

A large white scalloped-edged shape is centered on the page, containing the text 'LFAR'.

LFAR

LONG FORM AUDIT REPORT

CA. RUPAL GARG
9634414555

ASSETS

- Cash and Balance with RBI
- Balance with Banks and Money at Call and Short Notice
- Investments
- Fixed Assets
- Other Assets

LIABILITIES

- Capital
- Reserve and Surplus
- Deposits
- Borrowings
- Other liabilities and provisions

- Contingent Liabilities
- Bills for Collection

CONTROLLING AUTHORITY

- Head Office
- Regional Office
- Zonal Office

CA. RUPAL GARG
9634414555



CASH

CA. RUPAL GARG
9634414555



(A) DOES THE BRANCH GENERALLY CARRY CASH BALANCES, WHICH VARY SIGNIFICANTLY FROM THE LIMITS FIXED BY THE CONTROLLING AUTHORITIES OF THE BANK?

➤ *A letter received from controlling office to be perused to ascertain the cash retention limit allotted to the branch (including foreign currencies).*

➤ *The limits as above to be verified with the daily closing cash balance (including foreign currency) of the Branch.*

➤ *Any exceptions may be reported as under:*

i. We have been informed that Controlling Office had fixed Cash Retention Limit of Rs. ----vide letter no.....dated---

ii. During the year under audit the cash balance was in excess of Retention Limit on many/few occasion. The instances are as under:-

Date Balance in Rs.

CA. RUPAL GARG
9634414555

(B) DOES THE BRANCH HOLD ADEQUATE INSURANCE COVER FOR CASH-ON-HAND AND CASH-IN- TRANSIT?

- *Generally, the Branch cash balance has been covered under the Bankers' Indemnity Policy.*
- *A copy of the policy to be obtained from Branch. In case the insurance is taken by Head Office / Controlling Office, a copy of policy or any correspondence from Head Office / Controlling Office in this regard to be perused.*

(C) IS CASH MAINTAINED IN EFFECTIVE **JOINT CUSTODY** OF TWO OR MORE OFFICIALS, AS PER THE INSTRUCTIONS OF THE CONTROLLING AUTHORITIES OF THE BANK?

- *Obtain the instructions in this regard and peruse the compliance thereof.*
- *Generally, the Cash is held in the Joint Custody of Cashier and Officer of the Branch.*
- *Specify the name and designation of the concerned persons.*

(D) HAS THE CASH BALANCES AT THE BRANCH BEEN CHECKED AT PERIODIC INTERVALS AS PER THE PROCEDURE PRESCRIBED BY THE CONTROLLING AUTHORITIES OF THE BANK?

- *Obtain the copy of the procedure prescribed by the Controlling Authorities and examine the compliance thereof. In addition, ascertain, whether the branch is under Concurrent Audit. Generally, the Concurrent Auditors do the Cash verification every month.*
- *In addition to above, officials who are not dealing with cash are also doing verification on monthly basis.*

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

CA. RUPAL GARG
9634414555

(A) WERE BALANCE CONFIRMATION CERTIFICATES OBTAINED IN RESPECT OF OUTSTANDING BALANCES AS AT THE YEAR-END AND WHETHER THE AFORESAID BALANCES HAVE BEEN RECONCILED? IF NOT, THE NATURE AND EXTENT OF DIFFERENCES SHOULD BE REPORTED.

- *Balance confirmation certificates obtained in respect of outstanding balances as at the year end.*
- *Obtain the Bank Reconciliation Statement.*
- *If the reconciliation is not carried out or carried out incorrectly the same to be reported.*
- *If any difference is observed, then report the amount, nature of difference and period since lying in the reconciliation statement*

(B) YOUR OBSERVATIONS ON THE RECONCILIATION STATEMENTS MAY BE REPORTED IN THE FOLLOWING MANNER:

(i) Cash transactions remaining unresponded

➤ Give full details.

(ii) Revenue items requiring adjustments/ write-off

➤ Give full details.

(iii) Old outstanding balances remaining unexplained/ unadjusted. Give details for:

➤ *Outstanding between six months and one year; (including Receivable or payable)*

➤ *One year and above (including Receivable or payable)*

MONEY AT CALL AND SHORT NOTICE

Has the Branch kept money-at-call and short notice during the year? If so, whether instructions/ guidelines, if any, lay down by the Controlling Authorities of the bank have been complied with?

- Generally, this is looked after by Treasury Department, hence, such types of transactions generally do not appear in Branch Books.*
- However, confirm that no such transactions are appearing in the Branch Trial Balance.*
- If there are transactions, obtain the instructions / guidelines laid down by the Controlling Authorities and examine the compliance thereof.*

INVESTMENTS

- *Generally, this is looked after by Treasury Department, hence, such types of transactions do not appear in Branch Books.*
- *However, confirm that no Investments are appearing in the Branch Trial Balance.*
- *If Investments are appearing in the Trial Balance physical verification should be conducted and reported accordingly. Also verify investment balance confirmation of counter party (Investee) with balance appearing in Branch Books.*

a) *Are there any investments held by branches on behalf of Head Office/ other offices of the bank? If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?*

If Investments are held on behalf of Head Office / Other Offices physical verification of the records should be conducted and reported accordingly.

b) *Whether any amounts received as income on such investments have been reported to the Head Office?*

Confirm from the Branch Trial balance whether any such income is received. If yes, ascertain whether the instructions in this regard of the head office / controlling office is complied with..

c) *In respect of investments held by branches on behalf of Head Office/ other offices of the bank whether any income is accrued / received and recognised as income of the branch contrary to the instructions of the Controlling Authorities of the bank?*

Confirm from the Branch Trial balance whether any such income is received. If yes, ascertain whether the instructions in this regard of the head office / controlling office are complied with.

d) Whether there are any matured or overdue investments, which have not been encashed? If so, give details?

Give full details including details about the investment, the date on which the said investment has got matured or overdue, maturity value, etc.

e) Whether the guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with.

Refer guidelines of Reserve Bank of India together with Head Office instruction.

f) Whether the guidelines of the Reserve Bank of India regarding valuation of Investments have been complied with.

Refer guidelines of Reserve Bank of India together with Head Office instruction (Valuation Policy of the Bank).

ADVANCES

(a) Credit Appraisal

(b) Sanctioning/Disbursement

(c) Documentation

(d) Review/ Monitoring/ Supervision

(e) Guarantees and Letter of Credit

CREDIT APPRAISAL

In your opinion, has the branch generally complied with the procedures instructions of the Controlling Authorities of the bank regarding loan applications, preparation of proposals for grant/ renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof.

- Refer circular issued by Head Office regarding Credit Appraisal.
- Enquire whether specific facility wise loan application form is prescribed by the Bank.
- Confirm that the instructions are followed by the Branch while accepting the loan application form.
- Refer circular issued by Head Office regarding preparation of proposals for grant / renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof.
- While reporting under this clause, auditor should consider the “Early mortality cases” in the branch

CA. RUPAL GARG
9634414555

ADDITIONAL POINTS TO BE CONSIDERED :-

- *The branch is adhering to the prudential exposure limits prescribed by RBI and Head Office.*
- *In case of corporate borrower, it is necessary for branch auditor to carefully go through the annual reports to ensure that there no adverse comments in main auditor report or CARO report on annual accounts of the borrower that affects sanction at the branch level.*
- *Latest IT returns of Borrowers / Guarantors have been obtained and verified with financial documents and other information available on record.*
- *Latest CIBIL or other Credit Information Company report has been obtained and verified*

SANCTIONING/ DISBURSEMENT

(i) In the cases examined by you, have you come across instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? Are such cases promptly reported to higher authorities?

- Confirm sanctioning / disbursement discretionary power regarding advances.
- 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.
- Generally, cases are seen in the branch where the limits of existing borrowers are allowed to be overdrawn for a period beyond permissible time. Such cases should be reported.

Sr. No.
Name of the borrower
Account Number
Type of facility
Sanction date/ Authority
Sanction limit
Balance outstanding on 31.03.20XX
Amount sanctioned exceeding the delegated authority
Date of sanction / ratification from Higher Authority

CA. RUPAL GARG
9634414555

(ii) In the cases examined by you, have you come across instances where advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.

- Obtain original Title deed, Execution of Documents. Vetting of documents by legal dept./ legal resource.
- Report the cases where advances have been disbursed without complying with the terms and conditions of the sanction letter.

Main aspects to be covered are:

- Registration of charges – search report.
- Resolutions – guarantees – mortgage creation.
- Legal opinion – valuation – encumbrance certificate – insurance.
- Lien on deposits – margins for BG and LC and loan on deposits.

- Report the cases along with the deviations.

DOCUMENTATION

- (i) *In the cases examined by you, have you come across instances of credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.*
- Report the cases where credit facilities released by the branch without execution of all the necessary documents. Physical verification of documents is critical. This is one of the important functions of the branch audit and the reason why branch audit exists.
 - Verify Custody of Documents – Whether document movement register tracking changes is maintained. Whether scanning of important documents is maintained.
 - The exact nature of irregularity / document not obtained may be provided in the following format.

Sr. No.
Name of the borrower
Account Number
Type of facility
Sanction date / Authority
Sanction limit
Balance outstanding on 31.03.20XX
Nature of irregularity / documents not obtained

CA. RUPAL GARG
9634414555

(ii) In respect of advances examined by you, have you come across cases of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.

- Report cases of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees, etc
- Make sure that the documents are adequately stamped and also that they are executed within six months of purchasing the stamp paper.

(iii) Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the Controlling Authorities of the bank.

- Refer the guidelines issued by Head Office in this regard.
- Report the cases, where the deposits / NSCs, paper securities etc., are matured, however not adjusted against the respective advances.

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

- *between 6 months and 1 year, and*
- *over 1 year*

Refer the guidelines issued by Head Office in this regard.

Date / month in which accounts were due for review and the date / month on which the review was done may be obtained.

It may be noted that there would be cases that are seen performing at the balance sheet date but evidently stressed. Comments on such account with respect to branch efforts on monitoring and information availability on same should be commented upon.

In view of changes in the reporting requirements in CARO for corporate borrowers, it is necessary for branch auditor to carefully go through the annual reports to ensure that there no adverse comments in the balance sheet of a borrower that affects reporting at the branch level.

CA. RUPAL GARG

9634414555

Date / Month of review can be verified from the sanction documents / terms

(ii) Are the stock / book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinised? Is suitable action taken on the basis of such scrutiny in appropriate cases?

- Borrower wise / month wise record showing receipt of security statement be confirmed.
- Confirm the working of drawing power based thereon.
- Confirm whether these statements are obtained on time

(iii) Whether there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?

- Refer the guidelines issued by Head Office in this regard and confirm the compliance thereof.
- Examine the compliances obtained, action taken in cases wherein deficiencies are reported by the stock auditors.
- Obtaining written reverts from the Borrower.
- Whether adverse issues in stock audit reports are duly factored in review / renewal notes.
- Compare with annual accounts for divergences and obtain satisfactory explanations

(iv) Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakhs where the branch has not obtained the accounts of borrowers, duly audited under the RBI guidelines with regard to compulsory audit or under any other statute.

(v) Has the inspection or physical verification of securities charged to the Bank been carried out by the branch as per the procedure laid down by the Controlling Authorities of the bank?

(vi) In respect of advances examined by you, have you come across cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent/unauthorised overdrawing beyond limits, inadequate insurance coverage, etc.?

(vii) In respect of leasing finance activities, has the branch complied with the guidelines issued by the Controlling Authorities of the bank relating to security creation, asset inspection, insurance, etc? Has the branch complied with the accounting norms prescribed by the Controlling Authorities of the bank relating to such leasing activities?

(viii) Are credit card dues recovered promptly?

(ix) Has the branch identified and classified advances into standard/substandard/ doubtful/ loss assets in line with the norms prescribed by the Reserve Bank of India.

(x) Where the auditor disagrees with the branch classification of advances into standard / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated / suggested in the Memorandum of Changes.

(xi) Have you come across cases where the relevant Controlling Authority of the bank has authorised 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.

(xii) Have all non-performing advances been promptly reported to the relevant Controlling Authority of the bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.

(xiii) Have appropriate claims for DICGC/CGSTE and Export Credit Guarantee/ Insurance and subsidies, if any, been duly lodged and settled? The status of pending claims giving year wise break-up of number and amounts involved should be given.

(xiv) In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the fixed assets charged to the bank, once in three years, unless the circumstances warrant a shorter duration?

(xv) In the cases examined by you has the branch complied with the Recovery Policy prescribed by the Controlling Authorities of the bank with respect to compromise/ settlement and write-off cases? Details of the cases of compromise/ settlement and write-off cases involving write-offs/ waivers in excess of Rs.50 lakhs may be given.

OTHER ASSETS

Stationery and Stamps

(i) *Does the system of the Bank ensure adequate internal control over issue and custody of stationery comprising security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch?*

- The Head Office instructions to be seen and confirm whether internal control is in existence.
- Carry out the physical verification of security items including stamps.
- Whether lost security items are reported to Controlling Authority.
- Note down the accounting treatment given to Stationery items as every Bank is having different policy in this regard.
- Comment on the usage of security items during the year and the stock of such items *vis a vis* usage.
- Report lacunas observed in the system at the branch as this is a fraud prone area.

(ii) *Have you come across cases of missing/ lost items of such stationery?*

LIABILITIES

CA. RUPAL GARG
9634414555

DEPOSITS

(i) Have the Controlling Authorities of the bank laid down any guidelines with respect to conduct and operations of Inoperative Accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.

- Refer the guidelines issued by Head Office in this regard.
- Whether, such guidelines are followed strictly.
- Wherever the guidelines are not followed report the same along with full details.
- Whether system identifies the inoperative accounts and converts the status of such accounts to inactive.
- Whether branches are transferring inoperative accounts and shown under a separate DEAF Deposits accounts in the branch General Ledger.
- Whether unclaimed liabilities is reflected as Contingent Liability.
- Note down the procedure for making such inoperative account, operative.

(ii) After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year-end? If so, obtain the clarifications from the Management and give your comments thereon.

- Compare the aggregate deposits as on 15th March, 20XX, 31st March, 20XX and last day of audit.
- Ascertain the reason for large variation other than due to application of interest / provision as on 31st March, 20XX
- Ensure there is no evergreening

(iii) Are there any overdue/ matured term deposits at the end of the year? If so, amounts thereof should be indicated.

- Refer the guidelines issued by Head Office in this regard.
- Whether, such guidelines are followed strictly.
- Whether interest is provided on matured deposit as per RBI guidelines.
- Follow up done with customers to renew such accounts

CONTINGENT LIABILITIES

List of major items of the contingent liabilities (other than constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc.) not acknowledged by the branch?

- List of claims against the branch together with the status of claim may be obtained.
- List of contingent liability to be verified and the same to be compared with last year's list.
- The items not appearing in the current year's list may be enquired with reasons thereof.
- Whether any provisioning is warranted against these Contingent Liabilities.

**Profit & Loss
A/c**

CA. RUPAL GARG
9634414555

(a) Whether the branch has a system to compute discrepancies in interest / discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the Controlling Authorities of the bank? Has the test checking of interest revealed excess / short credit of a material amount? If so, give details thereof

- Refer concurrent audit / internal inspection audit / income & expenditure audit reports.
- Test check interest / discount calculations. Whether changes in interest rates are correctly captured.
- Generate Exceptional Transactions report and verify interest is applied to all applicable accounts
- Generally, interest application is a system-generated entry; hence test check may be applied for confirming interest calculations.
- Test check cases of premature withdrawals for re-computing interest wrt revised tenor.

(b) Has the branch complied with the Income Recognition norms prescribed by the RBI?

- Refer RBI Master circular on IRAC norms together with other circulars issued by RBI on IRAC norms from time to time.
- Ensure asset classification is being done through system and no manual intervention is in place.

(c) Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid down in this regard by the Controlling Authorities of the bank? Has the test check of interest on deposits revealed any excess/ short debit of material amount? If so, give details thereof.

- Refer the guidelines issued by Head Office/RBI in this regard.
- Whether, such guidelines are followed strictly.

(d) Does the bank have a system of estimating and providing interest accrued on overdue / matured term deposits?

- Refer the guidelines issued by Head Office in this regard.
- Whether, such guidelines are followed strictly.
- In most of the Banks such exercise is carried out at Head Office through system.

(e) Are there any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch? If so, the same may be reported upon. For this purpose, an appropriate statement may be obtained from the branch Management explaining the divergent trends in major items of income and expenditure.

- The divergent trends can be identified by way of comparison analysis on the basis of previous quarters / half year / previous year figures, keeping in mind the changes in business volumes and business mix.
- Compare the aggregate figures as on 15th March, 20XX, 31st March, 20XX and last day of audit. Also compare some of the transfers on the last two days of the year end and identify whether there are any transfers of undrawn portion from the loan accounts to current account or deposit account

GENERAL

CA. RUPAL GARG
9634414555

BOOKS AND RECORDS

CA. RUPAL GARG
9634414555

(a) In case any books of account are maintained manually, does general scrutiny thereof indicate whether they have been properly maintained, with balances duly inked out and authenticated by the authorised signatories?

- Now a days CBS is followed hence question of maintaining manual books of accounts does not arise.
- Balancing is also done through system.
- Balancing report may be generated to confirm that no difference is appearing in the balancing report.
- Exception Reports can be generated from the system to verify whether there are differences. If there are differences, the same should be reconciled / rectified by branch.

(b) In respect of computerised branches:

➤ *Whether hard copies of accounts are printed regularly?*

Refer the guidelines issued by Head Office. On the basis of instructions, documents to be stored in hard copies and the periodicity of printing may be identified.

➤ *Indicate the extent of computerisation and the areas of operation covered through manual intervention.*

➤ *Are the access and data security measures and other internal controls adequate?*

Refer the guidelines issued by Head Office – Awareness of Branch officials with Security guidelines - Password Policy, Anti viruses on systems, Access to pen drives etc. may be checked as a part of access and data security controls

- *Whether regular back-ups of accounts and off-site storage are maintained as per the guidelines of the Controlling Authorities of the bank?*

Refer the guidelines issued by Head Office for compliance – Whether backups are periodically tested.

- *Whether adequate contingency and disaster recovery plans are in place for loss/ encryption of data?*

Refer the guidelines issued by Head Office & compliance thereof. Note if any fire drills or any other evacuation drills are conducted – Whether any Fire Safety Audits are conducted

- *Do you have any suggestions for the improvement in the system with regard to computerised operations of the branch?*

AUDITS/INSPECTIONS

(i) Is the branch covered by concurrent audit or any other audit/ inspection during the year?

(ii) In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors or internal auditors, or in the special audit report or in the inspection report of the Reserve Bank of India? State the various adverse features persisting in the branch, though brought out in these audit/ inspection reports.

- Obtain a list of audit which the Branch was subjected to during the previous year.
- The scope of each audit may be reviewed to identify adequate coverage of branch activities.
- Obtain all the reports and peruse the reports for any adverse remarks.
- Whether branch has been addressing all issues noted promptly – whether there are any repeat issues
- Whether the Gap or Process failure that lead to the transactional error reported is addressed

FRAUDS

Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimise the possibilities of their occurrence

➤ Enquire about any fraud reported to Controlling Authority/vigilance dept. Head Office during the financial year.

The auditor should also examine whether:

□ the branch is having an effective credit monitoring for its Advances portfolio.

□ the branch has an adequate system in place to identify Early Warning Signals(EWS) of incipient sickness / fraudulent activities in respect of loans. Some of the Early Warning signals which should alert the bank officials about some wrongdoings in the loan accounts which may turn out to be fraudulent:

- Default in payment to the banks/ sundry debtors and other statutory bodies, etc., bouncing of the high value cheques.
- Raid by Income tax /sales tax/ central excise department.

MISCELLANEOUS

(i) Does the examination of the accounts indicate possible window dressing?

- Compare the aggregate figures as on 15th March, 20XX, 31st March, 20XX and last day of audit.

(ii) Does the branch maintains records of all the fixed assets acquired and held by it irrespective of whether the values thereof or depreciation thereon have been centralised? Where documents of title in relation to branch or other branches are available at the branch, whether the same have been verified.

- Refer the guidelines issued by Head Office in this regard.
- Whether, such guidelines are followed strictly.

(iii) Are there any other matters, which you as a branch auditor would like to bring to the notice of the Management or the Statutory Central Auditors?

Instances are given as under:

- System related issues
- Issues relating to Statutory Payments and Accrual of Statutory Liabilities
- Short / Excess Provisioning in NPA Accounts / Non Provisioning for SMA2 Accounts
- Compliance with the requirements of RBI and Head Office instructions for Unhedged Foreign Currency Exposure
- ATM related issues
- Whether AMC's terms are followed strictly
- Security related issues.
- Issues which may impact other Branches and not just the branch under audit.

For XYZ and Co.
Chartered Accountants
Firm's Registration Number
Signature
(Name of the Member Signing the Audit Report)
(Designation)
Membership Number
Place of Signature:
Date:

CA. RUPAL GARG
9634414555



THANK YOU

CA. RUPAL GARG
9634414555

