

BANK AUDIT SEMINAR ON NEW LFAR BANGALORE ON 27TH MARCH 2021

By CA. MONY B.Com. FCA.DISA.
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Indicative Format / Coverage in the Long Form Audit Report (LFAR) by the Statutory Branch Auditors (SCB)

Name of Bank	
Name of Branch	
Branch Code	
Zone / Circle Code	
Financial Year	

1.	Cash	
(a)	Does the system ensure that cash maintained is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?	<p>Give details of custodians of cash.</p> <p>Verify the key register at random.</p>
(b)	Have the cash balances at the branch/ ATMs been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?	<p>The ONLINE ATM cash has to be checked with the cash scroll taken on the closing hours of 31st.</p> <p>In case of OFFLINE ATMs the cash is controlled by the central Hub.</p> <p>Cash with ATM replenisher should be reconciled with disbursement account maintained at branch.</p>
(c)	(i) Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?	<p>Verify the cash retention limit. See average cash balance, proper utilization of float.</p> <p>Desirable to verify physical cash on the date of audit.</p> <p>Physical cash at chest / need not be verified. But the reporting to RBI of cash balance may be verified.</p> <p>Obtain a letter mentioning retention limit for auditor's records.</p>
	<i>(ii) Does the figure of the balance in the branch books in respect of cash with its ATM(s) tally with the amounts of balances with the respective ATMs, based on the year end scrolls generated by the ATMs? If there is any difference, same should be reported.</i>	<p>The timing of taking scroll and the closing of balance sheet is vital for the reconciliation.</p> <p>In case of OFFLINE ATMs controlled by ATM Hub, branch auditor has limited role.</p>
(d)	Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit?	<p>The blanket insurance is usually taken by head office. Ensure that the copy of policy is at branch or get a representation to the effect.</p>
2.	Balances with Reserve Bank of India, State Bank of India and other banks (For branches with Treasury Operations)	<p>This refers to balance with clearing house and with other banks.</p>
(a)	Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.	<p>The confirmation of balance need to be obtained and copy kept for auditor's record.</p> <p>Report difference if any with details.</p>

		<p>Reconciliation entries; if any to be verified with specific reference to long outstanding items, unusual items, revenue items requiring adjustments, etc.</p> <p>The account copy for the year need to be verified to see huge cash withdrawals, its authority and requirement.</p> <p>Verify any credits for other claims as pension disbursement routed through the account.</p>
(b)	Observations on the reconciliation statements may be reported in the following manner:	The long outstanding entries, cash transactions and high value entries should be CRITICALLY examined and reported.
(i)	Cash transactions remaining un-responded (give details)	Get details of such un-responded entries if any and enquire into reasons and furnish date of squaring off, if done before completion of audit.
(ii)	Revenue items requiring adjustments / write-off (give details)	Usually clearing house charges may appear which should be taken as revenue expenses. MOC to be passed, if the amount is material.
(iii)	Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days:	Old outstanding balances remaining unexplained/unadjusted. Give details for entries outstanding for more than 15 days.
(iv)	Where the branch maintains an account with RBI, the following additional matter may be reported Entries originated prior to but communicated/ recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest attached to such branches (Give details)	This is applicable to branches operating Chest of RBI and direct link branches designated to maintain RBI account. The pipeline entries between chest and branch as on 31 st Mar should be properly addressed by MOC. Any long outstanding entries other than year end entries are to be verified CRITICALLY and reported
(c)	In case, any matter deserves special attention of the management, the same may be reported.	The reconciliation of cash balance with ATM replenisher with the base branch, un-responded entries of chest branches, holding huge cash balance without sufficient security etc.. are to be reported.
3.	Money at Call and Short Notice	
(a)	Has the branch kept money-at-call and short notice during the year?	Usually this is applicable only at treasury branches. Specify if not applicable.
(b)	Has the year-end balance been duly confirmed and reconciled?	This is normally applicable at HO level.
(c)	Has interest accrued up to the year-end been properly recorded?	This is normally applicable at HO level.
(d)	Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with?	
4.	Investments (for branches outside India)	
(a)	In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions/ guidelines in this behalf issued by the controlling authorities of the bank?	Not applicable for branches in India
(b)	Have 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? Where the investments are not in the possession of the branch, whether evidences with regard to their physical verification have been produced?	Not applicable for branches in India
(c)	Is the mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located whichever are more stringent?	Not applicable for branches in India
(d)	Whether there are any matured or overdue investments	Not applicable for branches in India

	which have not been encashed and / or has not been serviced? If so, give details?	
5.	Advances	
	<p>(The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. In respect of large advances, all cases of major adverse features, deficiencies, etc., Should be reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks. For this purpose large advances are those in respect of which the outstanding amount is in excess of prescribed limits to be identified.</p>	<p>Obtain a list of advances above 10 crores or 10% of branch aggregate advances including fund based and non-fund based for thorough verification.</p> <p>Classify the borrower's constitution wise for allocation of work among auditors.</p> <p>Also classify it as consortium advances, syndicated loans, multiple banking arrangement, group accounts, etc. For bringing more focus to such accounts.</p>
	General Instructions	
	<p>(i) The answers to the following questions may be based on the auditor's examination of all large advances. For this purpose, large advances are those in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less.</p> <p>Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.</p>	<p>The limit of specific advance accounts to be verified by Branch Auditors have been refixed.</p> <p>The specific methodology of Transaction Audit and Process Audit included.</p> <p>Transaction Audit includes the verification and reporting of the overall conduct of the account with respect to :-</p> <p>Overall operations Quantum of each operations Cash Vs Account Transactions Business Vs Personal transactions Cheque Returns Operated at the brim of limits. Frequent over-drawings Transfer to another bank frequently. Round Stripping.</p> <p>Process verification includes the overall control framework and procedure followed at the branch vis a vis the policy of the bank which mainly include</p> <p>Documentation Request letters for OD Flagging stop payments/instructions Monitoring and follow up Manning of the credit department. Concentration of credits.</p> <p>Guaranteed Emergency Credit line loans extended for MSME enjoying working capital loans up to 25 crores which are not NPAs as on 28.2.2020.</p> <p>Additional loan Guaranteed by Govt. For limits enjoyed up to 25 Crores. @ 20% limit availed as on 28.2.2020 MSME and other business included. Registration as per GST Act a must. To be repaid in 36 installments Maximum Tenure 4 years One-year initial holiday. No processing fee. No pre-payment penalty No Guarantee fees.</p>

	(ii) The critical comments based on the review of the above and other test check should be given in respective paragraphs as given in LFAR given below.	
(a)	List of accounts examined for audit	NEWLY ADDED

Account No.	Account Name	Balance as at year end –Funded	Balance as at year end – Non-funded	Total
Total		A	B	C = A + B
Total Outstanding of the branch		X	Y	Z = X + Y
Percentage examined		A as % of X	B as % of Y	C as % of Z

(b)	Credit Appraisal	
(i)	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. What, in your opinion, are the s major shortcomings in credit appraisal, etc.	<p>Any comments on advance processing, preparation of proposals, analysis of financial credentials / statements, rating need to be reported.</p> <p>The appraisal report of the branch manager and his comments and recommendation to the higher authorities should be verified.</p> <p>If it is branch sanction, the sanction order and comments of the credit manager and senior manager/branch head to be verified.</p>
(ii)	<p>Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner:-</p> <ul style="list-style-type: none"> • Account No. • Account Name <p>Balance as at year end</p>	<p>Quick mortality is referred to accounts becoming irregular/sticky and stagnant from the day one of its availing or becoming NPA within one year of sanction.</p> <p>The sanction procedure, appraisal, group accounts, accounts opened anew as fresh customer, loans taken over should be given more emphasis.</p>
(iii)	Whether in borrowal accounts the applicable interest rate is correctly fed into the system?	<p>Verification points include :-</p> <p>Feeding of rate to account master</p> <p>Linking of rates to MCLR</p> <p>Periodicity of interest application.</p> <p>Change management from CORE</p> <p>Simple Interest/compound interest Moratorium period interest. (compounding factor during COVID period to be excluded)</p>
(iv)	Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to	The influence of CORE in the application of interest should be analyzed. The sanction condition as floating/fixed should be fed to master properly.
	MCLR / EBLR (External Benchmark Lending Rate)?	
(v)	Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.	<p>The process of renewal/review should be verified. Roll over of renewal dates and making short/adhoc/limited review should be verified.</p> <p>RBI Circular: RBI2020-21/Dos_CO -PPG_BC_1/11.01.002/2020-21-August-2020 Bank policy for renewal/review to be obtained and strict adherence to be verified and deviations reported.</p>

(vi)	Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?	<p>The time lag between the last rating to the balance sheet date should be commented, if it is more than 2 years.</p> <p>The deterioration in latest rating is to be considered for further monitoring.</p> <p>The interest rate setting attuned to the rating granted to be verified.</p> <p>Accounts becoming NPA even after high rating should be commented separately.</p>
(c)	Sanctioning / Disbursement	
(i)	<p>In the cases examined by you, have you come across instances of:</p> <p>(a) Credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? Are such cases promptly reported to higher authorities?</p>	<p>Obtain the latest extant guidelines of the bank regarding delegated powers and keep it as auditor's records.</p> <p>The TOD/TOL powers, casual business powers, loan sanction powers need to be examined.</p> <p>The reporting of each such instances need to be made to controlling authority. Verify the records / register maintained for the same.</p> <p>Obtain the regular/exception report of TOD/TAL as on 31.3.2021 and compare it with same report as on 28.2.2021 and 20.3.2021.</p>
(ii)	<p>Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.</p>	<p>The selected advances (as in column 1 of Para .5 above) accounts should be verified with special reference to sanction terms, usual slippages are</p> <ol style="list-style-type: none"> 1) Failure to conduct pre sanction and post sanction inspection. 2) Legal audit of documents executed and obtained 3) Creation of charge 4) Conditions attached to and between consortium members. 5) Failure in obtaining personal guarantees of owners and family members, satisfaction letter, NOC etc.. as per sanction
(iii)	Did the bank provide loans to companies for buy-back of shares/securities?	<p>Find out for any increase in the promoter's pattern of shareholding between last year and this year.</p> <p>If so, enquire the source of buying such shares and if it is buy back, then analyse for any funding made by bank just before the buy back.</p>
(d)	Documentation	
	<p>In the cases examined by you, have you come across instances of:</p>	
(i)	<p>Credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.</p>	<p>The legal audit report need to be verified for inadequacy of documentation.</p> <p>Obtain a letter of representation in this regard from the branch manager.</p>
(ii)	<p>Deficiencies in documentation including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.</p>	<p>Verify creation of charge with special reference to the nature, extand and details of assets charged, location of the assets charged. The nature of charge as first charge, second charge, Parri-Passu charge, etc. Need to be verified.</p> <p>Obtain latest search report if there is any change</p>

		<p>in advances by our bank or any other bank/financial institution. Even modification of conditions of loan need to be verified with charge created and modified.</p> <p>Obtain a letter of representation in this regard from the branch manager.</p>
(iii)	<p>Advances against lien of deposits have been granted without marking a lien on the bank's deposit receipts and the related accounts in accordance with the guidelines of the controlling authorities of the bank.</p>	<p>Compare the list of advances against TDR with the lien marked report generated from system.</p> <p>Specific verification regarding continuation is necessary for TDR modified as to term, date, rate of interest etc.</p> <p>Obtain a letter of representation in this regard from the branch manager.</p> <p>The deposit lien should have been extended to related loans/accounts of the borrower to ensure enforcement of general lien on deposits before it is given back to customer.</p>
(e)	Review/Monitoring/Supervision	
(i)	<p>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. What, in your opinion, are major short comings in monitoring, etc.</p>	<p>Obtain a list of due dates or report of review dates of advances and inspection. See that no review is overdue for more than six months. Any such cases need to be classified as NPA as per prudential norms.</p> <p>Ensure that comprehensive review is done.</p> <p>The short review, extension of time of review etc. Need to be commented on merits.</p> <p>Obtain confirmation from higher authorities if the review is pending at their end during audit period and report.</p> <p>Due date diary/report generated from system for accounts pending renewal should be obtained to focus on such accounts pending for renewal.</p>
	a) between 3 to 6 months, and	Earlier it was 6 months to one year.
	b) over 6 months	Earlier it was over one year.
(ii)	<p>Are the stock/book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?</p> <p>a) Is the DP properly computed?</p> <p>b) Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?</p>	<p>Verify stock statement register, the date stamping of receipt of stock statements, calculation of drawing power. Elimination of slow moving, obsolete stocks and creditors from calculation of drawing power.</p> <p>Ensure submission of separate stock details of goods for which separate packing credit loan is availed.</p> <p>Elimination of debtors beyond stipulated period as per sanction and disputed debtors while calculating drawing power.</p> <p>Ensure that the drawing power is fed to system periodically for proper control and appropriate charging of interest</p> <p>Share of Drawing power in case of Multiple Banking/consortium arrangement should be obtained and verified.</p>

		<p>If it is not communicated by lead bank, the pendency should be reported.</p> <p>Audited statements should be verified with UDIN and membership number of Cas.</p>
(iii)	<p>a) Whether there exists a system of obtaining reports on stock audits periodically?</p> <p>b) If so, whether the branch has complied with such system?</p> <p>c) Details of:</p> <ul style="list-style-type: none"> ➤ cases where stock audit was required but was not conducted. ➤ where stock audit was conducted but no action was taken on adverse features 	<p>Stock audits are to be conducted yearly for all advances above bench mark for working capital limits sanctioned against stock and or debtors as decided by the bank.</p> <p>Obtain list of accounts requiring stock audit from branch manager.</p> <p>Verify stock audit reports and consider adverse comments if any.</p> <p>The stock audit initiated and report pending from auditors should be reported with special reference to delinquent accounts.</p> <p>The comments of the stock audit report and the regularization of such comments by the branch should be reported.</p>
(iv)	<p>Indicate the cases of advances to non- corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.</p>	<p>Obtain a list of such advances. Verify the financial statements and ensure auditors sign with seal and membership number.</p> <p>The limit set by the bank should be obtained as a letter from the branch manager.</p> <p>The limit for obtaining audited statements is now as per the bank policy. Earlier it was Rs. 10 lakhs and above.</p>
(v)	<p>Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate/report is not obtained or not available on record.</p> <p>(In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)</p>	<p>Report on Information exchange between member Banks</p> <p>Sharing of information on DP</p> <p>Sharing of status of account</p> <p>Due diligence report as specified by RBI to be part of documents/file</p> <p>Obtain list of accounts with Multiple/Consortium arrangement.</p> <p>Report if the due diligence report is not kept on record.</p>
(vi)	<p>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?</p>	<p>The branch should record the periodical inspection report of unit which will include verification report of securities. The inspection report should be documented and kept on record. Any large variation needs to be reported. Long pending inspection on COVID effected borrowers and its RISK of mortality to be reported.</p>
	<p>Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?</p>	<p>Verify with reference to Clause No. 4.2.9 of Master Circular regarding erosion in the value of security.</p> <p>Erosion in value of security below 50% would make it Doubtful straight away and below 10% to LOSS asset.</p>
(vii)	<p>In respect of advances examined by you, have you come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawn beyond limits, inadequate insurance coverage, etc.?</p>	<p>A comprehensive analysis of loans to group concerns with overlapping charge on same security need to be verified.</p> <p>The asset coverage of all group loans vis a vis all outstanding loans need be comprehensively</p>

		<p>analysed and any deficiency reported.</p> <p>Verify insurance register and comment on adequacy and coverage of insurance. Confirm all policies are with bank clause.</p> <p>Obtain a letter of representation in this regard from the branch manager.</p>
(viii)	<p>Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flagged Accounts?</p>	<p>The policy and process of red flagging should be obtained from the branch.</p> <p>The SMA categorization and red flagging should be in sync with the norms prescribed.</p> <p>The EXIT marked accounts, watch category accounts, accounts with early warning signals, otherwise delinquent accounts etc.. also should be seen for ed flagging. If it is not done and requires to be flagged as per branch auditor, it should be reported.</p>
(ix)	<p>Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.</p>	<p>TOP 5 accounts should be selected in terms of overall exposure and CRITICALITY.</p> <p>Need not necessarily to restrict to 5 accounts, it can be more, but 5 numbers is a requirement.</p> <p>The post COVID conduct of accounts and industry wise knowledge of the auditor should be blend while reporting.</p>
(x)	<p>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?</p>	<p>Lease financing for assets where depreciation claim can be made by bank on such assets.</p> <p>Verify extend guidelines of accounting and report for any inconsistencies with accounting principles / standards.</p>
(f)	<p>Asset Classification, provisioning of Advances and Resolution of Stressed Assets</p>	
(i)	<p>a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?</p> <p>b) Is this identification & classification in line with the norms prescribed by the Reserve Bank of India</p> <p>c) Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA- 1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.</p> <p>d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes. List the accounts (with outstanding in excess of Rs. 10.00 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 reason thereof.</p> <p>f) Whether RBI guidelines on income</p>	<p>The reliability of system generated classification need to be ensured for program error, data entry and data up-dation / modification etc.</p> <p>Manual intervention with respect to feeding periodical Drawing power, Change in sanction condition, increase in limits, ECLG Scheme Loans etc.. to be commented.</p> <p>The NPA statement for any two periods may be generated for comparison of upgraded/downgraded loans.</p> <p>The year-end circular of the bank need to be verified with master circular of RBI. Any inconsistencies need to be brought to the notice of statutory central auditors.</p> <p>The SMA categorization and its reporting should be verified. A copy of the report on SMA accounts should be kept on record.</p> <p>The data of such accounts with its justification of the branch for such down/upgradation with the auditors comments should be given here.</p> <p>Obtain list of accounts above 10 crores upgraded/Downgraded and report.</p>

	recognition and provisioning have been followed.	The restructuring and re-phasing of stressed assets should be reported separately.																								
(ii)	<p>a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?</p> <p>b) Whether the RBI Guidelines for restructuring on all such cases have been followed.</p> <p>Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?</p>	<p>Refer Circular No.: RBI/2018-19/203DBR No. BP.BC.45/21.04.048/2018-19 June 07 2019.</p> <p>The restructuring and its provisioning should be verified with the regulatory package 1 to V should be verified.</p>																								
(iii)	<p>a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India</p> <p>Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.</p>	<p>Upgradation only after satisfactory performance for one year for all restructured assets.</p> <p>Upgradation based on CRITICAL factors as below to be verified and reported.</p> <p>Fresh Valuation of assets/security Infusion of capital by Borrowers Transfer of funds from other branches.</p>																								
(iv)	<p>Have you come across cases where the relevant Controlling Authority of the bank has authorized legal action for?</p> <p>Recovery of advances or recalling of advances, but no such action was taken by the branch? If so, give details of such cases.</p>	<p>Take a list of core NPAs and verify the stage of legal proceedings for recovery. If no action is taken / reported verify the file to see the instruction from controlling authorities.</p> <p>Obtain a letter of representation in this regard from the branch manager.</p>																								
(v)	<p>Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch?</p> <p>Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?</p>	<p>The list of such accounts should be obtained from the branch manager for further verification and comments.</p>																								
(vi)	<p>a) Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled?</p> <p>b) Give details of claims rejected? (As per the given table)</p> <p>c) Whether the rejection is appropriately considered while determining the provisioning requirements</p>	<p>Banks would have opted out of DICGC. If so verify the recovery during the year in accounts where DICGC claims have been received.</p> <p>The ECGC claims pending and rejected should be verified for reporting.</p> <p>Ensure the share of recovery has to be forwarded to DICGC.</p> <p>The data furnished in DICGC certificate should synchronize with data furnished here.</p> <p>Any rejection of claim should be commented with the country risk attached to the overseas buyer.</p> <p>Proper provisioning of ECGC rejected accounts should be ensured at branch level or should be reported to CSA.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Particulars</th> <th style="text-align: center;">Number</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>Claim at the beginning of the year</td> <td></td> <td></td> </tr> <tr> <td>Further claim lodged during the year</td> <td></td> <td></td> </tr> <tr> <td>Total A</td> <td></td> <td></td> </tr> <tr> <td>Amounts representing</td> <td></td> <td></td> </tr> <tr> <td>(i) Claims accepted/settled</td> <td></td> <td></td> </tr> <tr> <td>(ii) Claims rejected</td> <td></td> <td></td> </tr> <tr> <td>Total B</td> <td></td> <td></td> </tr> </tbody> </table>	Particulars	Number	Amount	Claim at the beginning of the year			Further claim lodged during the year			Total A			Amounts representing			(i) Claims accepted/settled			(ii) Claims rejected			Total B		
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		Balance as at year end (A-B)		
(vii)	In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?	<p>This forms part of verification of documents. The valuation of properties needs to be not more than 3 years. If the auditor feels that the value post COVID is far too less than the value considered, insist for a fresh valuation report. This would be more appropriate in cases of real estate valuation.</p> <p>The RBI has insisted for valuation by two valuers for properties above prescribed limit.</p> <p>Obtain a letter of representation in this regard from the branch manager.</p>		
(viii)	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. 50.00 lakhs may be given.	<p>The list of OTS, write off or settlement accounts beyond 50 lakhs need to be obtained. The sanction, authority and accounting of such transactions need to be verified and commented up on for any deviation from extend guidelines or accepted accounting principles / practices.</p> <p>The compliance of settlement conditions of all cases need to be verified and reported.</p> <p>The settlement or OTS does not make any impact on prudential norms for any account which will continue as it was till finally settled or written off.</p>		
(ix)	<i>Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.</i>	<p>The decree obtained from courts/DRT pending execution should be obtained and reported.</p> <p>The branch may be insisted to obtain the list and details from the legal department for auditors to report here.</p>		
(x)	<i>Whether in the cases concluded the recoveries have been properly appropriated against the principal /interest as per the policy of the bank?</i>	<p>The policy of bank regarding apportionment to be verified. The general policy of adjusting first interest and then to principal should be followed consistently. The policy of the bank should be obtained.</p> <p>Special mention regarding the different policies adopted by merged banks with parent bank should be made and reported for any inconsistency.</p>		
(xi)	<i>In cases where documents are held at centralized processing centers / office, whether the auditor has received the</i>	<p>Physical custody of documents, if centralized and not able to be verified should be reported.</p> <p>The overall control and coordination of documents and upkeep of the same need to be commented.</p>		
	<i>relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any</i>	<p>The list of documents sought for verification and not provided should be reported separately.</p>		
(xii)	List the major deficiencies in credit review, monitoring and supervision.	<p>The follow up of watch category accounts, SMA 0 to 2 accounts under standard assets and recovery initiative of other accounts need to be reported here.</p>		
(g)	Non-Fund Based facilities			
(i)	List of borrowers with details of LCs devolved or guarantees invoked during the year. <i>(Earlier it was at the end of the year.)</i>	<p>Any guarantees invoked should be transferred to protested bills account or appropriate years as per HO guidelines.</p> <p>See the list of guarantees closed during the year with special reference to the guarantees invoked during 2020-21.</p> <p>Comment on LC pending to be honored near about the balance sheet date in respect of a delinquent</p>		

		<p>borrower.</p> <p>Obtain details and a letter of representation in this regard from the branch manager.</p>
(ii)	<p>List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.</p> <p>(New Format given.)</p>	<p>The LCS issued in favour of borrowers whose account is classified as NPA where the LCS are overdue and due in near about dates need to be verified and reported.</p> <p>The auditor may insist on provision if it is a confirmed and potential loss to bank. it may even be brought to the notice of central statutory auditors for appropriate action.</p> <p>Obtain details and a letter of representation in this regard from the branch manager.</p>
(iii)	<p>List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.</p>	<p>Take the list of LC devolved and DEBITED to the existing CC/OD account in the pretext of interchangeability of facilities sanctioned by the bank.</p> <p>The exercise of such an option which may effect the NPA classification should be commented and reported to the CSA.</p> <p>The extension/enhancement of limits due to interchangeability should be verified with the security cover and borrower capacity.</p>

6.	Other Assets	
(a)	Suspense Accounts/Sundry Assets	

Sl No	Invocation Date	Party Name	Beneficiary Name	Amt	Recovery Date	Reason for Non-Payment

(i)	<p>Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of outstanding entries in excess of 90 days may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained. Does your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/write-off? If so, give details.</p>	<p>Obtain a jotting of sundry deposits and suspense accounts as on 31st march for auditor's records.</p> <p>Verify the long pending, unusual and items of high value lying in suspense account and report.</p> <p>The long pending debits old than 90 days requires special reporting.</p> <p>Any DEBITS which are irrecoverable need to be provided for as per prudential norms.</p>
(ii)	<p>Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved. Are there any intangible items under this head e.g. losses not provided/ pending investigation?</p>	<p>Obtain details and a letter of representation in this regard from the branch manager and report such figures if material.</p> <p>Any loss DEBITED to suspense account need to be reported separately.</p>
II. LIABILITIES		
1.	Deposits	
(a)	<p>Does the bank have a system of identification of dormant/ inoperative accounts and internal controls with regard to operations in such</p>	<p>Study the system of internal control of identification, classification, and activation of operation on such accounts.</p>

	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.	<p>Obtain a list of inoperative accounts having a balance of more than a benchmark.</p> <p>Verify the operation involving high value put through inoperative accounts, immediately on activation from AML angle.</p>								
(b)	After the balance sheet date and fill 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 branch and give your comments thereon.	<p>Obtain the general ledger extract of last reported Friday and verify for any unusual movement with the figures as on 31st march.</p> <p>Also verify it with the post balance sheet figures for the same effects if any.</p> <p>Obtain the written clarification from branch manager for any deviations noticed.</p> <p>Report any material deviation</p>								
(c)	Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.	<p>This is a matter of pure monitoring within the branch functioning. The internal guidelines/instructions of ensuring the residential status of depositor while on autorenewal of FCNR deposits should be obtained.</p> <p>Proper compliance of such instructions should be reported. If no guideline/instruction is there, it should be reported.</p>								
(d)	Is the branch complying with the regulations on minimum balance requirement and levy of charges on non- maintenance of minimum balance in individual savings accounts?	<p>The charges are taken only proportionate to the shortfall of minimum balance to be ensured.</p> <p>Take a report of accounts just below the minimum balance prescribed and verify at random about the compliance.</p>								
2.	Other Liabilities - Bills Payable, Sundry Deposits, etc.									
(a)	The number of items and the aggregate amount of old outstanding items pending for one years or more be obtained from the branch and reported under appropriate heads. Give details thereof.	<p>Obtain a jotting of sundry deposits and bills payable, pay orders payable or banker's cheque payable as on 31st march for auditor's records.</p> <p>Verify the long pending, unusual and items of high value lying in this account and report.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Year</th> <th style="width: 20%;">Number of Items</th> <th style="width: 20%;">Amounts</th> <th style="width: 40%;">Remarks</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Year	Number of Items	Amounts	Remarks				
Year	Number of Items	Amounts	Remarks							
(b)	Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, give details thereof.	<p>Obtain the ledger copy of the sundry deposits account and verify the debits and its sanctity. Report on any matters requiring attention of management.</p> <p>The ledger copy should be kept for auditors records.</p> <p>Obtain a letter of representation in this regard from the branch manager</p>								
3.	Contingent Liabilities									
	List of major items of the contingent liabilities (other than constituent's liabilities such as guarantees, letter of credit, acceptances, endorsements, etc.) not acknowledged by the branch?	<p>Obtain details and a letter of representation in this regard from the branch manager and report.</p> <p>The common items may be rent escalation demanded by land lord pending sanction, litigations on branch own premises, ATM related complaints and claims etc...</p>								
III. PROFIT AND LOSS ACCOUNT										
(a)	Has the test checking of interest/discount/ commission/ fees etc. revealed excess/short	If the system is by attaching patches to the								

	credit of a material amount? If so, give details thereof.	software, the date of receipt, its updation at branch and the records maintained and log generated from system to be verified.
(b)	Has the branch complied with the Income Recognition norms prescribed by R.B.I.? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets).	Study the system and policy of accounting for interest on NPA accounts. See that the accounting does not result in recognition of income in such cases. Accounting treatment and apportionment of recovery in NPA accounts to be in line with accounting policy of bank and should be followed consistently. This should be read with Para 5(f)(x) of question on advances.
(c)	Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.	System of updations of interest changes need to be studied. If the system is by attaching patches to the software, the date of receipt, its updation at branch and the records maintained and log generated from system to be verified.
(d)	Does the bank have a system of estimating and providing interest accrued on overdue/matured/ unpaid/ unclaimed term deposits including in respect of deceased depositors?	Study the system and report for any inconsistency with laid down accounting policies/ principles and standards. The intimation regarding death of depositor, the procedure for handling cases of deposits of deceased without nominees, transmission of deposits to legal heirs of deceased, management of court directions etc.. should be reported.
(e)	Are there any divergent trends in major items of income and expenditure, in comparison with corresponding Previous year, which are not satisfactorily explained by the branch? If so, the same may be reported.	Obtain the profit and loss analysis statement sent to controlling office and verify for any divergent trends. Make an analytical study of trend of deposits and advances with the interest and other charges. The ratio of interest paid to deposits and interest received to advances should be compared with pervious year and his year. Major divergence to be analysed and reported with specific reference to CASA.
IV. GENERAL		
1.	GOLD/ BULLION / SECURITY ITEMS	
(a)	Does the system ensure that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?	Gold and Bullion business is restricted only to very few branches handling metal desk. The custody and physical handling of the gold/bullion should be examined and reported in case of such branches.
(b)	Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?	The gold/bullion may be mostly imported and issued to customers/exporters as per the extant guidelines of the RBI and the bank. Any stock held out of suspended previous gold business held at branch should be reported with specific details of quantity, value carried in branch GLB, Custody, reason for holding it etc...
(c)	Does the system of the Bank ensure adequate internal control over issue and custody of 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? Have you come across cases of missing/lost items?	The movement pass book maintained between vault and counters should be verified. More focus should be given on security stationery like Fixed Deposit receipts, Draft/Pay Order books, Travellers Cheques etc.. This should be more emphasised in case of merged banks like Corporation Bank, Allahabad Bank, Dena Bank, Vijaya Bank, Syndicate Bank etc.. Any security stationery held at branches with the later merged banks name should be reported as it is VERY CRITICAL from CONTROL perspective.

2.	Books and Records	
(a)	Whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS? If yes, give details thereof.	<p>The software's used other than MS Office and regular operating system for correspondence should be verified.</p> <p>The export transaction platform, locker, cheque book issue software, Separate MIS Software if any, Software for EM Creation and its registers, and its integration with CBS. The influence of such transactions fed to the CBS should be verified and reported.</p>
(b)	<p>i) In case the branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts and are pending compliance? If yes give details.</p>	<p>The financial aspects of IS audit other than technical aspects as per report of IS Audit should be CRITICALLY examined.</p> <p>If the IS Audit does not cover the financial implications of the system errors and hardware, it should be reported as a weakness in IS Audit.</p> <p>The pendency of IS Audit as per Bank Instructions should be reported.</p>
	<p>ii) Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank</p>	<p>The procedure/regularity in generation and verification/authentication of exception reports should be verified and reported.</p> <p>If it is not generated, that should be reported.</p>
	<p>iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end.</p>	<p>The exception reports are to be CRITICALLY examined with specific focus on</p> <p>TOD/TAL reports, Online TOD Reports DEBIT in Income and CREDIT in Expense account report Routing Account Transactions report Loan Overdue Reports Disbursement against Clearing/without effects credited to account. Cash Transactions above specified limits without ID proof DEBIT Balance in SB accounts Incomplete KYC report etc... etc...</p>
	<p>iv) Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.</p>	<p>The procedure of generating and authentication of changing parameters in masters, Interest rates, Limit Masters, EMI and Initial Holiday etc.. should be verified and reported.</p>
	<p>v) Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level.</p>	<p>The overall data accuracy and timelines like up-dation of drawing power, security value, insurance details, short review dates in system would in a long way impact the data integrity of MIS. This should be examined and reported.</p>
3.	Inter-Branch Accounts	
	<p>Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards un matched transactions? As at the year-end are there any un- responded/un-complied queries or communications beyond 7 days? If so, give details?</p>	<p>The balance jotting and year wise break up of outstanding entries need be obtained.</p> <p>The entries pertaining to core to core, core to non-core branches; if any, need to be reported separately.</p> <p>The Breakup of entries in inter branch should be obtained from Branch to report on pending items beyond 7 days.</p>

4.	Frauds	
	<p><i>Furnish particulars of:</i></p> <p><i>(i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.</i></p>	<p>Obtain details of fraud, if any and a letter of representation in this regard from the branch manager.</p> <p>Recommend 100% provision for any amount lying in fraud account.</p> <p>The vulnerability of internal control also may be reported.</p>
	<p><i>(ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation.</i></p>	<p>The indication of any fraud or likely fraud on the basis of professional skepticism of auditor should be reported.</p>
	<p><i>(iii) In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud (e.g. falsification of accounts/false representation by the borrower; misappropriation of funds especially through related party/ shell company transactions; forgery and fabrication of financial documents like invoices, debtor lists, stock statements, trade credit documents, shipping bills, work orders and encumbrance certificates and avail credit; Use of current accounts outside consortium where Trust and Retention Account (TRA) is maintained, to divert funds; List of Debtors/ Creditors were being fabricated and receivables were not followed up/ write off of debt of related parties; Fake export/shipping bill, etc.; Over statement of invoice amounts, stock statements, shipping bills, turnover; fly by night operations -including the cases where vendors, related/ associate parties, manufacturing units etc. aren't available on the registered addresses; Round Tripping of funds, etc.)</i></p>	
	<p><i>(iv) Whether the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as RFA.</i></p>	<p>The reports generated and the overall management of Early warning signals of accounts, SMA Classification and reporting framework should be reported.</p>
5.	Implementation of KYCAML guidelines	
	<p>Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing</p>	<p>AML guidelines should be focused on transactions of Foreign Inward remittances, Foreign Cheques, Fund transfer from sensitive countries. The movement of foreign exchange transactions can be verified with the R Returns submitted to RBI.</p>
	<p>Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors</p>	
6.	Management Information System	
(a)	<p><i>Whether the branch has the proper Systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. Have you come across any instances where data</i></p>	<p>The overall data accuracy and timelines like updation of drawing power, security value, insurance details, short review dates in system would in a long way impact the data integrity of MIS. This should be examined and reported.</p>

	integrity was compromised?	
7.	Miscellaneous	
(a)	<p>In framing your audit report/LFAR, have you considered the major adverse comments arising out of the latest reports such as:</p> <ul style="list-style-type: none"> i) Previous year's Branch Audit Report / LFAR; ii) Internal audit/ Snap Audit/ concurrent audit report(s); iii) Credit Audit Report; iv) Stock audit Report; v) RBI Inspection Report, if such inspection took place; vi) Income and Expenditure (Revenue) Audit; vii) IS/IT/Computer/Systems Audit; and viii) Any special inspection / investigation report? 	<p>The date of audit as per various reports, its next due date, pendency for conduct after the due date, reply given by branch against the observations, closure of such reports by controlling authority, passing of entries as per MOC of previous year end audit etc.. Should be reported in a Tabular form.</p>
(b)	<p>ix) Are there any other matters, which you, as branch auditor, would like to bring to the notice of the management or the Statutory Central Auditors?</p>	<p>Any matter where the branch auditor notices inconsistencies of practices followed at branch with RBI guidelines, as, or any statues need to be brought to the notice of central statutory auditors.</p> <p>The figures which are reported to be dealt at head office where branch have little control may be disclaimed for the attention of the central statutory auditors.</p> <p>Any local matters which has an impact on the branch business, profit and loss or assets or liabilities, may be reported.</p>
