

LONG FORM AUDIT REPORT

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Introduction

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- Long form Audit Report (LFAR) is a questionnaire prepared by RBI which an auditor has to answer.
- It was devised by RBI in 1985 and has been revised in 1992-93 and 2003
- LFAR includes questionnaires for specialized branches -
 - For branches dealing in foreign exchange transactions
 - For branches dealing in very large advances
 - For branches dealing in recovery of NPA
 - For branches dealing in clearing house operations (service branches)

Deliverables

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- Independent Auditors' Report
- LFAR
- Tax Audit Report
- Certificates
- MoCs

Objectives of LFAR

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- Internal Control Report (Before SOX Act 2002)
- Focus not only on advances but also on operational areas in the branch
- Covers operational Risk extensively
- A tool for early warning signals

I. Assets

- Cash
- Balances with Reserve Bank Of India, State Bank of India and Other Banks
- Money at Call and Short Notice
- Investments
- Advances
- Other Assets

Structure

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II. Liabilities

- Deposits
- Other Liabilities
- Contingent Liabilities

III. Profit and Loss Account

- Interest income / Bill Discounting Income
- IRAC Norm
- Interest on Deposit
- Interest on Overdue / Matured deposit
- Analytical procedures for Income and Expenses

IV. General

- Books and Records
- Reconciliation of Control and Subsidiary records
- Inter Branch Accounts
- Audits / Inspections
- Frauds
- Miscellaneous

Requirements

- List of frauds occurred during the Financial year and reported to RBI
- Brief history of each such fraud case



Reporting

- Whether the reporting of the fraud is done as per the instructions from Controlling authority
- Whether any corrective steps as intimated by the controlling authority has been undertaken by the Branch

Suspense Accounts/ Sundry Assets

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Requirements

- List of revenue and Capital items in the above accounts
- Long outstanding entries

Reporting

- Period for which the transactions are being reflected in the above accounts without being adjusted means old outstanding entries
- The nature of transactions reflected in such accounts as at year end and its impact on the Books of Accounts, if any.
- Debit entries not recovered to be reported

Requirements

- Cash retention limit
- Cash insurance
- Cash maintained in joint custody
- Cash Register
- Balance confirmation from RBI, SBI and Other Banks
- Bank Reconciliation Statement



Reporting

- Report of Excess Cash holding and its reporting to Controlling Authority
- Adequacy of Cash insurance w.r.t. average cash holding and cash policy to be taken.
- Report on mismatch in Key movement vis- à-vis leave records
- Periodicity of checking Balances with Reserve Bank of India, State Bank of India and Other Banks & reconciliation of the same.

Profit and Loss Account

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Requirements

- Interest rate changes and Interest Tables(interest income)
- Circular on Income Recognition and asset classification
- Interest rate on Deposits



Reporting

- Calculation of interest income and expense
- Provision on NPA and Interest on the same
- Interest on Matured / Overdue deposits
- Trends In Various Income And expense and response to them

General - Control and Subsidiary records

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Requirements

- Date up to which control and subsidiary ledger are reconciled



Reporting

- If Control and subsidiary records are not reconciled report the instances of such discrepancy

Large Advances

- Outstanding Amount > 5% of total Advances
- OR
- Outstanding Amount > Rs.2 crore

- Coverage for Audit - Full



Other Advances

- Advance not covered in Large Advances

- Coverage for Audit - Test Check

Requirements

- List of Large and Other advances
- List of renewal proposal pending
- Sanctioning powers



Reporting

- Credit Appraisal
- Sanctioning & Disbursement
- Documentation
- Review & Monitoring

Non Fund Based Advances

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Requirements & Reporting

- Guarantees Invoked, paid & not adjusted
- Guaranteed invoked, but not paid
- Letter of Credits and Co-acceptances funded by the Branch (along with date of recovery)

Other Assets - Stationery & Stamps

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Requirements

- Physical verification report certified by the Branch Manager
- Documented control process for Stationery comprising of security items
- List of any missing /lost items
- Deficiencies in controls



Reporting

- Authenticity of the Physical verification report
- Valuation of Stationery and Stamps
- Matching of control registers with the Books of Accounts
- Treatment of missing /lost items in the Other Assets - Suspense Accounts / Sundry Assets.
- Accounting Entries
- Usage of security during the year and stock of such items vis a vis usage.

Requirements

- Process of identifying inoperative accounts
- Process of identifying Overdue / matured deposit
- Movement of Deposits in the First and Last week of Financial Year.
- Transferring inoperative account into dead deposit accounts.
- Unclaimed liabilities



Reporting

- Operations in inoperative accounts
- Regularizing of inoperative account
- Nature of Huge deposits in first and last week of Financial Year
- Controls in marking inoperative account into Dead
- Unclaimed liabilities is reflected as contingent liabilities

Other Liabilities - Sundry Deposits / Bills payable

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Requirements

- List of items pending for more than 3 years



Reporting

- Nature of items outstanding for more than 3 years (Revenue / Capital)
- Adjustments, if any, required in the Revenue or capital items.
- Exceptional Transaction to be reported.

Contingent Liability - Other than NFB advances

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Requirements

- List of legal disputes against the Bank



Reporting

- Contingent Liability or Liability testing as per AS 29
- Provision against these contingent liabilities

General - Books and Records

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Requirements

- Any Books of Accounts being maintained manually
- Security policy / disaster recovery plan



Reporting

- Whether the instructions of controlling authorities have been complied with
- Whether Back ups are being taken and stored at a secured place

General - Inter Branch Accounts

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Requirements

- List of major items pending for reconciliation
- Last reconciliation statement
- Is there any arbitrary closure of an open entry



Reporting

- Items outstanding for more than six months in reconciliation statement
- Un-reconciled balances, if any
- Nature of items pending under inter branch reconciliation (if its of revenue or capital nature having

Requirements

- Previous audit reports like concurrent, inspection and RBI reports



Reporting

- Whether all the major observations of the reports reviewed have been considered (after taking into account compliance by the Bank)

Miscellaneous - Fixed Assets

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Requirements

- Physical verification report of Fixed Assets
- Depreciation Calculation
- List of additions made during the year
- List of assets sold / transferred during the year



Reporting

- Authenticity of Physical verification report
- Whether there are any adverse remarks in the verification report which has an impact on the Books of accounts
- Depreciation Calculation

Miscellaneous - Others

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- Any window dressing observed
- System related issues
- Security related issue
- Compliance with the requirement of RBI and Head office
- ATM related issues
- Other areas which auditor would like to report

Consolidation of LFAR

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- At Regional / Zonal office & at Head office the Questionnaire remains the same
- The adverse observations at Branches level get consolidated at regional / zonal office level and subsequently the same gets consolidated at Head Office level

Coverage in Consolidated LFAR

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The Statutory auditors are expected to comment upon issues related to:

- Advances
- Internal Control
- Automation and Computerization
- Profitability
- Others

LFAR - Forex Branches

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- any material adverse feature pointed out in the reports of concurrent auditors, internal auditors and/or the Reserve Bank of India's inspection report
- instructions and guidelines of the controlling authorities of the bank (Deposits, Advances, Export Bills, Bills for Collections, Dealing Room, Any other Area)
- Nostro Accounts
- Vostro Accounts

LFAR - Large Branches

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- Borrowers with outstanding of Rs.2.00 crores and above, the information in the enclosed format should be obtained from the Branch Management.
- Major shortcomings
- List the accounts (with outstanding 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 and the reasons therefore.

LFAR - Recovery Branches

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- Advance account in excess of Rs.2.00 crores, the information in the enclosed format should be obtained from the Branch Management.
- Upgraded from Non Performing to Standard Assets during the year and the reasons therefore.
- Information relating to the valuation of security.
- Age-wise analysis of the recovery, suits-filed and pending may be furnished.
- Is the Branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers.
- List the recoveries and their appropriation against the interest.
- List the new borrower accounts transferred to the Branch during the year. Have all the relevant documents and records relating to these borrower accounts been transferred to the Branch?

LFAR FOR SERVICE BRANCHES

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- Periodic review of the outstanding entries in clearing adjustments accounts.
- Review of the clearing adjustments accounts (inwards/outwards) reveals any old/large/unusual outstanding entries, which remain unexplained.
- Branch strictly followed the guidelines of the controlling authority of the Bank with respect to operations related to clearing transaction?

SPECIAL CARE

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Branch auditors have to answer a detailed questionnaire formulated by RBI. Most of the questions in LFAR contain following lines:

- 1) Does the branch generally carry or comply.....*
- 2) In the cases examined by you, have you come across instances.....*

Verification on test check basis.....

Hence, it becomes very important for auditor to keep the record of all samples verified for framing the opinion on the different processes in the questionnaire.

THANK YOU