

Seminar on Statutory Audit of Bank Branches

WIRC Mumbai

Session 3 LFAR Reporting & Other Certification

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Agenda

I. LFAR Reporting

II. Certification

Long Form Audit Report

Long Form Audit

Report

Importance

□ It has always been important to keep an eye on activities of banks, which has now become vital especially after integration of banking processes with Information Technology.

□ IT has given birth to infinite possibilities, both for performance improvement and frauds as well as lags in administration.

When it is a matter of keeping strict watch on activities of the Banks, Role of Auditors naturally becomes imperative as

Long Form Audit Report

II. Introduction

❑ It is a detailed questionnaire prepared by Reserve Bank of India (RBI), which has to be answered as part of Statutory Audit of Bank Branches.

❑ The questionnaire, asks **specific questions** for which **replies should be specific**.

❑ Auditor is responsible to provide answers, should **not** remain silent.

Long Form Audit Report

- ❑ The auditor should ensure that the LFAR is submitted within the time limit given.
- ❑ Specific disclosure on extent and method of checking should be made.
- ❑ The terms of engagement of auditors of StCBs and DCCBs require them to furnish a long form audit report in addition to their report in pursuance of statutory provisions.
- ❑ The duties and responsibilities of auditors of banks and their branches are governed by the relevant statutes.
- ❑ Matters mentioned in main report can be elaborated in LFAR.
- ❑ Main report should never make a reference to LFAR.

Long Form Audit Report

- The Branch is responsible for compiling the information / statements required for LFAR and the auditors should verify the same.
- Auditors should ensure that the documentation of files is adequate .
- Regional Office / Zonal Office / Head Office / Statutory Central Auditors / External Auditors / RBI auditors etc. are the various users of the LFAR .

LFAR Audit Approach

- Observations resulting in adjustments to account heads needs to be reported .
- Discuss the contents of report with Branch Management
- Obtain Management Representation from Branch Manager on various matters based on Audit.
- Read All questions in LFAR
- Plan & Design Audit Program to cover all aspects of LFAR
- Prepare separate checklists for each point to be reported.
- Write descriptive answers. Avoid Yes/No/Not Applicable.
- Include facts, figures and examples to the extent possible.

Long Form Audit Report

III. Contents

THE LFAR GENERALLY CONTAINS THE FOLLOWING:

- Capital
- Assets
- Liabilities
- Profit and Loss Account
- General
- Prudential Norms

Assets

I- Cash

Does the bank generally carry cash balances that significantly vary from limits fixed by controlling authorities?

- ▶ **Check limits fixed for retention of cash, review cash records . Letter should be received from controlling office.**
- ▶ **Verify if such instances are regularly reported to Head Office.**
- ▶ **Check cash kept at ATM's with respect to limit fixed for the ATM's.**
- ▶ **The balance during festivals and extended holidays**

Assets

I- Cash

Does the branch hold adequate insurance cover for cash in hand and cash-in-transit?

- ▶ **Auditor should enquire as to who is getting the cash insured. If, it is done by HO, a management representation should be obtained.**
- ▶ **If details are available at branch, auditor should verify, whether branch holds adequate insurance cover.**
- ▶ **Cash in transit includes the movement of cash between currency chest and branch, one branch to another branch/EC, cash movement for door step banking facility to clients, etc**

Assets

I – Cash

Is cash maintained in effective joint custody of two or more Officials?

- ▶ Auditor should obtain the guidelines from branch with regard to custody of vault cash/ATM cash and comments in case of deviation.
- ▶ Auditor should physically verify the vault cash/ATM Cash and observe that vault/ATM machines are being opened by joint custodians as required.

Is verification of cash conducted at periodical intervals?

- ▶ Check policy of Bank.
- ▶ Check whether such verification has been conducted during the year by joint custodians and if the required procedure has been followed.

I – Assets

2. Balances with RBI and other Banks.

I – Assets

3. Money at Call and Short Notice

I – Assets

4. Investments

I – Assets

5. Advances

I – Assets

5. Advances

I - Assets

5. Advances

I – Assets

6. Other Assets

II – Liabilities

1. Deposits

II – Liabilities 2. Other/Contingent

III – Profit and Loss Account

IV – General

IV – General

IV – General

V – Prudential Norms

LFAR for Specialised Branches

Certification

- ❑ Audit Report is a reasonable Assurance
- ❑ Audit Certificate is Absolute Assurance
- ❑ Issue of certificate is absolute assurance by professional that all figures and information contained in it are correct and accurate.

Types of Certificates

- LFAR
- Branch Returns
- Audit Reports
- Memorandum of Changes
- Tax Audit Reports

Other Certificates

- DICGC Claims
- PMRY Certification
- Cash Balance 12 odd days
- Investment – Behalf of Head Office
- Maturity Pattern (Bucket)
- Fixed Assets & Depreciation
- Service Tax
- Interest Subvention
- (Exports/ Agriculture)
- Capital Adequacy – BASEL I, II, III

Other Certificates

- IRAC / NPA Related Certificates
- Interest Subvention
- Restructured Advances / SMA
- Foreign Currency Assets & Liabilities

Questions?



Thank You

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