

JABALPUR BRANCH OF CIRC OF ICAI

LONG FORM AUDIT REPORT(LFAR)

OF

BANK BRANCH AUDIT

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Annual Financial Inspection of RBI

- RBI conducts *Annual Financial Inspection (AFI)* of all the banks every year. There has been a customary that if the **RBI observes any material (say 10-15% or more) divergence between the Asset Classification** by bank and as certified by the Statutory Auditor as compared with their assessment, the auditors were called for the explanation.
- The RBI has been taking a stricter cognizance of the divergences. If Auditors found negligent, (or *rather not so diligent*), RBI has issued a **Letter of Caution** or if the amounts involved are material a member firm may face delisting from RBI for the purpose of bank audits.

The Pre-requisites

The bank branch audit necessitates reading and knowledge of following basic things:

- **Master circulars/ Directions/ Notifications issued by RBI:** The master circular was last issued on 1st July 2015 and expired on 30th June 2016. Since then, Master directions are issued for any regulatory changes.
- **Closing circular issued internally by the Bank:** Every bank issues the closing circular.
- **Guidance Note on Audit of Banks.**
- **Technical Guide on Audit of Internal Financial Control of Banks**

Overview and Planning

- **Once the Appointment letters is received**, declarations to be submitted only after confirming that the **firm/ partner is not disqualified to carry out the audit** and **Corresponding declarations** is obtained from all the partners and **documented in the permanent audit file** in terms of **Standard on Quality Control (SQC) 1**.
- **NOC to previous branch auditors** seeking their no objection either by post/ email.
- **Issue Audit Engagement letter as per SA-210 “Agreeing the Terms of Audit engagements”**.
- **Enquiry letter to the Branch manager** for requirements for the purpose of the audit and co-ordination with the Branch Management.
- **Audit program** and its execution. LFAR questionnaire should be covered.
- Copies of the **all reports for audit done at the branch need to be obtained and reviewed** to get an insight into the irregularities persisting.

Some of the system generated reports which will assist in more effective documentation and timely completion audit:

- List of Standard Non Agricultural Advances where date of last credit is more than 90 days old
- Where credit during the last 90 days is less than the interest debited during the same period or
- Where there are no credits during the last 90 days.
- List of Advances where there is amendment in date of NPA.
- List of Sub Standard NPAs where Provision held is not 15%.
- List of Doubtful 1 (D-1) NPAs where Provision is not 25%.
- List of Doubtful 2 (D-2) NPAs where Provision is not 40%.
- List of Doubtful 3 (D-3) NPAs where Provision is not 100%.
- Quick Mortality (NPA within 1 year of Advance)
- List of LCs devolved/ BGs invoked during the period / year and current status of account
- List of Standard Advances where renew/ review is pending for more than 180 days
- List of Standard Cash Credit Advances where stock statements are pending for more than 90/180 days.
- One Account NPA all Account NPA.
- CC Accounts with primary security is “Nil”
- List of Potential/ Proforma NPAs/ SMA / Weak Accounts etc. on the last date
- List of NPA Accounts with Security Valuation not carried out within the prescribed period.
- Accounts above threshold limit wherein External Credit Rating is not obtained / updated.

Following suggested Standard on Auditing to be followed during Branch Audit:

- **SA-210: Agreeing the Terms of Audit Engagement**
- **SA-220: Quality Control for an Audit of Financial Statements**
- **SA-230: Audit Documentation**
- **SA-240: The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statement**
- **SA-300: Planning an Audit of Financial Statements**
- **SA-315: Identifying the Risk of Material Misstatements**
- **SA-320: Materiality in planning and performing an Audit**
- **SA-500: Audit Evidence**
- **SA-520: Analytical procedure**
- **SA-530: Audit Sampling**
- **SA-580: Written Representation**
- **SA-600: Using the work of Another Auditor**
- **SA-700: Forming an Opinion and Reporting on Financial Statements**
- **SA-705: Modifications to the Opinion in the Independent Auditor's Report**
- **SA-706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report**

LONG FORM AUDIT REPORTING

Background

- Earlier format notified in 2001-02 which was revised vide circular no. DOS.CO.PPG./SEC.01/11.01.005/2020-21 dated 05.09.2020 **which became applicable for the financial year 2020-21 and onwards.**
- **Focus not only on Advances but also the operational areas in the Branch.**
- **A Questionnaire, which asks specific questions for which replies should be specific.**
- It not only provides issues in **Transaction testing** but also gives inputs to the Statutory Central Auditors **on adequacy of implementation of various policy and regulatory requirements** at branch level.

Remember!!

- Audit Report and LFAR are separate and distinct reports - LFAR is not a substitute for the Branch Statutory report and is not deemed to be a part of the said report.
- The main **Audit Report is a self-contained document and should not make any reference to the LFAR.** However, matters in the main report may be elaborated in the LFAR.
- **LFAR should be completed before main report.** Any adverse comment, the auditor can consider whether a qualification in main report is necessary.
- **Any comments of qualificatory nature should be included in Audit report** and also covered in LFAR.

Highlights!!

- **Detailed workings and documentation have to be carried out to prepare LFAR.**
- **Auditor can no longer Comment "YES, NO, N/A" in LFAR.** He will have to gather information in order to report on Revised LFAR.
- RBI is expecting from the **auditors to comment on the Quantitative and Qualitative reporting requirements** like:-
 - Transaction Audit
 - ISA audit as a part of statutory branch audit.
 - A tool for Early warning signal
 - Forensic Audit where auditors needs to go through account operation transactions in details and comment accordingly.

Coverage in LFAR

Assets	Liabilities and Other
Cash	Deposits
Bank Balance	Other Liabilities
Money at Call and Short Notice	Contingent Liabilities
Investments	Profit and Loss
Advances	General
Other Assets	Specialised Branches

ASSETS

1. Cash

- Check whether the system maintained is in **effective joint custody of two or more Officials**. Obtain the prescribed **guidelines from Controlling Authorities with regard to custody of Vault/ATM cash** and comments in case of deviation.
- Ensure that **custody of keys of vault/ATM machines** should be with the staff as mentioned in key register of the branch.
- Verify from records, whether **duplicate keys of Cash vault and ATM machines are deposited with other branches as per guidelines**.
- Obtain the prescribed **procedure in the bank for periodical verification of Cash/ ATM** and ensure that it is being strictly adhered to. **Report if there is any deviation** from the prescribed process. *(Clause 1(b))*
- Check whether balance in the **branch books in respect of cash with its ATM tally with the respective ATMs**, based on the year scrolls generated by the ATM and reconciliation with GL balance and also counting sheet should be counter signed by cashier and branch manager. *(Clause 1 (c) (ii))*

1. Cash (Contd..)

- **Obtain the Cash retention limit of branch. If cash balance generally exceeds significantly the retention limit, give comment. Incase of ATM, obtain limit fixed for ATM.** Verify that instances of excess cash beyond retention limit are being **regularly reported in returns to HO/RO.**
- **Adequate Insurance Cover: Done by HO or Branch, a management representation should be obtained** and commented upon accordingly if done at HO. If insurance cover details are available at branch, **whether branch holds adequate insurance cover of Cash on hand, Cash in ATM, and Cash-in-transit.**
- **If officials who are not dealing with cash are also required to do verification of cash balances** on monthly basis, ensure same has been conducted and evidenced on records.

2. Balance with Reserve Bank of India and other banks (For Branch with Treasury Operations)

- Auditor should obtain **balance confirmation certificates pertaining to accounts maintained with Banks** and reconciliation made thereof. Auditor should also find out **old unexplained/ unadjusted entries** and unresponded for more than 15 days, give the details of old entries along with reasons. *Clause 2 (b)(iii)*

Eg: Inward clearing cheques received from clearing house are lying in reconciliation instead of debiting to operating account. There is **possibility that limit account/SB/current A/c were out of funds and would have become NPA in case of debit to these accounts** on the date of payment to clearing house.

- In case **confirmation is not received**, same should be commented with name of bank and outstanding balance pending for confirmation.
- **Entries originated prior to, but communicated / recorded after the year end** in relation to currency chest operations at the branch/other link branches which are old unexplained/ unadjusted entries. Give details of such old entries along with reasons. *Clause 2(b)(iv)*

3. Money at Call and Short Notice

(Applicable in Branches dealing with Treasury operations)

- Auditor should go through **instructions received from HO** with regard to amount deposited.
- If there are transactions, **obtain the instructions / guidelines laid down by the Controlling Authorities** and examine the compliance thereof. If there is **any deviation, same should be commented.**
- Verify whether **interest accrued upto the year end has been accounted in Branch books.** *Clause 3(b)*
- Verify whether Balance is **duly confirmed and reconciled.** *Clause 3(c)*

4. Investments (For Branches outside India)

(Not applicable as SBA are appointed locally)

- If Investments are appearing in the Trial Balance, physical verification should be conducted and reported. Also verify investment balance confirmation of counter party (Investee) with balance appearing in Branch Books/Investment register.
Clause 4(a)
- In case, if any certificate is not available, verify evidence for not keeping the same in possession. If certificates are sent for realization, verify acknowledgment.
Clause 4(b)
- Check the system of reporting the receipt of income on the investment held on behalf of corporate office and ensure in all the cases, income is received on due date and reported to HO.
- The auditor should obtain the relevant valuation guidelines of regulatory authority of the country and compare those with the guidelines issued by RBI and check compliance thereof based on conservative principal of whichever guidelines are more stringent. *Clause 4(c)*

4. Investments (Contd..)

- Verify the Investment register maintained and comment where investments have been matured or overdue and same have not been encashed. *Clause 4(d)*

S. No	Particulars	Book Value of Investments	Maturity Date

- If the investments are matured but maturity amount was not received or interest was not served, for more than 90 days, then the same should be classified as Non-Performing Investment (NPI) and provision should be made as per prescribed guidelines.

5. Advances

- List of all large advances whose year end balance is **in excess of Rs. 10 crores or 10% of the outstanding aggregate fund based and non-fund based year-end advances of the branch, whichever is less**. Critical comments based on the review and other test check should be reported. *Clause 5(i) & (ii)*

For all accounts **above threshold**, transaction audit/ account specific details to be seen and commented whereas **below threshold**, process needs to be checked and commented upon. Comments on advances with significant adverse features which needs attention of Management/ SCA should be appended in LFAR.

List of account examined for audit (as per LFAR format) (Clause 5(a))

Account No.	Account Name	Balance as at year end – Funded	Balance as at year end – Non-funded	Total
XXXX				
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

(i) Credit Appraisal (Clause 5(b))

- On the basis of verification of documents relating to loans, auditor should form opinion, **whether branch has complied with procedures/ instructions issued by Head Office/ Controlling Authorities on key issues.** Deviation should be commented upon.
- **Auditor should examine, whether appropriate loan applications, preparation of proposal for grant and renewal of advances and appraisal documentation as prescribed by corporate office are being obtained according to nature of loan/limit. Major shortcomings in credit appraisal to be reported.** *Clause 5(b)(i)*
- Auditor should verify, proposal for grant of renewal/ review or enhancements of loans, **whether in appraisal, important information of the borrower have been commented by branch officials. For instance:**
 - Unit is functioning properly.
 - All primary and collateral securities are in order and fully insured.
 - Borrower has not deviated from terms and conditions of sanction.
 - End use of loan is being done for the purpose for which it was disbursed.
 - There is no major difference between audited financial data and projections submitted earlier

(i) Credit Appraisal (Contd..)

- We should verify, whether all legal documents as prescribed in bank and as per sanction have been taken, executed and completely filled.
- Verify that in case of **Lending under Consortium Arrangement/Multiple Banking** Arrangements, **any sanction of fresh loans/adhoc loans/renewal of loans** to new/existing borrowers should be done **only after obtaining/sharing necessary information among banks**. Report the cases where prescribed guidelines are not followed.
- **Quick mortality cases:** Any advance slippage to NPA within 12 months of its introduction/ disbursement. Can be verified from Audit reports/ MIS submitted. MRL if no such case should be obtained. *Clause 5(ii)*

Details of such accounts may be provided in following manner:-

- Account No.
- Account Name
- Balance as at year end

(i) Credit Appraisal (Contd..)

- Verify on test check basis whether **interest rate is correctly fed into the system** as per sanction letter. **Maker checker changes in master.** To review HO guidelines/ instructions in this regard. *Clause 5(b)(iii)*
- Check **MCLR/EBLR** (external benchmarking lending rate) is updated regularly. *Clause 5(b)(iv)*
- Verify, any **instances of frequent renewal/rollover of short term loans.** Check whether necessary documents have been obtained at the time of such renewal / rollover. Report any irregularities noticed during renewal / rollover of the loans. *Clause 5(v)*
- Verify, 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 for all accounts with exposure above Rs. 5 crore. **Non availability of credit rating would attract higher risk.** Report any irregularities. *Clause 5(vi)*

(ii) Sanctioning /Disbursement (Clause 5(c))

- Report the cases where **credit facilities having been sanctioned beyond the delegated authority or limit fixed** for the branch. Whether such type of cases **promptly reported** to higher authorities. Cases may be reported in the following format:

Name of the Borrower	Acc. No.	Type of Facility	Sanction Date	Sanction Limit	Balance outstanding as on 31.03.20XX	Amount Sanctioned exceeding the delegated Authority	Date of Sanction/ratification from Higher Authority

- Report the cases where **advances have been disbursed without complying with the terms and conditions of the sanction letter**. For instance:
 - Not creating EM on property
 - Without obtaining personal guarantee of Directors
 - Necessary funds to be brought in by the Borrower
 - Unit not inspected
 - End use of funds not verified

- Check whether **bank provide loans to companies for buy-back of shares/securities**. Enquire with branch, review the sample selected and to verify end use of funds. **Certificate obtained by bank from borrower. Clause 5 (c) (iii)**.

- To report all loans sanctioned for Buy back of shares/ securities.

(iii) Documentation (Clause 5(d))

- Auditor comes across **any deviation in execution of documents** as per procedure/ bank circular, same should be commented with details of accounts and documents not obtained.
- Verify **Custody of Documents. Nature of documentation defects** observed during audit and suggestions to avoid such defects.
- Report cases of **Deficiencies in documentation. For instance:**
 - Document left Blank
 - Non- registration of charges
 - Non-obtaining of Guarantee
 - Overwriting in Documents
 - Joint Documentation in case of Consortium Advance
 - Inadequately Stamped
 - Document time barred
- In cases verified by **auditor, if he finds any deviation in process of marking lien on FDR pledged against loan**, such cases should be commented. For instance, lien on FDR receipt marked, FDR discharged properly, **securities matured but not adjusted against the loan** etc.

(iv) Review/Monitoring and Supervision (Clause 5(e))

- Auditor should verify whether branch has followed **procedures laid down by bank for timely review/renewal**. Deviation in process should be commented upon.
- Provide analysis of the accounts overdue for review/renewal
 - a) between 3 to 6 months
 - b) over 6 months

{Whether accounts, due for review/renewal more than 180 days reported in LFAR, are NPA}
- Check whether **stock statements are received regularly** and same are duly scrutinized. Also check whether **drawing power** is correctly calculated and latest audited financial statements are obtained for accounts reviewed / renewed during the year. *Clause 5(e)(ii)*
- Whether **interest and penal interest in case of delayed submission of stock statements**, overdrawn accounts etc. is charged.

(iv) Review/Monitoring and Supervision (Contd..)

➤ We should verify, that branch is **obtaining stock audit reports periodically** in all the cases as required by bank policy. Obtain 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.

Further, verify deficiencies, reported in report, have since been rectified, if pending, auditor should give the details of pending issues. *Clause 5(e)(iii)*

➤ Obtain list of accounts of **Non Corporate Entities as per RBI guidelines with limit set by the Bank**. Auditor to **ensure latest audited accounts are available** on record. Deviation to be reported if any.

➤ Auditor should verify that bank branch has on its record a **due diligence certificate/report** in the form and manner required by the RBI in respect of **advances under consortium and multiple banking**. Give the list of accounts where certificate is not obtained or on record. *Clause 5(e)(v)*

(iv) Review/Monitoring and Supervision (Contd..)

- Check whether **Inspection or Physical Verification of securities** been carried out by the branch at regular intervals. Also, verify whether there is a **substantial deterioration** in value of security during financial year as per latest valuation report. Auditor should obtain a list of cases where physical verification is not done as per prescribed guidelines as per PV register. *Clause 5(e)(vi)*
- In the cases examined, if auditor comes across **any deficiencies in value of securities, frequent overdrawn, unauthorised overdrawn, inadequate insurance cover etc**, same should be commented upon. **Whether charge is registered with Registrar of Company in case of Company.**
- Verify whether the branch has any **Red-flagged account**. RFA is one where a suspicion of fraudulent activity is thrown by one or more Early warning signals *Clause 5(e)(viii)*
- Also, examine adverse features considered significant in **top 5 Standard large advances**. Review Bank policy and report deviation observed. *Clause 5(e)(xi)*

(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Clause 5(f))

- Check whether the branch has identified and classified advances **into standard/ substandard / doubtful / loss assets** through the automated system. Banks to fully automised Income recognition and Asset classification and provisioning process latest by 30th June 2021 as per RBI circular dated 14.09.2020. *Clause 5(f)(i)(a)*
- Verify whether the branch is following the system of classifying the account into **SMA-0, SMA-1, and SMA-2** and any disagreement should be commented upon. *Clause 5(f)(i)(c)*
- Obtain the list of accounts (with **outstanding in excess of Rs. 10.00 crore**) which have either been **downgraded or upgraded with regard to their classification as NPA or Standard Asset** during the year particularly upgradation must be checked properly with reasons. *Clause 5(f)(i)(e)*
- Check whether the branch has followed RBI **guidelines for restructuring** of accounts including special package for restructuring permitted due to COVID 19 and all such accounts are reported during the year to Controlling Authority of the bank. *Clause 5(f)(ii) (a)*

(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Contd..)

- **Compliance with the regulatory stance for resolution of stressed assets**, including the compliance with board approved policies in this regard. To enquire in account that has exposure over 2000 crore and above and report in case such account is under SMA category for more than 180 days. *Clause 5(f)(ii) (c)*
- Ensure that branch is prompt in reporting under **Central Repository of Information on Large Credits (CRILC) within 15 days from end of quarter**. Any delay in reporting should be viewed seriously and reported. *Clause 5(f)(ii) (c)*
- Verify whether the **upgradations in non-performing advances** is in line with the norms of RBI. Ordinarily, until all overdues are recovered, upgradation is not permitted. *Clause 5(f)(iii)*
- Verify whether there are any accounts wherein process under **IBC** is mandated but not initiated by the branch. To comment on adequacy of provision in the accounts. *Clause 5(f)(v)*

(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Contd..)

- Check whether **appropriate claims for credit guarantee** (ECGC and others) have been duly lodged and settled. Also, provide details of claims rejected as per the below format and whether the same is appropriately considered while making provisioning. *Clause 5(f)(vi) (b) & (c)*

Particulars	Number	Amount
Claim at the beginning of the year		
Further claim lodged during the year		
Total A		
Amounts representing		
i) Claims accepted/ settled		
i) Claims rejected		
Total B		
Balance at the year end (A-B)		

(v) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (Contd..)

- Valuation reports of **NPA accounts where outstanding amount is more than Rs. 1 crore** and the valuation has been done prior to 3 years.
- We should verify the cases of **compromise/settlement and write off during the year in excess of Rs. 50 lakhs** and submit along with report. Verify prescribed policy of the bank for compromise/settlement and write off and is followed by the branch.
- Check the **branch is prompt in ensuring execution of decrees** obtained for recovery from the defaulting borrowers and is in line with HO guidelines. Provide **age-wise analysis of decrees** obtained and pending execution. *Clause 5(f)(ix)*
- Verify whether in the cases concluded, the **recoveries have been properly appropriated against the principal / interest** as per the policy of the bank. In case of errors in appropriation, appropriate Memorandum of Changes need to be suggested. *Clause 5(f)(x)*
- 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. *Clause 5(f)(xi)*.
- Ensure that **no manual intervention has been done to modify the NPA Classification**. Any such cases should be looked into and reported accordingly.

Non-Fund Based facilities (Clause 5(g))

- Details of **outstanding amounts of guarantees** invoked and funded by the branch at the end of the year may be obtained from the Management and reported in the following format:

S. No.	Invocation Date	Party Name	Beneficiary Name	Amount	Recovery Date

- While reporting these cases in LFAR, auditor should also verify simultaneously that **whether after considering above funds as part of principal operating account, the facility is becoming NPA**, if yes, same should be reported in **MOC** also for income recognition, asset classification and provisioning.
- Auditor should check if there are instances where **interchangeability** between **fund based and non-fund-based facilities** was allowed subsequent to devolvement of LC / invocation of BG. *Clause 5(g)(iii)*

6. Other Assets - Suspense Accounts/ Sundry Assets

- **Old debit entries in one asset account are reversed by transferring the amount to other asset account with new date.** If auditor finds such cases, same should be reported.

For Instance:

- **Entries debited in asset account to avoid declaring the operating accounts as NPA**
 - **Fraudulent withdrawals** debited to asset account pending for recovery.
 - **Shortage of cash** debited in asset accounts pending recovery etc.
- 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.

- Upon scrutiny of the **accounts under various sub-heads reveal balances**, which in Auditor's opinion are not recoverable, necessary provision/write-off to be done.

- If **unusual items are identified** upon applying test check, if the amounts **involved exceeds the materiality** threshold or are **outstanding for substantial amount of time** which require provisioning, the auditor should report the same and suggest MOC. Details to given in the following manner:

Sr no.	Particulars of Debit Entry	Outstanding balance as on 31.03.20XX	Whether provision is necessary, reason thereof and MOC Reference

LIABILITIES

Deposits

- Obtain the **Bank guidelines** with respect to conduct and operation of inoperative accounts.
- In case where **operation in inoperative accounts is permitted**, test check request letter duly signed by customer for activation along with reason for delay in operation in accounts.
- Any **unusual large movement in aggregate deposits after the balance sheet date**. Auditor should obtain clarification from the branch for unusual large movements of deposits and comment thereon.
- Verify that banks have a **system of reckoning the effect of TDS on interest** at the time credit/payment of Term deposits including upon renewal thereof.

Deposits (Contd..)

- **Verify Bank policy for renewal of FCNR(B) accounts and system parameters for automatic renewal marked in FCNR(B) accounts.** Check the process of obtention of documents at the time of renewal of FCNR(B) accounts. *Clause 1 (c)*
- **Policy of printing and dispatch of original receipts** and control over them. Test check sample cases to form an opinion about the efficacy of the process. *Clause 1 (c)*
- Verify whether branch is **complying with the regulations on minimum balance requirement and levy of charges on non-maintenance** of minimum balance in individual savings accounts. *Clause 1 (d)*
- Check **few sample accounts to ensure levy is fair** and as per policy.

Other Liabilities

Bills Payable, Sundry Deposits, etc.

- Number of items and the aggregate amount of **old outstanding items pending for 1 year or more** under the head **Bills payable, Sundry Deposits** etc. to be obtained and reported under appropriate heads. Give details thereof. *Clause 2 (a)*

Year	Number of items	Amount	Remarks

- We should **verify entries relating to material withdrawals or debits in these accounts**. If any unusual transaction found same should be reported.

Contingent Liabilities

- At the time of audit, **branch keeps ready list of contingent liabilities**. Auditor should verify that all the contingent liabilities cases are included in that list and same are correctly valued.

For Instance:

- List of all the cases filed against branch by any person in consumer court or any other court.
 - Any litigation cases pending for claims made by any government department etc.
- Auditor should obtain the representation **from management that all contingent liabilities have been disclosed**.
 - In case of verification, if it appears to auditor that bank **loss is clear, identified and not disputed**, he should recommend for accounting of the liability for the same.

PROFIT AND LOSS

Profitability

- Auditor should verify whether branch is having **system of finding out the discrepancies in interest/discount/commission/fees and timely adjustment** for the same are being done as per prescribed guidelines.
- Verify **concurrent audit / internal inspection audit / income & expenditure audit reports**.
- Test check interest / discount calculations and whether the same is done as per HO guidelines. **Generate Exceptional transactions report** and verify that interest is applied to all applicable accounts.
- Verify **Income in NPA account to be recognized on receipt basis** as per IRAC norms of RBI.
- Verify **Interest on deposits** and report any excess or short debit of material amount.

Profitability (Contd..)

- Check the system of **estimating and providing interest accrued on overdue / matured term deposits.** *As per RBI Master Direction DBR. Dir. No.84/13.03.00/2015-16 dated March 03, 2016 (Updated on Feb 22, 2019) on Interest Rate on Deposits,*
- If FDR matures and proceeds are unpaid, **the amount left unclaimed with the bank will attract savings bank rate of interest which is done at HO.**
- **Comparative study of all major income and expenditure accounts figures with the previous year figures,** any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch to be reported.
- **Auditor to obtain an appropriate statement from the branch Management explaining the divergent trends in major items of income and expenditure.**

General

Gold/Bullion/ Security Items

- Check whether 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 and report on exceptions if any. *Clause IV (1) (a)*
- Verify whether branch **maintains adequate records for receipt, issues and balances of gold/bullion and updated regularly**. The details of discrepancies noticed and the reporting to the controlling authorities should be taken and delays if any should be reported. *Clause IV (1) (b)*
- Check system of the Bank ensure **adequate internal control over issue and custody of security** items like Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Gift Cheques etc. **Head office instructions to be reviewed** for existence of Internal control. *Clause IV (1) (c)*

General (Contd..)

Books and Records:

- Auditor should check whether there are any **software / systems (manual or otherwise) used at the branch which are not integrated with the CBS**. Review software which has impact on financial statements. *Clause IV (2)(a)*
- Verify whether 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. **All the pending items with status** of the same should be reported. *Clause IV (2)(b)(i)*
- Check whether branch is **generating and verifying exception reports at the periodicity** as prescribed by the bank. The auditor on sample basis should verify whether the branch has followed the instructions issued by Bank w.r.t. generation and verification of exception reports. *Clause IV (2)(b)(ii)*
- Auditor should check 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. *Clause IV (2)(b)(iii)*

Books and Records (Contd.)

- Verify 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. *Clause IV (2)(b)(iv)*
- We should **obtain instructions issued by bank for process** to be followed when system generated data is manually altered.
- **Auditor should comment 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. *Clause IV (2)(b)(v)*
- Carry out test check to verify that the data being entered at branch level is done properly and there is **proper maker checker principle for verification**.

Inter-Branch Accounts

- Auditor should check whether branch complies with/respond to the communications from the designated cell/Head Office as regards unmatched transactions. **Also, verify if there are any unresponded /un-complied queries or communications beyond 7 days.** *Clause IV (3)*

Frauds

- Auditor should obtain a list of frauds duly signed by BM which were **discovered during the year under audit** at the branch, together with your suggestions, if any, to minimize the possibilities of their occurrence. *Clause IV (4)(i)*
- Instances of **frauds detected during the year wherein the confirmation for reporting** the same to RBI is not made available to the auditor, the same should be reported in LFAR
- Check whether there are any **suspected or likely fraud cases** are reported by branch to higher office during the year. Provide the details of the same. *Clause IV (4)(ii)*
- Some of the **potential risk areas which might lead to perpetuation of fraud.** Falsification of accounts/false representation by the borrower; Misappropriation of funds List of Debtors/ Creditors were being fabricated etc. RBI circular dated July 1st, 2015 on” Wilful Defaulters” and RBI Master Directions dated 1st July 2016 (updated on 3rd July, 2017) on Fraud Reporting and Classification to be referred. *Clause IV (4)(iii)*
- Banks shall make suitable disclosures with regard to number of frauds reported, amount involved in such frauds, **quantum of provision** made during the year and quantum of unamortised provision debited from ‘other reserves’ as at the end of the year.

Frauds (*Contd.*)

- The auditor should examine whether the **branch has adequate system in place to identify Early warning signals regarding fraudulent activities**. Few important Early Warning Signals: *Clause IV (4)(iv)*
 - Critical issues highlighted in the stock audit report
 - Liabilities appearing in ROC search report, not in annual report.
 - Not routing sales through consortium member bank
 - Raid by Income tax /sales tax/central excise duty officials

Implementation of KYC/AML Guidelines

- Whether the branch has **adequate systems and processes to ensure adherence to KYC/AML guidelines** towards prevention of money laundering and terrorist financing. *Clause IV (5)*
- Check Whether the branch followed **the KYC/AML guidelines based on the test check carried out** by the branch auditors. As regards KYC, Auditor may go through and rely on the concurrent audit reports. *Clause IV (5)*
- Auditor is also suggested to **ask for Cash transaction/ suspicious transaction (CTR/STR) reports of the branch.** This will provide sufficient insight into the adherence to AML and other suspicious monetary activity of any of the account in the branch.

Management Information System

- Check 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. *Clause VI (6)*
- Further any transaction process where **the maker checker principle is missing**, such observations must be highlighted Also obtain **copy of IS audit reports.** *Clause VI (6)*

Miscellaneous

- **Auditor should consider the major adverse comments arising out of the latest reports such as:** *Revised Clause IV (7)*
 - Previous year's Branch Audit Report / LFAR.
 - Internal audit/ Snap Audit/ concurrent audit report(s).
 - Credit Audit Report.
 - Stock audit Report.
 - RBI Inspection Report, if such inspection took place.
 - Income and Expenditure (Revenue) Audit.
 - IS/IT/Computer/Systems Audit.
 - Any special inspection / investigation report.

- **Any other matters**, which you as a branch auditor would like to bring to **the notice of the Management or the Central Statutory Auditors**.

Branches Dealing in Foreign Exchange Transactions

- Auditor should go **through Concurrent Auditors, Internal auditors and/or the Reserve Bank of India's inspection reports and 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.
- Auditors should obtain the **instruction and guidelines of the controlling authorities in relation to foreign exchange** and verify whether same are being followed. If any deviation found same should be reported with details in Deposits, Advances, Export Bills, Bills for Collection etc.
- Auditor should **obtain a list of NOSTRO account** from the branch. Verify, whether account is being **regularly operated and verify whether balance confirmations have been obtained from all overseas branches/correspondents**. Details of accounts where confirmations are not received should be given

Branches Dealing in Foreign Exchange Transactions (Contd..)

- Check if there are **any dormant/closed NOSTRO accounts in respect of which balances continue to exist** in the books of the branch, at year end. *Revised Clause A(3)(c)*
- Auditor should check whether the **NOSTRO balances been converted at year end at the rates of exchange as prescribed by controlling authorities** and check whether the matters that deserves special attention of the management are reported. *Revised Clause A(3)(d)*
- Verify, **whether account is being regularly operated if not give the list of NOSTRO accounts with balances** and since when same are not being operated. *Revised Clause A(3)(e)*

Branches dealing in clearing house operations, normally referred to as Service Branches

- **Verify, branch has system of periodic review of outstanding entries.** Find out branch is doing follow up for old entries.
- **On test check basis, verify if the prescribed system of review and follow up is being adhered to.**
- **On review of clearing adjustment account (Inward/outward clearing) give the break up of old entries with number of entries and value outstanding since long.**
- **Auditor should verify, whether branch follows the guidelines of the controlling authority of bank with regard to operations relating to clearing transactions.** In case, same has not been followed, auditor should report the deviation.

Asset Recovery Management Branches

- Auditor should obtain the details of **Advances with balances outstanding Rs.10.00 Crores** and above and comment on the adverse features which might need the attention of the management / Statutory Central Auditors. *Clause C(1)*
- Obtain the list of cases, **where accounts with balance outstanding in excess of Rs 10.00 Crores have been upgraded from NPA to standard** and give brief details and reason of reclassification as per format. Review Movement during the year. *Clause C(2)*
- Auditor should verify and comment whether there is **system of periodical obtainment and updation of valuation of security** charged to bank.
- **Age-wise analysis of the recovery suits filed and pending** may be furnished for the last three years along with their latest status as per format. *Clause C(4)*
- **Ensure in cases decree obtained**, branches is prompt in execution for the decree. If not, same should be reported. **List of cases, where decree is time barred** same should be reported with reasons.

Asset Recovery Management Branches (Contd..)

- Attach **the list of all recoveries in NPA accounts** for interest and principal.
 - (a) List of **accounts settled/closed** should be provided.
 - (b) Further 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.

- List of **new accounts transferred to branch** to be attached.
 - (a) Ensure all **documents relating to these accounts obtained** from transferor branch.
 - (b) Branch should **obtain confirmation that all accounts of borrower** transferred to branch.
 - (c) Any **adverse features have been observed on transfer** of cases same should be reported

Branches dealing in very large advances such as Corporate Banking branches and Industrial Finance Branches or branches with advances in excess of Rs.100 crore

- Auditor should 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 quiet a long time, renewed without adequate appraisal or** disbursement without any appropriate approval. Any other issue which auditor feels is adverse and requires attention of CSA/Management should be commented.
- Obtain the list of **cases reclassified as from NPA to standard or vice versa** and give brief details and reasons of reclassification.

Important work to be ensured at the end of Audit

- Carefully review the **Audit Process and confirm final Query Sheets and Reports**. Re-Draft the same if necessary. Involve all team members.
- Prepare **Draft Audit Report and draft of other documents** to be certified by you. Discuss the same with Branch. **Quantify and discuss MoCs** suggested by you.
- Prepare **Final Report**.
- Quantify all points raised **in report particularly from the point of view of materiality**. This will help in deciding whether a particular comment or observation is necessary to be included in the report.
- **Generate UDIN**, separately for the statutory audit report and certificates, LFAR and the tax audit report. Refer FAQs on UDIN released by ICAI. These can be accessed at <http://udin.icai.org/faqs>

Important work to be ensured at the end of Audit

- Complete other formalities like **stamping, signing and affixing date**, etc.
- **Handover final sets** as required by adhering to the deadline given by bank authorities.
- **Take all your working papers and final set without leaving** any of your working papers at Branch. Delete working folders created on branch computer systems before leaving the branch.
- **Certificate from Branch Manager for attendance of Audit.**

Documents/ Checklist for reference to undertake an effective Audit:

- Branch Audit Program
- Engagement Letter as per SA 210
- Branch Enquiry Letter
- Checklist of Advances
- Format of Audit report in terms of SA 700/705
- Latest LFAR format
- List of RBI Circulars applicable for the year 2022-23
- Management Representation - SA 580
- Master Circular of RBI dated 1st July 2015 and relevant Master Directions issued from time to time. Circular issued during the year 2022-23

Thank You

For any Queries you may contact me at:

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