

LFAR & Other Certifications

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LFAR: Purpose

- ➔ Address Systematic Issues In Bank.
- ➔ Whistle Blower For Irregularities.
- ➔ Excellent Audit Planning Tool,
- ➔ LFAR serves as a check list

IMPORTANT ASPECTS

- ➔ Plan your work at the beginning of audit.
- ➔ Obtain information/details from the Branch
- ➔ Go through previous years' report, Inspection report, etc.
- ➔ Main Audit Report and LFAR are two separate reports.
- ➔ Comments in LFAR should be specific and not vague or general.

IMPORTANT ASPECTS (Cont'd)

- ➔ Give instances of shortcomings.
- ➔ Mention about extent of checking, test checking, representation received etc. be mentioned in the report.
- ➔ LFAR is of utmost importance to the management as well as the Central Auditors.
- ➔ Finalize Statutory Report and LFAR simultaneously.

COVERAGE OF LFAR

<i>Assets</i>	<i>Liabilities & Other</i>
<ul style="list-style-type: none">• Cash Balances• Bank Balances.• Money at call and Short Notice• Investments• Advances• Other Assets	<ul style="list-style-type: none">• Deposits• Other liabilities• Contingent Liabilities• Profit & loss A/c.• General• Specialised Branches.

CASH

- ➔ Cash balance which vary significantly from the limit fixed by controlling authorities.
- ➔ Excess balance reported to the controlling authorities.
- ➔ Adequate Insurance Cover.
- ➔ Joint custody.
- ➔ Refer Instructions, Key Movement Register.
- ➔ Periodic checking of cash balance.
Ascertain procedure and observe during audit
General scrutiny of cash book.

BALANCE with RBI, SBI and BANKS

- ➔ Obtain balance confirmation.
- ➔ Report differences.
- ➔ Observation on differences.
- ➔ Cash transactions remaining to be responded.
- ➔ Revenue items requiring adjustment / write offs.
(issue MOC / Qualify report)

BALANCE with RBI, SBI and BANKS

- ➔ Old outstanding balances remaining unexplained and age wise analysis.

- ➔ Item requiring special attention of management.
 - Reconciliation not done / procedure not followed.
 - Material amount unadjusted or entries outstanding for a long time.(more than six months)

- ➔ Items affecting financial statements may be reported in the Statutory Report.

MONEY AT CALL and SHORT NOTICE

- ➔ Report even if a single transaction
- ➔ Confirm that the transaction is as per the procedure.
- ➔ Investments
- ➔ Physical verification on behalf of H.O.
- ➔ Ensure that income earned on such Investments is not accounted by Branch.

INVESTMENTS

➡ Obtain certificate from branch regarding the investments held.

➡ Verify Securities physically.

➡ Income from Investments properly accounted.

➡ RBI guidelines for valuation

➡ For valuation master circular on ‘Prudential Norms for Classification, Valuation and Operation of Investment portfolio by banks’ issued by RBI

ADVANCES

➡ Examination of all large advances (Aggregate of Fund + Non fund above Rs. 10/- Cr. Or accounts having exposure greater than 10% of the total advances of the branch) and a test check of other advances.

List of accounts examined for audit	Account No.	Account Name	Balance as at year end - Funded	Balance as at year end - Non-funded	Total
	XXXXXX				
	XXXXXX				
	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

CREDIT APPRAISAL [Clause 5(a)]

- ➔ Opinion is sought on compliance of Procedure / Instruction of controlling authorities.
- ➔ Early Mortality cases
 - A/c No. Name Balance at the end
- ➔ Whether interest rates keyed in correctly
- ➔ Modified except official rate change
- ➔ Cases of frequent renewals/ rollovers of short term loans

SANCTIONING / DISBURSEMENT

[Clause 5(b) u/s (ii)]

➡ Credit facilities beyond the delegated authorities.

➡ Are such cases promptly reported to higher authorities?

➡ Advances disbursed without compliance of terms of sanction (give details)
e.g.: Necessary funds not brought in by the borrower.

SANCTIONING / DISBURSEMENT (Cont'd)

- ➔ Net worth of the guarantor not furnished.
- ➔ Unit not inspected.
- ➔ End use of the funds not verified.
- ➔ Borrower continuing to have operations with other Banks.

DOCUMENTATION

[Clause 5(c) (i) to (iii)]

- ➔ Instances of credit facilities released without execution of all the necessary documents
 - Verify legal status.
 - Government recognized status.
 - Type of Loan.
 - Securities.

- ➔ Instances of deficiencies in documentation, non registration of charge etc., (give details)

DOCUMENTATION (Cont'd)

- ➔ Some instances of deficiencies
 - Documents left blank.
 - Overwriting in documents, change in hand writing, incomplete documents.
 - Joint documentation in case of consortium advance.
 - Documents inadequately stamped.
 - Documents time bared.

- ➔ Additional reporting requirement on advances against lien of deposits.

REVIEW/MONITORING/SUPERVISION [Clause 5(d) (i) to xvi)]

- ➔ Periodic review of advances including balance confirmation / acknowledgement of debts etc.
 - Analysis of such accounts overdue for review.
- ➔ System of receipt of Stock / Book Debt and other statement and scrutiny thereof.
- ➔ System of obtaining Stock Audit Report.
Details required where Stock Audit not conducted and if conducted but no action on the adverse observations
- ➔ Audited accounts as per RBI guidelines from non corporate entities with limit beyond Rs. 10 lacs.

REVIEW/MONITORING/SUPERVISIO N (Cont'd)

- ➔ Physical verification of securities as per procedure laid down?
- ➔ Deficiencies in value of securities, frequent/unauthorized drawings, inadequate insurance etc.
- ➔ Clauses relating to lease finance activities and credit card dues.
- ➔ Clauses relating to Prudential Norms.

REVIEW/MONITORING/SUPERVISIO N (Cont'd)

- ➔ Compliance by Branch with Recovery Policy / in respect of Compromise / Settlements / Write off.
- ➔ Major deficiencies in credit review / monitoring / supervision.
- ➔ Clause relating to guarantee and letter of credit (clause 5 (e)).

Classification of Advances including Restructure

- Has advances been classified correctly
- Any disagreement of auditor with th classification with reasons
- Whether such disagreements or required changes reflected in MOC
- RBI guidelines compliance while restructuring
- Up-gradation of accounts whether as per RBI
- Any case where recovery action sanctioned but not acted upon by the branch

Classification of Advances including Restructure

- Whether appropriate claims (DICGC/ ECGC/ CGTMSE) duly lodged
- Details of any rejected claims
- Whether provisioning in line with such rejection
- In respect of NPA, valuers certification for the asset values once in 3 years
- Test check of documents where they are kept at location other than branch

Guarantees & Letter of Credit

- List of borrowers with number of times L/c is devolved or Guarantees invoked but subsequently paid for
- List of borrowers with number of times L/c is devolved or Guarantees invoked but subsequently not paid for
- List borrowers where interchangeability of fund & non-fund limits allowed after devolvment or guarantee invoked.
- Classification in line with fund limits

OTHER ASSETS (Cont'd)

- ➔ Suspense Accounts / Sundry Assets.
- ➔ Critically Scrutinize these accounts.
- ➔ Details and clarification in respect of old unadjusted entries be obtained.
- ➔ Balances which in your opinion are not recoverable.
- ➔ e.g.: Advance against traveling.
 - Payment to merchant establishment,
 - Legal expenses
 - Dividend / Interest paid.

OTHER ASSETS (Cont'd)

➔ Unusual items in these accounts be reported

- ➔ e.g.: Cash in transit
- Difference in balancing.
 - Difference in cash.

DEPOSITS

- ➔ Compliance with guidelines in respect of inoperative accounts.
- ➔ Instances if not complied with the guidelines.
- ➔ Seek clarification for unusual movements after balance sheet date.
- ➔ Quantification of Overdue / Matured term deposits at the year end.

BILLS PAYABLE /SUNDRY DEPOSITS / CONTINGENT LIABILITIES.

- ➔ Details of old items to be reported.
- ➔ Unusual items and pre-matured withdrawals or debits to be reported along with their nature and amounts.
- ➔ List of major items of contingent liabilities other than Guarantees, L/Cs, Endorsements, Acceptances etc.
- ➔ Representation from the Branch Manager

PROFIT & LOSS ACCOUNTS

- ➔ Compliance with Income Recognition Norms
- ➔ System of estimation and provision of Interest on overdue matured term deposits.
- ➔ Divergent trends in major items of P & L A/c if not satisfactorily explained.

GENERAL

- ➔ Proper maintenance of manual Books of Accounts.

- ➔ In respect of Computerized Branches number of areas prescribed.

- ➔ Inquire about
 - Banks policy
 - Compliance of the policy
 - Internal Control & Security measures.
 - Backups and Disaster Recovery Plans

GENERAL (Cont'd)

Suggestions for the improvement in the system

- ➔ Reconciliation of control and subsidiary records.

- ➔ Inter Branch Accounts, (Very Important area)
 - Understand the system
 - Daily Communication to HO/Designated cell statement of debit / credit transaction.
 - Agreement between balance in HO Account Branch Accounts.
 - Old outstanding debits in the Head Office Account

GENERAL (Cont'd)

- ➔ Window dressing to be reported
e.g.. Large deposit at year end.

- ➔ Underutilized facilities converted in Deposits.
Unsecured loans shown as secured.

- ➔ Maintenance of Fixed Assets Records.
 - Documents of title in relation to branch
 - Any other matter

SPECIALISED BRANCHES

- ➔ Foreign Exchange Transactions.
- ➔ Recovery of NPA'S.
- ➔ Clearing house Operations.
- ➔ Large Corporate branches (Advances in Excess of 100 crore).

Other certifications

- CRAR workings: This involves bifurcation of advances into
 - Corporate Advances: this involves exposure above Rs. 5 Cr. Please note that exposure relates to sanction amount, whether fund or non-fund. Outstanding at the year end is irrelevant. External rating is mandatory.
 - Government Exposure: This involves only to central govt. Govt. undertakings are not part of these exposures
 - Retail: Generally all others would fall under this category
 - It is suggested that we study the RBI circular on CRAR
- Categorisation of Advances into Priority/ Housing / Others
- NPA movements
- Subsidy on priority lending

Thank You