

Borivali (Central) CPE Study
Circle of WIRC of ICAI

Seminar on Bank Audit

LFAR, Tax audit and various
Certificates including
Subvention

By - CA Giriraj Soni

Restriction on Disclosure and Use of Data
The data in this document contains trade secrets and confidential or proprietary information of my firm, the disclosure of which would provide a competitive advantage to others. As a result, this document shall not be disclosed, used or duplicated, in whole or in part, for any purpose other than to evaluate my firm. The data subject to this restriction are contained in the entire document.

Disclaimer


These are my personal views and can not be construed to be the views of the ICAI or my firm.

These views do not and shall not be considered as a professional advice.

This presentation should not be reproduced in part or in whole, in any manner or form, without our written permission.

▷ 2 CA Giriraj Soni

Agenda



- Long Form Audit Report
- Tax Audit Report
- Certificates including subvention

▷ 3 CA Giriraj Soni

Statutory Audit Report

- Format as per SA 700
- Addressed to Bank
- Compliance with Accounting Standards to be mentioned in main report.
- Qualifications can be through Memorandum of Changes or Specific remarks in the last para.
- Illustrative Format Bank Audit Guidance Note 2017/2018

▷ 4 CA Giriraj Soni

Long Form Audit Report

- LFAR is a effective tool to the auditors to keep the Bank informed about the important matters arising out of the statutory audit exercise.
- LFAR for Branches is a question answer format. LFAR for HO is a narrative format.
- Annexure to be given along with the LFAR which is applicable for branches having large/ irregular/ critical advance accounts having large limits.
- LFAR introduced in 1985, subsequent revision in 1992-1993 and 2003.

▷ 5 CA Giriraj Soni

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 and the records and working papers are planed and filed systematically in respect of matters included in the LFAR.
- Regional Office / Zonal Office / Head Office / Statutory Central Auditors / External Auditors / RBI auditors etc. are the various users of the LFAR

▷ 6 CA Giriraj Soni

Long Form Audit Report

- Internal control evaluation questionnaire

- Comprehensive in scope and coverage

- Covers Balance Sheet & Profit & Loss A/c

- Important check list for Audit Plan

▷ 7 CA Giriraj Soni

LFAR Audit Approach

- Read all questions in LFAR, Plan & Design Audit Program to cover all aspects of LFAR
- Prepare separate checklists for each point to be reported. Record the extent of checking / sample selected.
- Proper documentation & collecting SAAE during the audit.
- Write descriptive answers. Avoid Y/N/NA
- Include facts, figures and examples to the extent possible in all answers to the questions.

▷ 8 CA Giriraj Soni

LFAR Audit Approach

- Observations resulting in adjustments to account heads needs to be reported along with MOC
- Discuss the contents of report with Branch Management
- Obtain Management Representation from Branch Manager on various matters based on Audit.
- LFAR is an independent report, hence do not give cross reference or qualifications or MOC in LFAR.
- It's a very important report for readers such as SCA and Management of Bank.

▷ 9 CA Giriraj Soni

I – Assets
1. Cash

Significantly excess Cash Balances

- Check Limits Fixed for retention, including ATM.
- Check cash records for the entire audit period to report excess.

Insurance cover for Cash at Branch / In Transit

- Check Insurance Policy.
- Check for cash in hand within insured limits and comment.

▷ 10 CA Giriraj Soni

I – Assets
1. Cash

Joint Custody of Cash

- Check policy of Bank
- Check operations during the visit.

Verification of cash at periodical intervals

- Check policy of Bank.
- Check whether such verification has been conducted during the year.

▷ 11 CA Giriraj Soni

I – Assets
2. Bank Balances

Balance Confirmation & Reconciliation

- Check Balance confirmation certificate.
- Check reconciliations as at year end.

Observations on reconciliation statements

- Cash transactions remaining unresponded.
- Revenue transactions requiring accounting in financial statements.
- Special observations

▷ 12 CA Giriraj Soni

I – Assets
3. Money at Call and Short Notice

Has the branch kept money at call and short notice during the year

- Check whether such transactions exist at branch.
- If yes, verify with deal notes and ledger accounts.

Whether guidelines are complied with properly.

- Check Policy.
- Report for non compliances

▷ 13 CA Giriraj Soni

I – Assets
4. Investments

Are there investments held by the branch on behalf of Bank

- Check Limits Fixed for retention, including ATM.
- Check cash records for the entire audit period to report excess.

Interest income whether transferred to respective HO department

- Check Insurance Policy.

Overdue / Matured Investments

- Verify such investments
- Report deficiencies in recovery

▷ 14 CA Giriraj Soni

I – Assets
5. Advances

Credit Appraisal – General compliance with procedures / Instructions of Controlling Office

- No of borrowers tested, comments / observations in separate annexures

Sanctioning / Disbursement – Delegation of Power, compliance with terms and conditions

- No of borrowers tested, comments / observations in separate annexures

▷ 15 CA Giriraj Soni

I – Assets
5. Advances

Documentation – Execution / Deficiencies

- No of borrowers tested, comments / observations in separate annexures
- Guarantees Invoked / LCs devolved

Review/ Monitoring/ Supervision -

- No of borrowers tested, comments / observations in separate annexures

▷ 16 CA Giriraj Soni

I – Assets
5. Advances

Guarantees / Letter of Credit / Letter of Comfort / DPG etc.

- No of borrowers tested, comments / observations in separate annexures

LG/LC/LoC outstanding

- Certificate in prescribed formats

▷ 17 CA Giriraj Soni

I – Assets
6. Other Assets

Stationery and Stamps – Custody, Control, Missing Items

- Review system, verify the ledger accounts and comment deficiencies.

Suspense & Sundry Assets – Year wise break up, unusual entries

- Review system, verify the ledger accounts and comment deficiencies.

▷ 18 CA Giriraj Soni

II – Liabilities
1. Deposits

Operation in Inoperative Accounts, unusual large movement

- Obtain list of inoperative accounts as per policy of bank
- Verify and comment on large movements

Overdue / Matured Term Deposits

- Report such deposits.
- Check interest provisioning.

▷ 19 CA Giriraj Soni

II – Liabilities 2. Other/Contingent

Bills Payable / Sundry Deposits

- Obtain list and verify o/s beyond 3 years. Verify transactions during the year

Contingent Liabilities

- Contingent Liabilities not acknowledged as debt.
- Check movement in CL from previous year

▷ 20 CA Giriraj Soni

III – Profit and Loss Account

Discrepancies in Interest Paid/ Received and timely adjustment

- Verify system followed by Bank
- Test check interest paid/received.

Compliance with IRAC norms. Check divergent trends

- Check compliance with IRAC norms wrt income.
- Comparative analysis of income for divergent trend.

▷ 21 CA Giriraj Soni

IV – General

Manual / Computerised Books.
Internal control. Back ups.

- CBS and Manual Registers
- Audit Trail
- Verify the controls and back ups

Reconciliation of Control and
Subsidiary Records

- Check CBS Reports

▷ 22 CA Giriraj Soni

IV – General

Inter Branch Account/
Control Account

- Year wise entries outstanding
- Process of reconciliation

Audit & Inspection

- Verify Concurrent Audit /
Internal Inspection Report

▷ 23 CA Giriraj Soni

IV – General

Frauds

- Report and comment on frauds
discovered during the year

Window dressing

- Comparative analysis of GL/PL items.

Any other item for attention of
SCA or Management

- Report relevant matters.

▷ 24 CA Giriraj Soni

LFAR for Specialised Branches

Branches dealing in Foreign Exchange

- Define additional scope as per RBI Requirements

Branches Dealing in Large Advances – 100 Cr above

- Define additional scope as per RBI Requirements

Asset Recovery Branch / Clearing House Operations

- Define additional scope as per RBI Requirements

▶ 25 CA Giriraj Soni

Other Certificates

Audit Report is a reasonable Assurance

Audit Certificate is Absolute Assurance

Types of Certificates

- Branch Returns
- Audit Reports
- Memorandum of Changes
- LFAR
- Tax Audit Reports
- Jilani & Ghosh Certificate
- Other Certificates

▶ 26 CA Giriraj Soni

TAX AUDIT – Basic Information

- ▶Section 44AB was introduced in 1984
- ▶Several changes over the period
- ▶Its not an investigation
- ▶Audit report as per format – FORM 3CA and 3CD
- ▶Branch Auditor is Tax Auditor Also
- ▶Preprinted Form as per the Closing guidelines
- ▶On line Submission or Manual Mode
- ▶Its used for compilation so many fields are not relevant for Branch

▶ 27 CA Giriraj Soni

TAX AUDIT – Contents

- ▶ Clause – 3 PAN no of Bank and not of Branch
- ▶ Applicability of Service tax/GST – Inquire whether its applicable at Branch
- ▶ Clause 13 - Method of Accounting – Interest or income on performing assets and Non performing Assets – Commission income and interest on overdue bills are accounted on cash basis.
- ▶ Clause 21 – disallowance 40(a)- Check Travelling, Hotel Exp ,Entertainment Exp.

▶ 28 CA Giriraj Soni

TAX AUDIT – Fixed Assets

- ▶ Centralized or decentralized Structure
- ▶ Reports from Software for addition and Deletion
- ▶ Check the transactions as per Report
- ▶ Check Depreciation Calculation
- ▶ Match Total with GL balances

▶ 29 CA Giriraj Soni

TAX AUDIT – TDS – GST /Service tax

- ▶ Centralized or decentralized Structure
- ▶ TAN no
- ▶ Section wise details of Amount paid and TDS deducted.
- ▶ Obtain TDS return Filing data in excel and challan and acknowledgement.
- ▶ Obtain Justification Report
- ▶ Obtain statement status from Website.
- ▶ Check sample account head for possible nature of omission.
- ▶ Check Service tax RCM cases and accounting thereof

▶ 30 CA Giriraj Soni

Other Report

- ▶ Report on whether the income recognition, asset classification and provisioning have been made as per the guidelines issued by the RBI from time to time.
- ▶ Report on audit of DICGC items, specifically verify and certify the correctness of the data in various returns and the insurance premiums paid to DICGC.
- ▶ Report on status of the compliance by the bank with regard to the implementation of recommendations of the Ghosh Committee relating to frauds and malpractices and of the recommendations of the Jilani Committee on internal control and inspection/credit system.
- ▶ Statement of accounts Re-structured/ Re-scheduled/ Re-negotiated related to CDR and non-CDR accounts.

▶ 31

CA Giriraj Soni

Certificates

- ▶ As per internal closing circulars of respective banks
- ▶ If it not applicable mention that it is not applicable
- ▶ Understand the process of Compiling the data and source of data.
- ▶ Understand compliance requirement – Purpose of certificate

▶ 32

CA Giriraj Soni

Illustrative List

- ▶ Certificate for Prime Minister Rozgar Yojna for Unemployed Youth.
- ▶ Certificate of cash and bank balances.
- ▶ Certificate relating to MOC entries of the previous years being accounted for.
- ▶ Certificate relating to credit/ deposit ratio.
- ▶ Certification of technology up gradation fund scheme (TUFS) – non SSI textile center.
- ▶ Certification for advances to infrastructure project and income generated thereon loans disbursed during FY
- ▶ Certificate on Unhedged Foreign Currency Exposure in case of Borrowal having exposure of 1 crore or more.
- ▶ Certificate on exposure to sensitive sectors .i.e. exposure to Capital Market, Infrastructure & Real Estate Sector

▶ 33

CA Giriraj Soni

Subvention Certificates

- ▶ Certificate for agricultural interest subvention claim @2% for residual period of repayment of the loans disbursed during FY.
- ▶ Certificate for additional interest subvention (Incentive @3%) for prompt repayment for short term production
- ▶ Interest Subvention - Deendayal Antyodaya Yojna – National Rural Livelihood Mission (DAY – NRLM)

▶ 34

CA Giriraj Soni

Interest Subvention FY 2017-18

- ▶ Short term Corp loan
- ▶ Loan Upto 3 lacs
- ▶ Loan by bank @7% and claim from GOI @2%
- ▶ Period = date of disbursement /drawal to repayment /due date whichever is earlier , maximum one year
- ▶ Additional Subvention = 3% for prompt payment on or before due date – not available who pay after one year of availing loan
- ▶ Additional period of 6 months for small and marginal farmers having Kisan Credit card against Negotiable warehouse receipts.

▶ 35

CA Giriraj Soni

Interest Subvention FY 2017-18

- ▶ For Natural calamities, benefit available for one year from the date of restructuring. Normal rate of interest in second year onwards.
- ▶ claim as per the format – 2% details to be submitted on half yearly basis
- ▶ Final certificate for 31st march to be certified by auditors
- ▶ Remaining amount not submitted earlier (Claim disbursed in FY 2016-17 but not paid /due in 2016-17) marked as additional claim

▶ 36

CA Giriraj Soni

Interest Subvention FY 2017-18

- ▶ Deendayal Antyodaya Yojna – National Rural Livelihood Mission (DAY – NRLM)
- ▶ Circular dated 18/10/2017
- ▶ Credit to Women SHG in 250 districts
- ▶ Credit upto 3 lakhs @ 7 % p.a.
- ▶ Additional 3% for prompt payment
- ▶ Prompt payment criteria if it is CC
 - ▶ Excess of limit not continuously for 30 days
 - ▶ Regular debit and credit and minimum one customer induced credit in a month
 - ▶ Customer induced credit is sufficient to cover interest.

▶ 37

CA Giriraj Soni

Interest Subvention FY 2017-18

- ▶ Deendayal Antyodaya Yojna – National Rural Livelihood Mission (DAY – NRLM)
- ▶ Prompt payment criteria if it is Term Loan
 - ▶ All of interest payment and / or
 - ▶ Installments of principal
 - ▶ Were paid within 30 days from Due date
- ▶ First credit the interest to account and then claim to be made from RBI
- ▶ There should be CBS in bank
- ▶ Submission – quarterly on portal by last week of Subsequent month
- ▶ Full year certificate by Statutory auditor.
- ▶ Similar Certificate for SRLM – other than 250 Districts.

▶ 38

CA Giriraj Soni

Questions



▶ 39

CA Giriraj Soni
