

## SALIENT FEATURES OF LONG FORM AUDIT REPORT

### 1.0 LONG FORM AUDIT REPORT – AN INTRODUCTION

As part of Statutory Audit of Bank Branches, an Auditor is required to answer a detailed questionnaire [LFAR] prepared by Reserve Bank of India (RBI).

#### 1.1 Purpose Of LFAR

1. LFAR is designed to focus on systemic issues in banks and tries to address them through the insight of the bank branch auditors.
2. It also acts as an early whistle blower for the irregularities persisting in the branch/bank
3. LFAR serves as an excellent audit planning tool. By studying the questionnaire in detail the auditor can plan the audit effectively and allocate time to each area accordingly.

#### 1.2 LFAR as compared with MAIN AUDIT REPORT

1. LFAR is not substitution of the statutory report, neither a part of the said report. LFAR is actually a management Report.
2. Matters required to be reported by the auditor in LFAR are illustrative not exhaustive
3. Where any of the comments given in LFAR is adverse, the auditor should consider whether a qualification in his main report is necessary. So LFAR should be completed before main report.
4. At times though audit qualifications are included in the LFAR, they are not highlighted in the main Audit Report. Every adverse comment would not result in Qualification in main audit report. Auditor has to use his professional judgment having regard to the facts and circumstances of each case.
5. Work on LFAR should be started simultaneously with statutory audit so as to avoid duplication of work
6. LFAR covers all the areas of the Branch Audit and is the end result of the auditor's efforts and would reflect on professional competence and therefore should not be treated as a mere questionnaire to be filed in a routine way

#### 1.3 LFAR IN CASE OF BANK BRANCHES

Structure of LFAR in case of Bank Branches is as follows

- (i) Questionnaire in connection with LFAR in respect of a branch.
- (ii) Questionnaire applicable to specialised branches.
- (iii) Annexure to the LFAR for furnishing details of large/irregular/critical accounts (to be obtained from the branch management by the Branch Auditors of branches dealing in large advances/ asset recovery branches)

#### 1.4 Questionnaires Applicable to Specialized Branches

A	For Branches dealing in Foreign Exchange Transactions	4
B	For Branches dealing in very large advances in excess of Rs. 100 crores	3
C	For Branches dealing in Non Performing Assets such as Asset Recovery Management Branches	7
D	For Branches dealing in Clearing House Operations, normally referred to as Service Branches	3

#### 1.5 ANNEXURE to the Long Form Audit Report (FOR LARGE/IRREGULAR/CRITICAL ADVANCE ACCOUNTS)

(To be obtained from the branch management by the Branch Auditors of branches dealing in large advances/asset recovery branches) - 26 particulars to be obtained

#### 1.6 CHECKLIST ON Questionnaire in connection with LFAR in respect of a branch

S. No.	Aspects to be seen	Checked by	Supervised by
I	A) Assets Cash		
1	Verify that cash balance is within limits fixed by controlling authorities		
2	Check the adequacy of insurance cover of cash-on-hand and cash in transit		
3	Verify that cash is maintained in custody of two or more officials		

**BANK BRANCH AUDIT (2007-2008)**

4	Verify documents relating to checking of cash balance by bank officials during the year		
<b>II</b>	<b><u>Balances with Reserve Bank of India, State Bank of India and Other Banks</u></b>		
5	Verify the confirmation certificate obtained from RBI ,SBI and other banks		
6	In bank reconciliation verify the cash transaction remaining un responded, revenue items requiring adjustments/write off and old outstanding entries		
7	Verify whether any item deserves special attention of the management		
<b>III</b>	<b><u>Money at call and short notice</u></b>		
8	Verify whether there are any there are any unauthorized deposits or any deposits in excess of authorized deposits into this account		
<b>IV</b>	<b><u>Investments</u></b>		
	<b>A) For Branches in India</b>		
9.	Physically verify the investments held by branch on behalf of head office		
10.	Verify that income received on investments reported to head office		
11.	Verify that income on investments is recognized in the branch is not in contrary to instructions issued by controlling authorities		
12.	Obtain the list of matured or overdue investments which have not been verified		
13.	Verify that guidelines of RBI regarding securities have been complied with		
14.	Verify that guidelines of RBI regarding valuation of investments have been complied with		
	<b>B) For Branches outside India</b>		
15.	Verify that in respect of purchase and sale of Investments the branch has acted within its delegated authority		
16.	Ensure that 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		
17.	Enquire about the mode of valuation of investments		
18.	Verify the case where there are any matured or overdue investments which have not been en-cashed		
<b>V</b>	<b><u>Advances</u></b>		
	<b>a) Credit appraisal</b>		
19.	Verify that branch has complied with procedures/ instructions issued by controlling authorities regarding loan applications enhancements of limits etc		
	<b>b) Sanctioning/Disbursement</b>		
20.	Verify that credit facilities have been sanctioned with in limits fixed by branch or controlling authorities		
21.	Verify that advances have been disbursed after complying terms and conditions of the sanction		
	<b>c) Documentation</b>		
22.	Examine that credit facilities have been released by branch after execution of all necessary documents		
23.	List out the cases of deficiency in documentation, non-registration of charge, non obtaining of guarantees		
24.	Examine that advances against lien of deposits have been granted by marking a lien on the deposit		
	<b>d) Review/Monitoring/Supervision</b>		
25.	Check that register has been maintained noting the due date for renewal of limits		
26.	Examine that stock/book debt statements and other periodic Operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized		

**BANK BRANCH AUDIT (2007-2008)**

27.	Examine the system of obtaining reports on stock audits Periodically		
28.	Obtain the cases of advances to non-corporate entities with limits beyond Rs. 10 lakhs where the Branch has not obtained the audited accounts of borrowers		
29.	Obtain the report on inspection or physical verification of securities charged to the Bank		
30.	List out the cases of deficiencies in value of securities and inspection thereof or any other adverse features such as request/unauthorized overdrawing beyond limits, inadequate insurance coverage, etc		
31.	Verify that in respect of leasing finance activities, branch has complied with the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance, etc		
32.	Check the recovery of credit card dues		
33.	Verify that branch has identified and classified advances into standard/substandard/doubtful/loss assets in line with the norms prescribed by the Reserve Bank of India		
34.	Issue Memorandum of change where you disagree with the branch classification of advances into standard / substandard/ doubtful/ loss assets		
35.	List out 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		
36.	Confirm that all non-performing advances been promptly reported to the controlling Authority of the bank		
37.	Confirm that appropriate claims for DICGC and Export Credit Guarantee/Insurance and subsidies, if any, been duly lodged and settled. Obtain the year wise status of pending claims both in number and amounts		
38.	Confirm that in respect of NPAs, branch has obtained valuation reports from approved valuers for the fixed assets charged to the bank, once in three years		
39.	Confirm that branch complied with the recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/settlement and write-off cases. List out the cases of compromise/settlement and write-off cases involving write-offs/waivers in excess of Rs. 50.00 lakhs		
40.	List out the major deficiencies in credit review ,monitoring and supervision		
	<b>e) Guarantees and Letters of credit</b>		
41.	Take the details of outstanding amounts of guarantees invoked and funded by the Branch at the end of the year		
42.	Take the details of the outstanding amounts of letters of credit and co-acceptances funded by the Branch at the end of the year		
<b>V</b>	<b><u>Other assets</u></b>		
	<b>a) Stationery and stamps</b>		
43.	Check the internal control over issue and custody of stationery comprising security items		
44.	List out the details of missing/lost items of stationery?		
	<b>b) Suspense Accounts/Sundry assets</b>		
45.	Confirm that system of the Bank ensure expeditious clearance of items debited to Suspense account?		

**BANK BRANCH AUDIT (2007-2008)**

46.	List out details of old outstanding entries in suspense account along with reasons		
	<b>B) Liabilities</b>		
<b>I</b>	<b>Deposits</b>		
47.	List out the cases where guidelines with respect to conduct and operations of inoperative accounts are not being followed		
48.	List out details of the cases where any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year-end after the balance sheet date and till the date of audit		
49.	List out overdue/matured term deposits at the end of the year		
<b>II</b>	<b>Other Liabilities</b>		
	Bills Payable, Sundry Deposits etc		
50.	Scrutinize the bills payable, Sundry Deposits accounts with special attention for old outstanding items or unusual items etc		
51.	Report on any unusual items or material debits from these accounts		
	<b>Contingent Liabilities</b>		
52.	List out major items of contingent liabilities		
	<b>C) Profit and loss account</b>		
53.	Test check discrepancies in interest/discount and for timely adjustment thereof		
54.	Test check that branch has complied with the Income Recognition norms prescribed by RBI		
55.	Examine whether the branch has a system to compute discrepancies in interest on deposits		
56.	Examine the system of estimating and providing interest accrued on overdue/matured term deposits		
57.	Examine any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch		
	<b>D) General</b>		
	<b>a) Books and records</b>		
58.	Confirm that in case books of account are maintained manually, they have been properly maintained, with balances duly inked out and authenticated by the authorized signatories		
59.	In case of computerized branch confirm that hard copies of accounts are printed regularly Check the adequacy of access and data security measures <ul style="list-style-type: none"> <li>• Check that user time out is prescribed and followed</li> <li>• Confirm that regular backup of accounts are taken</li> <li>• Check the contingency and disaster recovery plans for loss/encryption of data</li> </ul>		
	<b>b) Reconciliation of control and subsidiary records</b>		
60.	Check the reconciliation status of control and subsidiary records		

**4.2 Checklist on Questionnaire applicable to specialised branches**

S. No.	Aspects to be seen	Checked by	Supervised by
<b>I</b>	<b><u>For Branches dealing in Foreign Exchange Transactions</u></b>		

**BANK BRANCH AUDIT (2007-2008)**

1.	List out 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/NRRN/FCNR-B/EEFC/ RFC and other similar deposit accounts.		
2.	Confirm that the Branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to deposits, advances, export bills, bill for collection, dealing room operations in relation to the foreign exchange		
3.	a) Confirm that Nostro Accounts are regularly operated b) Verify that periodic balance confirmations obtained from all concerned overseas branches/correspondents in respect of Nostro accounts c) Confirm that Nostro accounts are reconciled periodically		
4.	Confirm that branch followed the prescribed procedures in relation to maintenance of Vostro Accounts		
<b>II</b>	<b><u>For branches dealing in very large advances such as corporate banking branches and industrial finance branches or branches with advances in excess of Rs. 100 crores.</u></b>		
1.	Obtain information from management in prescribed format of borrowers with outstanding of Rs. 2 crores and above Verify the significant adverse features and which might need the attention of the management/central Statutory Auditors		
2.	Check the major shortcomings in credit appraisal, monitoring, etc.		
3.	List the accounts (with outstandings in excess of Rs. 1.00 crore), which have either been downgraded or upgraded with regard to their classification as Non Performing Asset or Standard Asset during the year		
<b>III</b>	<b><u>For branches dealing in recovery of Non Performing Assets such as asset recovery branches</u></b>		
1.	Obtain information from management in prescribed format of borrowers with outstanding of Rs. 2 crores and above		
2.	List out the accounts (with outstandings in excess of Rs. 2.00 crores), which have been upgraded from Non Performing to Standard during the year and the reasons therefore		
3.	Verify whether the branch has a system of updating periodically the information relating to the valuation of security charged to bank		
4.	Check the age-wise analysis of the recovery suits filed and pending cases		
5.	Check that branch is prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers		
6.	List out the recoveries and their appropriation against the interest and the principal and the accounts settled/written off/closed during the year		
7.	List out the details of new borrower accounts transferred to the Branch during the year. Confirm that all the relevant documents and records relating to these borrower accounts been transferred to the Branch. Confirm that 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		
<b>IV</b>	<b><u>For branches dealing in Clearing House Operations, normally referred to as Service Branches</u></b>		

BANK BRANCH AUDIT (2007-2008)

1.	Confirm that branch have a system of periodic review of the outstanding entries in clearing adjustments accounts		
2.	Review clearing adjustments accounts (inwards/outwards) for any old/large/unusual outstanding entries		
3.	Confirm that the Branch strictly followed the guidelines of the controlling authority of the bank with respect to operations related to clearing transactions		

**4.3 Annexure to the LFAR for furnishing details of large/irregular/critical accounts (to be obtained from the branch management by the Branch Auditors of branches dealing in large advances/asset recovery branches)**

1. Name of the Borrower
2. Address
3. Constitution
4. Nature of business/activity
5. Other units in the same group
6. Total exposure of the branch to the Group  
Fund Based (Rs. in lakhs)  
Non-Fund Based (Rs. in lakhs)
7. Name of Proprietor/Partners/Directors
8. Name of the Chief Executive, if any
9. Asset Classification by the Branch  
(a) as on the date of current audit  
(b) as on the date of previous Balance Sheet
10. Asset Classification by the Branch Auditor  
(a) as on the date of current audit  
(b) as on the date of previous Balance Sheet
11. Are there any adverse features pointed out in relation to asset classification by the Reserve Bank of India Inspection or any other audit.
12. Date on which the asset was first classified as NPA (where applicable)

**BANK BRANCH AUDIT (2007-2008)**

13. Facilities sanctioned :

Date of	Nature Sanction facilities	Limit of Lakhs)	Prime (Rs. in	Collateral Security	Margin % Security	Balance outstanding year-end	
						Current Year	Previous Year
Provision Made : Rs. .... lakhs							

14. Whether the advance is a consortium advance or an advance made on multiple-bank basis

15. If Consortium,

- (a) names of participating banks with their respective shares
- (b) name of the Lead Bank in Consortium

16. If on multiple banking basis, names of other banks and evidence thereof

17. Has the Branch classified the advance under the Credit Rating norms in accordance with the guidelines of the controlling authorities of the Bank

18. (a) Details of verification of primary security and evidence thereof;

(b) Details of valuation and evidence thereof

Date verified	Nature of Security	Value	Valued by
Insured for Rs. .... lakhs (expiring on .....			

19 (a) Details of verification of collateral security and evidence thereof

(b) Details of valuation and evidence thereof

Date verified	Nature of Security	Value	Valued by
Insured for Rs. .... lakhs (expiring on .....			

20 Give details of the Guarantee in respect of the advance

- (a) Central Government Guarantee;
- (b) State Government Guarantee;
- (c) Bank Guarantee or Financial Institution Guarantee;
- (d) Other Guarantee

Provide the date and value of the Guarantee in respect of the above.

**BANK BRANCH AUDIT (2007-2008)**

21 **Compliance with the terms and conditions of the sanction**

<b>Terms and Conditions</b>	<b>Compliance</b>
(i) Primary Security (a) Charge on primary security (b) Mortgage of fixed assets (c) Registration of charges with Registrar of Companies (d) Insurance with date of validity of Policy	
(ii) Collateral Security (a) Charge on collateral security (b) Mortgage of fixed assets (c) Registration of charges with Registrar of Companies (d) Insurance with date of validity of Policy	
(iii) Guarantees - Existence and execution of valid guarantees	
(iv) Asset coverage to the branch based upon the arrangement (i.e., consortium or multiple-bank basis)	
(v) Others : (a) Submission of Stock Statements/Quarterly Information Statements and other Information Statements (b) Last inspection of the unit by the Branch officials Give the date and details of errors/omissions noticed	

22 **Key financial indicators for the last two years and projections for the current year**

**(Rs. in lakhs)**

<b>Indicators</b>	<b>Audited year ended 31st March ....</b>	<b>Audited year ended 31st March ....</b>	<b>Estimates for year ended 31st March ....</b>
Turnover			
Increase in turnover % over previous year			
Profit before depreciation, interest and tax Less : Interest Net Cash Profit before tax Less : Depreciation Less : Tax Net Profit after Depreciation and Tax			
Net Profit to Turnover Ratio			
Capital (Paid-up)			
Reserves			
Net Worth			
Turnover to Capital Employed Ratio (The term capital employed means the sum of Net Worth and Long Term Liabilities)			

BANK BRANCH AUDIT (2007-2008)

Indicators	Audited year ended 31st March ....	Audited year ended 31st March ....	Estimates for year ended 31st March ....
Current Ratio			
Stock Turnover Ratio			
Total Outstanding Liabilities/total Net Worth Ratio			
In case of listed companies, Market Value of Shares (a) High,  (b) Low; and  (c) (c) Closing			
Earning Per Share			
Whether the accounts were audited ? If yes, upto what date; and are there any audit qualifications			

BANK BRANCH AUDIT (2007-2008)

(Rs. in lakhs)

23 Observations on the operations in the account :

	Exces sover drawing power	Excess over limit
1. No of occasions on which the balance exceeded the drawing power/sanctioned limit (give details) Reasons for excess drawings, if any Whether excess drawings were reported to the Controlling Authority and approved		

	Debit Summation (Rs. in Lakhs)	Credit Summation (Rs. in Lakhs)
2. Total summation in the account during the year Less : Interest Balance		

24 Adverse observations in other audit reports/inspection Reports/Concurrent Auditor's Report/Internal Audit Report/ Stock Audit Report/Special Audit Report or Reserve Bank of India Inspection with regard to :

- (i) Documentation;
- (ii) Operations;
- (iii) Security/Guarantee; and
- (iv) Others

25 Branch Manager's overview of the account and its operation.

- 26 (a) In case the borrower has been identified/classified as Non-performing Asset during the year, whether any unrealised income including income accrued in the previous year has been accounted as income, contrary to the Income Recognition Norms.  
(b) Whether any action has been initiated towards recovery in respect of accounts identified/classified as Non-performing Assets.

Date :

Signature and Seal of Branch In-Charge