invoices devoid of TAN and other details.	
63. LCs issued for local trade I related party transactions without underlying trade transaction	
64. Non production of original bills for verification upon request.	

Warning Indicators	
65. No internal auditor appointed although the Company is covered under Section 138 of the Companies Act	
66. Any matters reported as required under Section 143(12) of the Companies Act for Fraud Reporting	
67. Any significant matters reported under Sec 138 Vigil Mechanism	
68. Significant control issues reported in Internal Audit report	
69. Financing the unit far away from the branch	
70. Not routing of sales proceeds through consortium / member bank/ lenders to the company.	
71. High value RTGS payment to unrelated parties.	
72. Frequent change in the scope of the project to be undertaken by the borrower	
73. Costing of the project which is in wide variance with standard cost of installation of the project	
74. Significant Aging of balances in Capital advances / Work in Progress	
75. Assets not purchased / installed as per Plan submitted to bank for credit appraisal	
76. Significant reduction in scale of operations	
77. Reduction in stake of promoters / directors	
78. Resignation of the key personnel and frequent changes in the management	
79. Significant reduction in manpower	
80. Resignations of independent directors	
81. Independent directors / KMP not appointed although required by law	
82. Significant reduction in the stake of promoter /director or increase in the encumbered shares of promoter/director.	
83. Large number of transactions with inter-connected companies and large outstanding from such companies	
84. Substantial related party transactions	
85. Floating front / associate companies by investing borrowed money	

27. General - Implementation of KYCAML Guidelines

LFAR 20-21 Requirement	Comments
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 the process in the branch for KYC / AML • Is there a proper process is place to mitigate such risks? • If the process is not followed, the same needs to be reported along with instances.
Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors	• Obtain the KYC / AML guidelines • Test check for sample of large accounts • Report non compliance

28. General - Management Information System

LFAR 20-21 Requirement	Comments
a) 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?	• Test Check System data with reference to underlying documents such as ✓ Customer application ✓ Borrower application ✓ Sanction Letters ✓ Request letters etc • Report non compliance

29. General – Miscellaneous

LFAR 20-21 Requirement	Comments
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; v) RBI Inspection Report, if such inspection took place;	• Review all reports. Make a checklist whether all months / quarters are available for concurrent, stock audit reports etc • Note down all major exceptions and check if the same has been rectified • Unrectified issues need to be reported here along with financial impact if any.

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?	• Comment on any major issue to the notice of the management or Central Statutory Auditors

30. For Branches Dealing in Foreign Exchange

LFAR 20-21 Requirement	Comments
1. Are there any material adverse features pointed out in the reports of concurrent auditors, internal auditors and/ or the Reserve Bank of India's inspection report which continue to persist in relation to NRE/ NRO/ FCNR-B/ EEFC/ RFC and other similar deposits accounts. If so, furnish the particulars of such adverse features.	• Go through concurrent auditors, internal auditors and/or the Reserve Bank of India's inspection reports • Furnish adverse features with respect to NRE/NRO/NRNR/FCNR-B/EEFC/RFC and other similar deposits accounts mentioned in these reports which are pending for resolution and still persist.
2. Whether the branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to the following in relation to the foreign exchange and, if not, state the irregularities. (a) deposits (b)advances (c) export bills (d) bills for collection (e) dealing room operations (where a branch has one) (f) any other area	• Obtain the instruction and guidelines of the controlling authorities in relation to foreign exchange • Verify whether same are being followed. If any deviation found same should be reported with details. • Verify FCRA compliances and FCRA returns are being submitted • Verify if adequate record of credit to NRE account is being maintained • Verify loans against NRE, FDR have not been opened with NRE status, otherwise cheque book bearing word "NRE" will be issued for overdraft accounts against NRE FDR and loan amount will be repatriated which is not permissible. Such loan accounts should be opened only in NRO status. • Verify, proceeds of any demand loan against NRE FDR should not be credited to

LFAR 20-21 Requirement	Comments
	NRE SB account. Loan proceeds should only be credited to NRO account • Comments on long outstanding overdue bills for collection. Comment in case, any export bill is written off whether prescribed procedure is followed by branch. • Report any observation on process lapse in bills for collections • Generally applicable to extra-large branches or corporate office. Any deviation found in dealing room operation same should be commented.
3. NOSTRO Accounts Obtain from the branch management, a list of all NOSTRO Accounts maintained/ operated by the branch. (a) Whether the bank has a system of periodic confirmation/ reconciliation of the balances in NOSTRO accounts maintained with each overseas bank/ correspondent? Has such confirmation been received and account reconciled at year end in each case? If not, give details.	• Obtain a list of NOSTRO account from the branch. • Verify whether balance confirmations have been obtained from all overseas branches/correspondents. Details of accounts where confirmations are not received should be given.
(b) Whether the system of the bank ensures that all entries originated by overseas banks/correspondents, have been duly responded promptly in the respective NOSTRO accounts maintained by the bank?	• Check inter- bank reconciliations in detail
(c) Are there any dormant/closed NOSTRO accounts in respect of which balances continue to exist in the books of the branch, at year end?	• Obtain list of all Nostro accounts • Check last operation date • Enquire on why the accounts continue to have balances despite closure / dormancy • Perform additional procedures as may be required (example, large balance in a dormant account)
(d) Have the NOSTRO balances been converted at year end at the rates of exchange as prescribed by controlling authorities?	• Verify compliance. • Report non compliances if any.

LFAR 20-21 Requirement	Comments
(e) In case, any matter deserves special attention of the management, the same may be reported	• AS may be required
4. Does the branch follow the prescribed procedures in relation to maintenance of Vostro Accounts?	• Obtain Balance confirmation and reconcile.

31. For Branches Dealing in Clearing House Operations, (Service Branches)

LFAR 20-21 Requirement	Comments
1. Does the branch have a system of periodic review of the outstanding entries in clearing adjustments accounts? In your view has the system generally been complied with?	• Verify, branch has system of periodic review of outstanding entries. Find out branch is doing follow up for old entries. • Verify if the prescribed system of review and follow up is being adhered to, on test check basis
2. Whether review of the clearing adjustments accounts (inwards/ outwards) reveals any old/ large/ unusual outstanding entries, which remain unexplained? Give year-wise break-up of outstanding in number and value.	• On review of clearing adjustment account give the breakup of old entries with number of entries and value outstanding since long •
3. Has the branch strictly followed the guidelines of the controlling authority of the bank with respect to operations related to clearing transactions? Comment on the systems and procedures followed by the branch in this regard.	• Verify, whether branch follows the guidelines of the controlling authority of bank with regard to operations relating to clearing transactions. • Report on deviation if any. In such case, also comment the systems and procedure being followed by the branch. •

32. Branches Dealing in Recovery of Non-Performing Assets such as Asset Recovery Branches

LFAR 20-21 Requirement	Comments
1. In respect of borrowers with outstanding of Rs. 10.00 Crores and above the information should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and	• Obtain the details of such advances in prescribed format from Branch Manager duly signed by BM. • Give details of any adverse features like, non-operative for quite a long time, renewed without adequate appraisal or

<table>
<tr>
<td>which might need the attention of the management / Statutory Central Auditors should be appended to the LFAR.</td>
<td>disbursement without any appropriate approval.</td>
</tr>
<tr>
<td>2. List the accounts with outstanding in excess of Rs. 10.00 Crores, which have been upgraded from Non-Performing to Standard during the year and the reasons thereof.
<table>
<tr><th>Sr. No.</th><th>Name of the Unit / Account</th><th>Outstanding [Rs. in crore]</th><th>IRAC Status as on 31st March [Last Year]</th><th>IRAC Status as on 31st March [Current Year]</th><th>Reason/s</th></tr>
<tr><td>1</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>2</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>3</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
</td>
<td>• Obtain the list of cases, where accounts have been upgraded from NPA to standard and give brief details and reason of reclassification.</td>
</tr>
<tr>
<td>3. Whether the branch has a system of updating periodically, the information relating to the valuation of security charged to the bank?</td>
<td>• Verify and comment, whether there is system of periodical obtainment and updation of valuation of security charged to bank.
• Whether information so obtained have been updated in records.</td>
</tr>
<tr>
<td>4. Age-wise analysis of the recovery suits filed and pending may be furnished, for the last three years along with latest status thereof
<table>
<tr><th>Years</th><th>No. of Accounts</th><th>Amount [Rs. in crore]</th></tr>
<tr><td>Upto March 2018</td><td></td><td></td></tr>
<tr><td>2018-19</td><td></td><td></td></tr>
<tr><td>2019-20</td><td></td><td></td></tr>
<tr><td>2020-21</td><td></td><td></td></tr>
</table>
</td>
<td>• Age wise details of recovery, suit filed cases and pending cases should be furnished along with outstanding amounts and status of suit</td>
</tr>
<tr>
<td>5. Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Also list the time barred decrees, if any, and reasons thereof. Give age-wise analysis of decrees obtained and not executed.</td>
<td>• Report cases where decree is not executed promptly.
• Report all time barred decree with reasons.</td>
</tr>
<tr>
<td>6. List the recoveries and their appropriation against the interest and the principal and the accounts settled / written off / closed during the year</td>
<td>• Attach the list of all recoveries in NPA accounts for interest and principal.
• List of accounts settled/closed should be provided.</td>
</tr>
</table>

	as per the bank's policy. Give particulars of recoveries which are pending for appropriation as on year-end with reasons thereof.	• In cases of recoveries, verify that accounting of revenue recognition has been done as per RBI guidelines and normal accounting principles consistently followed by bank.
7.	List the new borrower accounts transferred to the branch during the year. Have all the relevant documents and records relating to these borrower accounts been transferred to the branch? Has the branch obtained confirmation that all the accounts of the borrower [including non-fund-based exposures and deposits pending adjustment / margin deposits] been transferred to the branch?	• List of new accounts transferred to branch to be attached. • Ensure all documents relating to these accounts obtained from transferor branch. • Branch should obtain confirmation that all accounts of borrower transferred to branch. • Any adverse features have been observed on transfer of cases same should be reported

33. Appendices

Appendix 1 - Acceptance letter

Acceptance letter as furnished in the banks format to be kept here. Format is as prescribed by the bank

Appendix 2 – Engagement Letter <u>On letterhead of the firm</u>

Page 27 of the Guidance Note on Audit of Banks - https://resource.cdn.icai.org/58604aasb47736-c-b.pdf

Appendix 3 –Communication with the previous Auditor.

In connection with the above referred matter, we have received a letter of appointment as Branch Statutory Auditors of ………………. Branch of ……….. Bank for the year ……………….

We have been informed that you were the Statutory Auditors for the previous year ending on ………………..

Kindly request you to intimate us in writing as to whether you have any objection professional or otherwise, which might warrant us not to accept the appointment.

We would be very much obliged if you can let us know your objection or otherwise within …….. days and oblige. Your early response will be highly appreciated.

Appendix 4 : DRAFT MANAGEMENT REPRESENTATION LETTER

Page 32 to 36 of the Guidance Note on Audit of Banks - https://resource.cdn.icai.org/58604aasb47736-c-b.pdf

APPENDIX 5 : CHECKLIST FOR ADVANCES