

Revised Long Form Audit Report issued by RBI

Decoding of Recent Changes in LFAR

RBI/2020-21/33

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Long Form Audit Report (LFAR) - Review

By

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Important Points relating to revised LFAR guidelines

- New format is exhaustive. We have to spent more time in branches to prepare this report.
- Many new issues are added in this format which can be commented only if CBS generated reports/details/Audit Trails are ready at branch for auditors.
- We must write a letter/mail to branch in advance to provide the required audit trails and details to complete LFAR report.
- Many items are specifically added in new format which we are already doing and details are already given in ICAI guidance note earlier.
- For some points needs clarification from ICAI also.
- In New LFAR format- confirmation of compliance all important clauses relating to IRAC norms circular to be given as per new format
- For many issues, we have to take management representation from banks. Issue mail/letter in advance to branches for the same
- New format will be a big challenge for banks also as they have to keep ready more details and audit trails for audit

I	ASSETS	
1	Cash	
(b)	Have the cash balances at the branch/ <u>ATMs</u> been checked at periodic intervals as per the Procedure prescribed by the controlling authorities of the bank?	<p><u>ATM has been specifically added in new format</u></p> <p>Currency branches are controlling ATM in bulk- Ask for</p> <p>a) Physical verification report of all ATM along with reconciliation with branch books and ATM scroll slip</p>
©	(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.	<p>b) Report where no physical done or not done at least once quarter</p> <p>c) Report difference if any and accounting of the same</p> <p>d) If there is any loss of cash report</p> <p>e) MOC if required for loss</p> <p>Verify physical verification report and reconciliation of cash with Vendor at year end.</p>

2	Balances with Reserve Bank of India, State Bank of India and other banks (For branches with Treasury Operations)	
(b)	(iii) Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days:	<p>Old para iii. Old outstanding balances remaining unexplained/unadjusted. Give details for entries outstanding more than 15 days– Nothing new We were doing earlier also</p>
(b)	<p>(iv) Where the <u>branch maintains an account with RBI</u>, the following additional matter may be reported: <u>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)</u></p>	<p><u>This para is newly added</u></p> <ul style="list-style-type: none"> • <u>Currency chest branch/Link branch to which currency chest attached has originated deposit/withdrawal entries relating to operations in currency chest prior to year end on the branch which maintains account with RBI.</u> • <u>But the branch which maintains the account with RBI got communications for these entries after the year end and record the same after the year end should be reported</u> • <u>These entries will be lying in Inter branch reconciliation and MOC for the should be suggested</u>
	Source of information– Ask for report of inter branch entries raised by other branch but pending for responding as on 31.3.2022	

3	Money at Call and Short Notice	
(b)	Has the year-end balance been duly confirmed and reconciled?	<p>This para is newly added</p> <p>But, we were already doing the same</p>
©	Has interest accrued up to the year-end been properly recorded?	<p>This para is newly added</p> <p>But, we were already doing the same</p>

5	Advances	
	General Instructions	
(i)	<p>(The answers to the following questions may be based on the auditor's examination of all large advances. For this purpose, <u>large advances</u> are those in respect of which the outstanding amount is in <u>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.</u></p> <p>Care- For all accounts <u>above the threshold</u>, the <u>transaction audit/account specific details</u> to be seen and commented, <u>whereas below the threshold</u>, the process needs to be checked and commented upon.</p> <p>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>	
(ii)	<p>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.</p>	

5	Advances	
	General Instructions	
(i)	<p>Modification in definition of large advances:</p> <p>Now it is 10% of outstanding aggregate balance of fund based and non fund based advances of the branch or 10 CR which ever is less</p> <p>Earlier it was in excess of 5% of the aggregate advances of the branch of Rs 2 crore whichever is less</p> <p>For all accounts above the threshold, the <u>transaction audit/account specific details</u> to be seen and commented,</p> <p><u>whereas below the threshold</u>, the <u>process</u> needs to be checked and commented upon.</p>	
	<p>Transaction Audit- It is very wide term, it appears to be operations of account. No separate clarification for this term is available</p> <p>Specific Details- Details provided by bank in large account format to be verified</p>	

5 Advances

(a) List of accounts examined for audit

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

Newly added clause

This is new clause. Now onwards auditors have to give details of all advances accounts examined during the audit.

5	Advances	
(b)	Credit Appraisal	
(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"> <input type="checkbox"/> Account No. <input type="checkbox"/> Account Name <input type="checkbox"/> Balance as at year end 	<p>Verify all newly detected NPA account during the year and see when same were first sanctioned. This data can easily be collected by auditor</p>
(iii)	<p>Whether in borrowal accounts the applicable interest rate is correctly fed into the system?</p>	<p>a) Rate of interest at year end b) Modification during the year Audit Trail required– Ask for audit trail of modification in rate of interest of loan with value date and verify with the documents verified.</p> <p>Interest Run- report on sample (specific details)</p>

5	Advances	
(b)	Credit Appraisal	
(iv)	Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR (External Benchmark Lending Rate) ?	<p>a) Generally branch will reply that it is be modified in system centrally</p> <p>b) Rate of interest at year end</p> <p>c) Modification during the year</p> <p><u>Audit Trail required</u>– Ask for audit trail of modification in rate of interest of loan with value date and verify with the bank circulars relating to change in MCLR/EBLS Impact- MOC if any (specific detail)</p>
(v)	Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.	<p><u>Audit Trail required</u>– Ask for audit trail generated from system with regard to accounts renewed/rolled over in system Impact- MOC if any <u>NPA 3</u></p>
	<p><u>Refer to RBI circular</u> <u>RBI/2020-21/27 DoS.CO.PPG.BC.1/11.01.005/2020-21 August 21, 2020</u> <u>Ad-hoc/Short Review/Renewal of Credit Facilities</u></p>	

5	Advances	
(b)	Credit Appraisal	
	<p><u>Important points of circular:</u></p> <ul style="list-style-type: none"> Banks are, therefore, expected to have a <u>detailed Board approved policy on methodology and periodicity</u> for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly. Analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain <u>supervisory concerns</u>, including that of <ul style="list-style-type: none"> a) <u>frequent/repeated ad-hoc review/renewal</u> of credit facilities instead of regular review/renewals, b) <u>non-capturing</u> and/or <u>inaccurate capturing</u> of review/renewal data in the banking/information systems, c) and <u>non-coverage of review/renewal</u> activities under the <u>concurrent audit/internal audit mechanism</u> 	

5	Advances	
(b)	Credit Appraisal	
	<p><u>Directions by RBI on review/Renewal</u></p> <p>a) banks should <u>avoid frequent and repeated</u> ad-hoc/short review/renewal of credit facilities without justifiable reasons.</p> <p>b) Banks are also advised to <u>capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in their core banking systems/management information</u> systems and make the <u>same available for scrutiny as and when required by any audit</u> or inspection by Auditors/RBI.</p> <p>c) Further, the processes governing review/renewal of credit facilities should be <u>brought under the scope of concurrent/internal audit/internal control</u> mechanism of banks with immediate effect.</p>	

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5	Advances	
(b)	Credit Appraisal	
(vi)	Whether correct and valid credit rating, <u>if available</u> , of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?	<p>1) Ask the bank policy in this regard</p> <p>2) Verify the credit rating obtained as per Bank policy</p> <p>3) Verify whether in system, it is correctly updated</p> <p>4) Verify in case rating is down whether it has any impact on NPA classification of the account</p> <p>5) We should also submit the list of cases where latest valid credit is not available as per bank policy --- (Specific Details)</p>
	In terms of para 6 of the circular, six domestic credit rating agencies viz. CARE, CRISIL, India Ratings and Research Private Limited(FITCH India), ICRA, Brickwork Ratings, INFOMERICS and SMERA have been accredited for the purpose of risk weighting the banks' claims for capital adequacy purposes.	

5	Advances	
(c)	Sanctioning / Disbursement	
(iii)	Did the bank provide loans to companies for buy-back of shares/securities?	<ul style="list-style-type: none"> • Auditors should verify whether any buy back has taken place during the year. • Verify whether bank funds used for buy back (Specific Details)
	<p>a) Word “bank provide” means loan given by bank for buy-back of shares which seems to be impossible as it is not permitted.</p> <p>b) Loan given for “x” purpose but used for buy-back. It is difficult to verify by auditor --- RBI circular dated <u>July 1, 2015– 2.1.4</u></p> <p>On Restrictions (loan to directors of other banks) one more circular July 23, 2021 <u>issued</u></p>	
(d)	Documentation	
(iii)	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.	The words “ the related accounts” added- Means lien marked in system also to verified. We were doing earlier also

5	Advances	
(e)	Review/Monitoring/Supervision	
(i)	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. <u>What, in your opinion, are major shortcomings in monitoring, etc.</u>	<p>Line marked in red is newly added</p> <p>We were doing earlier also.</p> <p>Period is modified in line of RBI NPA guidelines</p> <p><u>NPA 3</u></p>
	a) between 3 to 6 months, and	
	b) over 6 months	<p>If cases reported in the column ensure account should have been classified as NPA- MOC given</p> <p>(specific details)</p>

5	Advances	
(e)	Review/Monitoring/Supervision	
(ii)	a) 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?	<u>NPA 3</u> If cases reported stock statement not received after September 2021. Account should be classified as NPA- MOC given (specific detail)
	b) Is the DP <u>properly</u> computed?	(specific Detail)
	Audit Trail required: Ask for audit trail of DP modification done system during the year along with value date. <u>Verify the data updated in system with stock statements. Comment if all stock statements not available. Comment if creditors are not reduced/DP is not computed as per bank policy/sanction. Whether change in DP impact classification of loans</u>	
	c) whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?	Newly added clause: We were already doing this only specific clause is given here (Specific Detail)

5	Advances	
(e)	Review/Monitoring/Supervision	
(iii)	a) Whether there exists a system of obtaining reports on stock audits periodically?	Ask for bank policy- and find out cases where reports to be obtained and not obtained
	b) If so, whether the branch has complied with such system?	Give the list of cases of non compliance of guidelines
	c) Details of: <input type="checkbox"/> cases where stock audit was required but was not conducted <input type="checkbox"/> where stock audit was conducted but no action was taken on adverse features	Item 2– after reading report only we can comment for action taken or not (Specific Details)- Report can have impact in calculation of DP and can impact classification of account
(iv)	Indicate the cases of advances to non- corporate entities with <u>limits beyond that is set by the bank</u> where the branch has not obtained the duly audited accounts of borrowers.	<ul style="list-style-type: none"> • Now, no limit is specified by RBI it is mentioned that limit as set by the bank. • Ask a MR from bank for limit fixed by bank

5	Advances	
(e)	Review/Monitoring/Supervision	
(v)	<p>Does the branch have on its record, a <u>due diligence report</u> 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>This issue was covered in ICAI guidance note in earlier years also</p> <p>We were verifying earlier also. Now this clause has been specifically added to verify the compliance of following RBI circulars</p> <p>(Specific Details)</p>



- **Compliance of RBI guidelines:**
- **Lending under Lending under Consortium Arrangement / Multiple Banking Arrangements**
- Auditor should verify that in case of Lending under Consortium Arrangement / Multiple Banking Arrangements' banks, any sanction of fresh loans/*ad hoc* loans/renewal of loans to new/existing borrowers should be done only after obtaining/sharing necessary information among banks. Report the cases where prescribed guidelines are not followed
- Auditor should verify that bank branch has on its record a due diligence certificate/report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking. Give the list of accounts where certificate is not obtained or on record.

For above auditor can refer to following circulars issued by RBI

DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008

DBOD.BP.BC.94/ 08.12.001/2008-2009 dated December 8, 2008

DBOD No. BP.BC.110/08.12.001/2008-2009 dated February 10, 2009

DBOD.BP.BC.No. 62 /21.04.103/2012-13 November 21, 2012

- **Transfer of Borrowal Accounts from One Bank to Another bank**
- Verify that before taking over an account, the transferee bank has obtained necessary credit information from the transferor bank as per prescribed in following circulars issued by Reserve Bank of India


DBOD.BP.BC.94/ 08.12.001/2008-2009 dated December 8, 2008


DBOD.No.BP.BC- 104 /21.04.048/2011-12 May 10, 2012

5	Advances	
(e)	Review/Monitoring/Supervision	
(vi)	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?	No change
	Whether there is a <u>substantial deterioration</u> in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?	We were already verifying this clause in compliance of NPA norms clause 4.2.9 of master circular regarding erosion in value of security. Now specific clause is added in LFAR <u>There is no clarification what constitute substantial deterioration-10/20/30 %-?</u> IMPACT- MOC if any <u>NPA 15</u>
(viii)	Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of <u>bank's policy</u> related with Red Flag Accounts?	<ul style="list-style-type: none"> • Ask for Bank policy for RFA account • Ask for list of SMA, Fraud and RFA accounts reported by branch and verify compliance with policy– IMPACT-MOC

EWS

- 1) a) **Default in undisputed payment to the statutory bodies** as declared in the Annual report.
b) **Bouncing of high value cheques**
- 2) **Frequent change in the scope** of the project to be undertaken by the borrower
- 3) **Foreign bills remaining outstanding** with the bank for a **long time** and tendency for bills to remain overdue.
- 4) **Delay** observed in **payment of outstanding dues**.
- 5) Frequent **invocation of BGs and devolvement of LCs**.
- 6) **Under insured or over insured** inventory.
- 7) Invoices devoid of TAN and other details.
- 8) **Dispute on title** of collateral securities.

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- 9) **Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.**
 - 10) In merchanting trade, **import leg not revealed** to the bank.
 - 11) Request received from the borrower to **postpone the inspection of the godown** for flimsy reasons.
 - 12) Funding of the interest by sanctioning additional facilities.
 - 13) **Exclusive collateral charged** to a number of lenders **without NOC** of existing charge holders.
 - 14) **Concealment of certain vital documents** like master agreement, insurance coverage.
 - 15) Floating front / associate companies by investing borrowed money
 - 16) Critical issues highlighted in **the stock audit report.**
 - 17) **Liabilities appearing in ROC search report**, not reported by the borrower in its annual report

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- 18) **Frequent request** for general purpose loans.
 - 19) **Frequent ad hoc sanctions.**
 - 20) **Not routing of sales proceeds** through consortium / member bank/
lenders to the company.
 - 21) **LCs issued for local trade / related party transactions without
underlying trade transaction**
 - 22) **High value RTGS payment to** unrelated parties.
 - 23) **Heavy cash withdrawal** in loan accounts.
 - 24) **Non production of original bills** for verification upon request.
 - 25) **Significant movements in inventory**, disproportionately differing vis-a-
vis change in the turnover.

- 26) **Significant movements in receivables**, disproportionately differing vis-à-vis change in the turnover and/or increase in ageing of the receivables
- 27) Disproportionate change in other current assets
- 28) **Significant increase in working capital** borrowing as percentage of turnover
- 29) **Increase in Fixed Assets**, without corresponding increase in long term sources (when project is implemented).
- 30) **Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet**
- 31) Frequent **change in accounting period and/or** accounting policies
- 32) Costing of the project which is in wide variance with standard cost of installation of the project

- 33) **Claims not acknowledged** as debt high
- 34) **Substantial increase in unbilled** revenue year after year.
- 35) **Large number of transactions with inter-connected** companies and large outstanding from such companies
- 36) **Substantial related party transactions**
- 37) **Material discrepancies** in the annual report
- 38) **Significant inconsistencies** within the annual report (between various sections)
- 39) **Poor disclosure of materially adverse information** and no qualification by the statutory auditors
- 40) **Raid by Income tax /sales tax/ central excise** duty officials
- 41) **Significant reduction in the stake of promoter** /director or increase in the encumbered shares of promoter/director.
- 42) **Resignation of the key personnel** and frequent changes in the management

5	Advances	
(e)	Review/Monitoring/Supervision	
	<p>For red flag reporting guidelines refer to fraud circular caluse 8.3.4- 42 items of EWS given in Annexure II</p> <p><small>E:\presentation 2020-2021 - Copy - Copy\NPA files\EWS files.pptx</small></p> <p><u>Classification and Reporting by commercial banks dated July 1, 2016 (Updated as on July 03, 2017)</u></p>	
(ix)	<p>Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.</p>	<p>This issue is already being reported in large accounts statement if above threshold.</p> <p>If there is no large account i.e 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less. Comment at least 5 standard top accounts of branch</p>



5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution Stressed Assets	
(i)	a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?	<ul style="list-style-type: none">• The words “ without manual intervention” newly added• NPA classification statement are being prepared by HO and provided for audit- <u>Ask for audit trail</u>
	b) Is this identification & classification in line with the norms prescribed by the Reserve Bank of India	
	<p><u>Refer to RBI Circular:- Automation of Income Recognition, Asset Classification and Provisioning processes in banks Dated Sept 14, 2020----</u> <u>Audit Trail Required– System Audit Report– Exceptions--- Approvals</u> 2.9 Banks shall maintain logs for all exceptions i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose/reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall also be stored for a minimum period of three years and not be tampered with during the storage period. These logs shall be system generated. – Compliance by June 21</p>	

5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution Stressed Assets	
(i)	<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>Now SMA-0 1 to 30 days SMA-1 31 to 60 days SMA-2 60 to 90 days</p> <p>Concept is available in bank loan statements itself hence there is no issue</p> <p>We can ask for periodically SMA statement from banks and ensure SMA classification is correct</p> <p><u>Refer to RBI circular dated November 12, 2021- Clause 3, 4, 5</u></p>
	<p>d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes.</p>	<p>it is clarified that the intervals for classifying SMA are intended to be continuous and NPA classification is to be done on relevant data (Every due date)</p>

5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution of Stressed Assets	
(i)	e) 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.	We are already doing this only specific clause added
	f) Whether RBI guidelines on income recognition and provisioning have been followed.	We are already doing this only specific clause added

5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution Stressed Assets	
(ii)	a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?	<u>MSME- restructuring</u> <u>COVID- 19- Stress Assets Guidelines</u> Master Circular on IRAC norms dated October 1. 2021 Verify the compliance of all above guidelines and comment
	b) Whether the RBI Guidelines for restructuring on all such cases have been followed.	
	c) 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?	

5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution of Stressed Assets	
(iii)	a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India	Movement of NPA loans– <u>NPA 11</u> <u>Refer to clarification in circular dated- February 15, 2022</u>
	b) Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.	Give MOC if required
(v)	Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch? 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?	a) Ask the list of cases, wherein Process under IBC has been mandated by bank- but same is not initiated b) If yes give list and verify adequate provision has been made or not. Provision we are already verifying

5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution of Stressed Assets	
(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>Verify all cases where ECGC claim rejected and sufficient provision has been done</p> <p>IMPACT- MOC</p>
(ix)	<p>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.</p>	<p>Obtain this data from branch</p>
	<p>1) Ask the list of all suit- filed cases along with latest status</p> <p>2) For decreed cases ask for latest position with regard to execution done or pending</p>	

5	Advances		
	ECGC cases reporting		
	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		
	Balance as at year end (A-B)		

5	Advances	
(f)	Asset Classification, Provisioning of Advances and Resolution of Stressed Assets	
(x)	Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?	<u>NPA-9</u>
(xi)	In cases where documents are held at centralized processing centres / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if Any	If documents not made available, Give the list for the same

5	Advances					
(g)	Non-Fund Based facilities					
(i)	List of borrowers with details of LCs devolved or guarantees invoked during the year.			Earlier it was at the <u>end of year</u> Obtain these details through audit Trail from bank Verify where debit is being done and compliance of IRAC norms		
	Sr. No.	Invocation Date	Party Name	Beneficiary Name	Amt	Recovery Date
(ii)	List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof			only New format given below Take MR		
	Sr. No.	Invocation Date	Party Name	Beneficiary Name	Amt	Reason for non Payment
(iii)	List of instances where inter changeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.			This should not be done by bank if done report If required give MOC also		

6	Other Assets	
(a)	Suspense Accounts/Sundry Assets	
(i)	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.	Amount not recoverable required provision/write-off
(ii)	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?	Recommending provision of any losses not provided for bank.

II	LIABILITIES	
1	Deposits	
©	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 <u>applicable regulatory guidelines</u> and the original receipts / soft copy have been dispatched.	Ask for audit Trail for the same From the audit trail take sample and ask the bank to provide proof of Non resident
(d)	Is the branch complying with the regulations on minimum balance requirement and levy of charges on non- maintenance of minimum balance in individual <u>savings accounts</u> ?	Ask for the audit trail of all the accounts at the year end having balances below the minimum limit and verify on sample basis the compliance in this regard Rbi _____ cir _____ No. <u>DBR.Dir.BC.No.47/13.03.00/2014-15</u> <u>November 20, 2014)</u>

III	PROFIT AND LOSS ACCOUNT	
(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?	<p>This policy is applicable to a</p> <p>overdue deposits.</p> <p>Ask for bank policy.</p> <p><u>RBI new circular dated July 2, 2021</u></p>
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?	<p>If branch holds any stock of Gold/bullion only then applicable</p> <p>Now a days branches are not selling Gold. It should be applicable only Gold bars not to jewellery kept as security for Gold loans</p>

IV	GENERAL	
1	Gold/ Bullion /Security Items	
(b)	<p>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?</p>	<p>If branch holds any stock of Gold/bullion only then applicable</p> <p>Now a days branches are not selling Gold. It should be applicable only Gold bars not to jewelery kept as security for Gold loans</p>
2	Books and Records	
(a)	<p>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>	<p>Obtain system audit report and undertaking from the branch</p>

(b)	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.	Obtain IS audit report and comment
	ii) Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank	Earlier it was only restricted to printing and now it is specifically mentioned <u>verification</u>. We have to verify whether branch is evidencing verification of exception reports
	iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether <u>there are any major observations pending such compliance at the year end.</u>	First line is covered in above para. If process of verification is there the see a) whether there is system of <u>recording major observations</u> b) If yes: ask for list of all the observations <u>pending for compliance</u>

2	Books and Records	
(b)	iv) Whether the bank has <u>laid down procedures for manual intervention to system generated data</u> and proper authentication of the related transactions arising there from along with <u>proper audit trail of manual intervention</u> has been obtained.	Ask for audit Trails- eg a) Manual Debit to income b) Manual Debit to interest paid account c) Any other audit trail
	v) Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is <u>used for MIS at HO / CO level</u> .	a) Mitra committee comp b) Concurrent audit c) Any observation found during audit evidencing issues on data integrity-EMI
3	Inter-Branch Accounts	
	Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards unmatched transactions? As at the year-end are there any un-responded/un-complied queries or communications <u>beyond 7 days?</u> If so, give details?	Ask for exception report of all un-responded entries as on 31.3.2022. MOC impact.

4	Frauds	
	Furnish particulars of: (i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.	Ask list of frauds detected from branch and verify reporting to RBI
	(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.	Ask list of frauds detected and reported from branch with present status
	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	Give your observations on frauds <u>FRAUDS REPORTED BY CENTRALISED OFFICES</u>
	(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.)	

4	Frauds	
	<ol style="list-style-type: none"> 1) falsification of accounts/false representation by the borrower; 2) 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; 3) Use of current accounts outside consortium where Trust and Retention Account (TRA) is maintained, to divert funds; 4) List of Debtors/ Creditors were being fabricated and receivables were not followed up/ write off of debt of related parties; 5) Fake export/shipping bill, etc.; 6) 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; 7) Round Tripping of funds, etc. 	

4	Frauds	
	(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.	Take list of SMA/Red flag accounts and comment on process
5	Implementation of KYCAML guidelines	
	Whether the branch has adequate systems and processes, as required, to ensure adherence to <u>KYC/AML guidelines</u> towards prevention of money laundering and terrorist financing	KYC- sample verification of AOF AML- difficult issue- It is concurrent audit issue CTR/STR
	Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors	AML- Some instances

4	Frauds	
	<p><u>Instances of AML</u></p> <ol style="list-style-type: none"> 1) Verify abnormal receipts and payments 2) Ensure nature of transactions in account commensurate with nature of account 3) Frequent cash deposits 4) Frequent Cash withdrawals 5) Cash being deposited outward remittance is being done 6) Inward remittance being frequently received and cash is being withdrawal 7) Chain Transactions 8) Due diligence of cash deposit/cash withdrawal exceeding Rs. 10 lacs in a day 9) Cash deposited exceeding Rs. 50000 without PAN 10) Drafts/NEFT/RTGS issued by accepting cash for Rs. 50000 and above in day 11) Sale of currency/Travel cheques/cards exceeding Rs. 50000 by accepting cash <p>Ask for audit trails- 1) High value cash deposit and withdrwals 2) High value RTGS/NEFT 3) Drafts issued in cash 4) Foreign currency sold by accepting cash</p> <p>IMP<u>(RBI Cir DBOD.AML.BC. No.29 /14.01.001/2013-14 July 12, 2013)</u></p>	

6	Management Information System	
	<p>Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs <u>which are to be used for MIS at corporate office level and for supervisory reporting purposes</u>. Have you come across any instances where data integrity was compromised?</p>	<p>Repeated same as discussed earlier</p>

CA AJAY

7	Miscellaneous	
	<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>Modified clause coverage more specified</p>