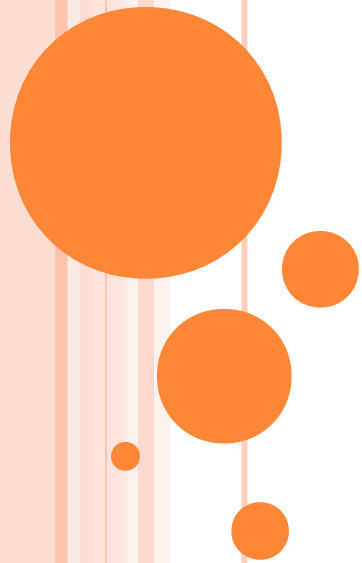


# Long Form Audit report



# Objective

- Get accustomed to the Long Form Audit Report (LFAR)
- LFAR at Branches
- Consolidation of LFAR at the Regional / Zonal office and at Head Office
- Documentation



# Introduction

- 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



# Purpose / Importance of LFAR

- Focus on systemic issue of the bank
- Address them through the insight of the Bank Branch audit
- Acts as a early whistleblower for irregularities



# LFAR v/s Main Audit Report

- LFAR doesn't substitute the Main Audit report
- It is also not a part of the Main Audit report
- Matters reported in LFAR are illustrative and not exhaustive
- If there are adverse comments in LFAR, the same may be considered by auditor for qualifying the Main Audit Report
- However every adverse comment may not result into Qualification in Main Audit report



# LFAR Structure

## 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



# LFAR Structure

## II. Liabilities

- Deposits
- Other Liabilities
- Contingent Liabilities



# LFAR Structure

## 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





# LFAR Structure

## IV. General

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




# Cash

## Requirements

- Cash retention limit
- Cash insurance
- Key Register for Cash Safe
- Leave records of employees
- Cash Register

## Reporting


- Instances of Excess Cash holding and its reporting to Controlling Authority
  - Adequacy of Cash insurance w.r.t. average cash holding
  - 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

## Requirements

- Balance confirmation from RBI, SBI and Other Banks
- Bank Reconciliation Statement

## Reporting

- Cash transactions remaining unresponded (give details)
  - Revenue items requiring adjustments/write-off (give details)
  - Old outstanding balances remaining
- 

# Not Applicable at Branch

- Normally the following two items are not applicable at Branches
  1. Money at Call & Short Notices
  2. Investments



# Advances

## Larges Advances

- Outstanding Amount > 5% of total Advances

OR

- Outstanding Amount > Rs. 2 crore

whichever is less

Coverage for Audit :  
Full

## Other Advances

- Advance not covered in Large Advances

Coverage for Audit :  
Test Check



# Advances (FB & NFB)

## 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

## 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)

Note : From the above Classification and income recognition will have to be checked by the Auditor w.r.t. IRAC norms




# Other Assets – Stationery & Stamps

## Requirements

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

## 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

## Requirements

- List of revenue and Capital items in the above accounts

## Reporting

- Period for which the transactions are being reflected in the above accounts without being adjusted
  - The nature of transactions reflected in such accounts as at year end and its impact on the Books of Accounts if any
- 

# Deposits

## Requirements

- Process of identifying inoperative accounts
- Process of identifying Overdue / matured deposit
- Movement of Deposits in the First and Last week of Financial Year

## Reporting

- Operations in inoperative accounts
- Regularising of inoperative account
- Nature of Huge deposits in first and last week of Financial Year



# Other Liabilities – Sundry Deposits / Bills payable

## 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



# Contingent Liability – Other than NFB advances

## Requirements

- List of legal disputes against the Bank

## Reporting

- Whether the treatment of the same as Contingent Liability is correct or does it requires to be reognised as liability



# Profit and Loss Account

## 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 – Books and Records

## 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 – Control and Subsidiary records

## Requirement

- 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




# General – Inter Branch Accounts

## 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
- 



# Audits / Inspections

## Requirement

- 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)



# Frauds

## 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




# Miscellaneous – Fixed Assets

## 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

- Any window dressing observed
- Other areas which auditor would like to report



# Consolidation of LFAR

- 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

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

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



# Process of Consolidation

- Comments given by the Branch auditors needs to be reviewed
- Adverse remarks / observations should be supported by instances
- If any observation is not clear or some more information is required w.r.t. any observation the same needs to be communicated to the concerned auditor



# Documentation

- Working papers should record
  - The audit plan.
  - Nature, timing and extent of audit procedures
    1. Who performed the work
    2. Who reviewed the work
    3. Characteristics of matters tested etc.
  - Conclusions drawn from the evidence obtained.
  - All significant matters arising in the course of audit and Professional judgment exercised.
- 📁 Communications and discussions with management, those charged with governance and other personnel.



THANK YOU

