
Long Form Audit Report

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Introduction

- Long Form Audit Report (LFAR) is a questionnaire prescribed by RBI for reporting on systemic deficiencies, on the internal control systems of various operations of Banks.
 - It was devised by RBI in 1985.
 - It has been amended from time to time since then.
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Types of LFAR -

- LFAR – 1 – To management in case of bank branches.
 - LFAR – 2 – For branches dealing in very large advances such as corporate banking branches and Industrial Finance Branches or branches with advances in excess of Rs. 100 Crores.
 - LFAR – 3 - Codification of Irregularities
 - LFAR – 4 - For Branches dealing in Foreign Exchange Transactions
 - LFAR – 5 -For branches dealing in recovery of Non-Performing Assets such as Asset Recovery Branches
 - LFAR – 6 - For branches dealing in Clearing House Operations, normally referred to as Service Branches
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Objectives of LFAR

- LFAR serves as a checklist.
- Whistle blower for irregularities.
- Focuses not only on advances but also on operational areas of the bank
- Address systematic issues in bank
- Identifies and assesses gaps and vulnerable areas in –
 - Business operations
 - Risk Management
 - Compliance
 - Internal Auditand provide independent opinion on the same

Scope

LFAR 1 Questionnaire is divided into Four parts:

- Assets
 - Liabilities
 - Profit and Loss Account
 - General
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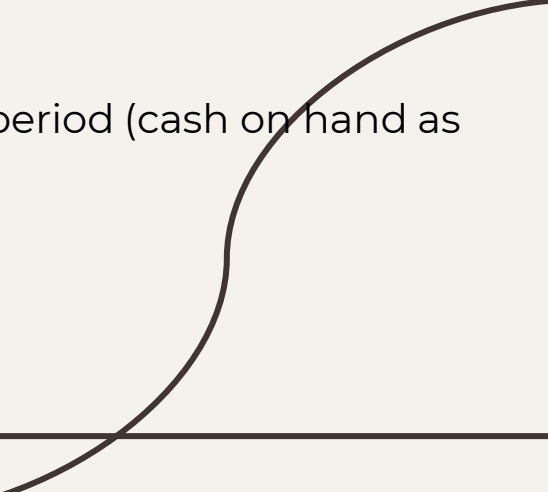
Assets

- Cash Balances
- Bank Balances
- Money at call & short notice
- Investments
- Advances
- Other Assets

Liabilities & others

- Deposits
- Other liabilities
- Contingent liabilities
- Profit & Loss A/c
- General
- Specialized Branches

Cash

- Branches carry cash depending upon the limit fixed by controlling authority. Check the cash records for any variances
 - To check for Adequate insurance cover of cash in hand and cash in transit
 - Effective joint custody- some small branches maintain cash in custody of a single official
 - Cash balance checked at proper intervals
 - Conduct Physical cash balance verification during branch audit period (cash on hand as well as cash at ATM, if applicable).
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Balances with Bank

- List of bank account which branch maintained with other banks.
- Reconciliation statement of all banks as on 31st March
- Inter Branch reconciliation statement
- Obtain balance confirmation
- Revenue items requiring adjustments / write offs
- Old outstanding balances remaining unexplained / unadjusted

Money at call & short notice

- **Meaning** - Money-at-call, also known as call money or "at call money," is any financial loan that is payable immediately, and in full, when the lender, usually a bank, demands it. Typically, it is a short-term, interest-paying loan from one to 14 days made by a financial institution to another financial institution.

Works to be done –

- Report even if a single transaction
 - Verify the transactions with deal notes, ledger accounts
 - Confirm that the transaction is as per the procedure laid down
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Investments

- Investments should be in the name of branch
- Physical verification of investment certificates
- Verify from ledger accounts the periodical income is recorded in books of accounts and transferred to head office.
- Verify such investments and report any deficiencies found

Advances

Advances

**Outstanding amount is in excess of 10% of
outstanding aggregate advances or Rs.10
crore**

Whichever is less are LARGE ADVANCES

**Other Advances are those which
are not covered under the
definition of Large Advances**

Advances

For the List of Accounts examined (based on the samples selected) during the audit ensure that your documentation contain the below minimum data -

- Account No.,
- Account Name
- Type of credit Facility ,
- Balance as at the year end – Funded & Non-Funded
- Sanction Date
- Sanction Authority
- Sanction Limit
- Particulars of securities if any

Advances

- Nature of security
- Value of security
- Requirements as per guidelines
- Nature of irregularity
- Drawing Power

*In **Fund based** credit facilities, there is an actual outflow of funds from the bank to the borrower, whereas **non-fund based** facilities, do not involve outflow of bank's funds. Typical fund based facilities are term loans, cash credits and overdrafts while non-fund based facilities are letters of credit, bank guarantees,*

Advances

List of Accounts examined can be reported in following format

(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

Advances

Credit Appraisal –

- Auditor should refer to Credit policy of the Bank and relevant circulars including circular for Delegation of Powers issued by the Head Office
 - Auditor should verify that the deviations, if any, are approved by the competent authority mentioned in the Credit policy/ circular for Delegation of powers.
 - Reporting of quick mortality cases (Account No. Account Name , Balance at the end of the year are to be reported)
 - Examine Sanction Letter and verify from the system that Correct Rate of Interest is being entered and modified from time to time in terms of Sanction. The auditor should examine that any concession in rate of interest is specifically approved by the Competent Authority
-

Advances

Sanctioning / Disbursement –

- Verify whether the sanctioning and disbursement is approved by competent authorities
- Verify whether the terms of the sanction letter are complied with

Documentation -

- Report the cases where credit facilities released without execution of all the documents mentioned in sanction letter
 - Verify Custody of Documents
 - Report cases of deficiencies in documentation (nonregistration of charges, non-obtaining of guarantees, etc.,)
- ***Accounts examined should be reported in an annexure containing the Account name , Account Number , Limit Sanctioned , Balance outstanding and observations if any.***

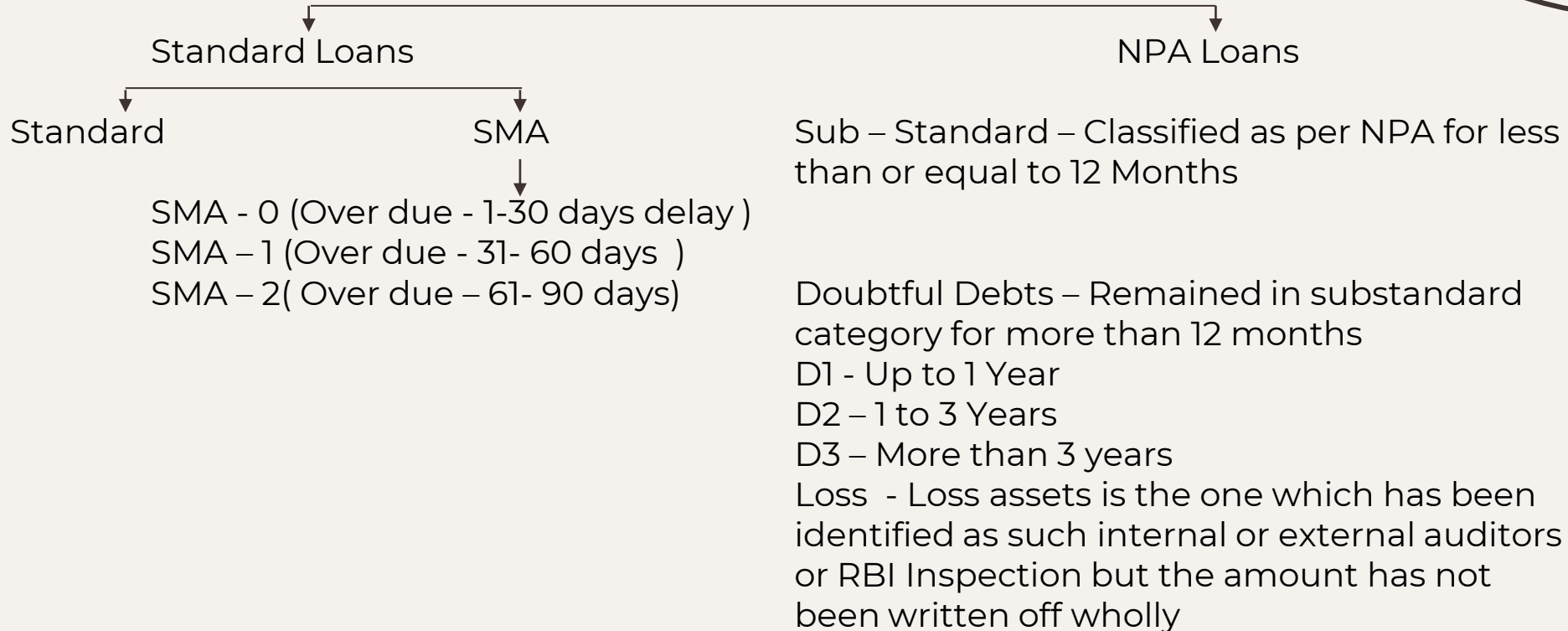
Advances

Asset Classification , Provisioning of Advances and Resolution of Stressed Assets –

- If the Auditor finds any discrepancy in identification and classification of NPAs, the same should be reported and MOC should be passed.
 - Auditor needs to ensure that no manual intervention has been done to modify the NPA Classification. Any such cases should be looked into and reported accordingly.
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Asset Classification –

Classification of Advances as per RBI Norms



Advances

Review / Monitoring / supervision -

- Physical verification of securities charged to banks. If there is reduction in the value of security, then such deviation should be approved by the competent authority.
- Analysis of accounts overdue for review / renewal between 6 months to 1 year and over 1 year.
- Stock / debt statements, periodic operational data and financial statements etc. received regularly from borrowers and duly scrutinized. Confirm calculation of drawing power. Check whether latest audited financial statements are obtained for accounts reviewed / renewed during the year
- Assess procedures for periodic balance confirmation / acknowledgement of debts.


Other Assets

Stationery & Stamps -

- Internal control over issue and custody of security items
TDRs, Drafts, Pay orders, Cheque Books, Gift cheques
- Cases of missing / lost items of such stationery

Suspense Accounts / Sundry Assets)

Adjustment accounts where some debit transactions are temporarily posted whose authorization is pending for approval -

- Expeditious clearance of items debited
 - Provisioning for irrecoverable balances
 - Any unusual items in these accounts
 - Reasons for delay in adjusting entries
-
- 

Deposits

Check –

- Any new accounts opened & soon closed
- Accounts of different parties proposed by a single person or Group
- Overdue / matured term deposit at the year end
- Only clearing entries appear in the account:
 - No actual deposit or withdrawal
 - Trace entries to see final deposit or withdrawal in which account and report
- Heavy transactions during a period

Deposits

Conduct & operation of inoperative accounts -

- Movement in inoperative account
- Whether they followed prescribed guidelines
- Report where guideline are not followed
- Transfer of such accounts from operatives accounts ledger

Compare the deposits at the branch as at year end with the deposits outstanding as on the date of audit. check whether there are unusual large movements (increase or decrease) in the deposits

Check whether appropriate bank charges are levied on accounts in which minimum balance is not maintained

Sundry Deposits / Bills payable

Adjustment accounts in which certain credit transactions are temporarily posted whose authorization is pending for approval

↓
Obtain a year wise break up

↓
Obtain details of each old entry

↓
Check movement in old entries and its authorization

↓
Whether Register maintained for such entries

Profit & Loss Account

- Obtain the latest copies of Revenue Audit/ Income and expenditure Audit/ Concurrent Audit report of the branch (if any) and verify whether the compliance for the same has been effectively carried out by the branch.
 - In case if the branch is not covered by Revenue Audit/ Income and expenditure Audit/ Concurrent Audit report, check the areas of potential revenue leakage and suitably include the same in audit program
 - Obtain the system generated reports regarding interest charged on major advance accounts at the branch (including penal interest) and verify the correctness of rate of interest charged as per the latest sanction letter and extant circulars of the Bank
 - Obtain CBS (System) reports regarding income recognition and use Excel or any other Audit tool which can be run on the base (raw) data obtained from the CBS.
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Profit & Loss Account

- Check the correctness of interest rates fed in the system, updation of interest rate parameters in the CBS system, in case of changes the same may be verified
- Test check Pre-matured withdrawal of Deposits.

General

- Books & Records
 - Inter branch accounts
 - Audits / Inspections
 - Frauds
 - Miscellaneous
-

Following documents should also be collected and reviewed during bank branch Audit -

- Trial Balance/financial statements
- Reviews of previous years auditors report
- List of comments of RBI inspection report towards the branch
- Latest branch concurrent audit report /Internal inspection report/ Diligence Report / Credit Audit Report with their compliances.
- Copy of vigilance enquiry or any special investigation reports

Emphasis on documentation

- Branch auditors have to answer a detailed questionnaire formulated by RBI.
- Most of the questions in LFAR contain following lines :
 - a) Does the branch generally carry or comply.....
 - b) In the cases examined by you, have you come across instances.....
- Verification on test check basis.....
- Hence, it becomes very important for auditor to keep the record of all samples verified for framing the opinion on the different processes in the questionnaire.

Thank you

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IRAC NORMS

INCOME RECOGNITION AND ASSET CLASSIFICATION

CLASSIFICATION OF ASSETS AS PER IRAC NORMS

1. PERFORMING ASSETS (STANDARD ASSETS)
2. NON PERFORMING ASSETS (NPA)

PERFORMING ASSETS (STANDARD ASSETS)

ACCOUNT IS PERFORMING & DOES NOT CARRY MORE THAN NORMAL RISK ATTACHED TO THE BUSINESS

STANDARD ASSET CAN BE CLASSIFIED AS FOLLOWS

Regular	SMA
	SMA 0 (Overdue between 0-30 days)
	SMA 1 (Overdue between 31 to 60 days)
	SMA 2 (Overdue between 61 to 90 days)

NON PERFORMING ASSETS

AN ASSET WHICH **CEASES** TO GENERATE INCOME IS TREATED AS **NPA**

AN ACCOUNT CAN BECOME NPA DUE TO FOLLOWING REASONS

1. NON COMPLIANCE OF TERMS AND CONDITIONS OF SANCTION INCLUDING DELAY OR NON REPAYMENT OF LOAN
2. LOSS OF SECURITY

CONDITIONS OF NON PERFORMING ASSETS(NPA)

A NPA is a Loan or Advance where

TERM LOAN	Interest or instalment of principal remains OVERDUE for a period of more than 90 days
Overdraft/Cash Credit	The Account Remain “ Out of Order ” in respect of an Overdraft /Cash Credit
Bills Purchased and Discounted	The bills remains overdue for a period of More than 90 days
Agriculture- Short Duration Crops	The Instalment of Principal or Interest thereon remains overdue for Two Crop Seasons- applicable only to farm credit
Agriculture- Long duration crops	The instalment of principal or interest thereon remains overdue for one crop season-applicable only to farm credit
Credit Card Accounts	Minimum Due not paid for more than 90 Days
Derivative transactions	the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment
NPA in Special Cases	--next slide--

NPA CONT....

Over due:- Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank, becomes overdue.

Out of order:- An account should be treated as 'out of order' if :

- i. the outstanding balance in the CC/OD account remains continuously in excess of the sanctioned limit/drawing power for 90 days, or
- ii. the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but there are no credits continuously for 90 days, or the outstanding balance in the CC/OD account is less than the sanctioned limit/drawing power but credits are not enough to cover the interest debited during the previous 90 days period. The aforesaid 'previous 90 days period' is inclusive of the day for which the day-end process is being run.

FARM CREDIT

- A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture only. This will include:
 - (i) Crop loans to farmers, which will include traditional / non-traditional plantations and horticulture.
 - (ii) Medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm.)
 - (iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
 - (iv) Loans to farmers up to 50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
 - (v) Loans to distressed farmers indebted to non-institutional lenders.
 - (vi) Loans to farmers under the Kisan Credit Card Scheme.
 - (vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.

FARM CREDIT

- B. Loans to corporate farmers, farmers' producer organizations / companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture only up to an aggregate limit of 2 crore per borrower. This will include:
 - (i) Crop loans to farmers which will include traditional / non-traditional plantations and horticulture.
 - (ii) Medium and long-term loans to farmers for agriculture (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm.)
 - (iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.
 - (iv) Loans up to 50 lakh against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
- C. Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.

NPA IN SPECIAL CASES

Type	Period
Non Submission of Stock Statement	if DP is more than 90 days its irregular. If irregular for more than 90 Days its NPA
Non Renewal of Accounts	Not renewed for more than 180 days renewal due date.
Regularization near Balance Sheet Date /Inherent Weakness	NPA
Significant Credit Impairment	Should directly be Loss Assets
Restructuring	Standard Asset to be made NPA immediately after restructuring.
DCCO	Infra & Non infra projects- 2 years or 1 years as the case may be. If not achieved commercial operations.

TYPES OF NON PERFORMING ASSETS

- **Substandard Assets** : A substandard asset would be one, which has remained NPA for a period **less than** or equal to **12 months**.

Such an asset will have well defined credit weaknesses that jeopardies the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected

- **Doubtful Assets** : An asset would be classified as **Doubtful** if it has **remained NPA a period of more than 12 months**.

Substandard Asset more than 12 Months with the added characteristic that the weaknesses make collection or liquidation in full

D1- up to one year

D2- 1-3 years

D3- more than 3 years

LOSS ASSET

- A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Co-operation Department or by the Reserve Bank of India's inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

GUIDELINES ON ASSETS CLASSIFICATION

- Asset Classification to be borrower Wise and Not Facility Wise
- **Agricultural Advances**
- A loan granted for **short duration crops** will be treated as NPA, if the instalment of principal or interest thereon remains overdue for **two crop seasons**. A loan granted for **long duration crops** will be treated as NPA, if the instalment of principal or interest thereon remains overdue for **one crop season**
- For the purpose of these guidelines, “long duration” crops would be crops with crop season longer than one year and crops, which are not “long duration” crops, would be treated as “short duration” crops. The crop season for each crop, which means **the period up to harvesting of the crops raised, would be as Determined by the State Level Bankers’ Committee (SLBC) in each State**. Depending upon the duration of crops raised by an agriculturist, the above NPA norms would also be made applicable to agricultural term loans availed of by him

GUIDELINES ON ASSETS CLASSIFICATION

- If the erosion in the value of security is more than 50% it shall directly classify it as Doubtful and shall not be sub standard
- If the erosion in the value of security is more than 90% it shall directly classify it as Doubtful and shall not be sub standard

SOME IMPORTANT POINTS- EXCEPTIONS

- **Housing loan to staff:** if interest to be paid after principal non-repayment of interest will not be classified as NPA
- Agriculture Advances some times **due to Natural Calamity** may be converted may be rescheduled or sanctioned fresh TL. Then they shall be classified as per revise terms only and not by old repayment schedule.
- **Govt. Guaranteed Accounts** shall be not be classified a NPA due to non payment but income to recognise on recovery basis only
- **Project finance with moratorium of Interest.** They will become NPA only after their due date for payment interest will start
- **Advances against Term Deposits, NSCs** eligible for surrender, KVPs and Life policies need not be treated as NPAs although interest thereon may not have been paid for more than 90 days, provided adequate margin is available in the accounts.
- **Gold loans to Agriculture** – it shall not go by 90 days but coincide with harvesting period. It will be NPA if it is beyond harvesting period.

SOME IMPORTANT POINTS

- **PROJECTS UNDER IMPLEMENTATION:-**

DCCO- Date of Commencement of Commercial Operations

A) Infrastructure projects-

- Infrastructure projects- It Shall be NPA if it fails to commence commercial operations in 2 years of original DCCO unless rescheduled even recovery is not over due by 90 days.
- Not commenced operations but rescheduled
- Extended period - For accounts Involving court case- new DCCO can be fixed up to 2 years +2 years

Non- Court Cases beyond promoters control- new DCCO can be fixed up to 1+2 years

subject to provision norms and not taking interest on accrual basis beyond original 2 years

SOME IMPORTANT POINTS

- **PROJECTS UNDER IMPLEMENTATION:-**

B) Non Infrastructure projects-

- Infrastructure projects- Fail to commence commercial operations beyond one year of original DCCO unless rescheduled even recovery is not over due by 90 days.
- Not commenced operations but rescheduled
- Extended period – 12 months +12 months fresh DCCO

subject to provision norms and not taking interest on accrual basis beyond original 2 years

SOME IMPORTANT POINTS

- **PROJECTS UNDER IMPLEMENTATION:-**

Change in ownership- additional period will be given subject to conditions.

INCOME RECOGNITION

- Policy should be based on record of Recovery
- For **NPA** income should be recognised on **actual realised/recovered**.
- When an account becomes non-performing, **unrealised** interest / fees / commission of the **previous periods** should be **reversed or provided**.
- Interest income on **additional** finance in NPA account should be recognised on **cash basis**.
- In project loan, **funding of interest in respect of NPA** if recognized as income, should be **fully** provided.
- If interest due is converted into **(unlisted) equity** or any other instrument, income recognized should be **fully provided** (if listed, income recognized to the extent of MV)

REVERSAL OF INCOME

- If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be **Reversed** if the same is **Not Realized**. This will apply to Government guaranteed accounts also.
- If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest, if any, corresponding to the interest accrued during such moratorium period **need not be** reversed
- In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if **Uncollected**

APPROPRIATION OF INCOME IN NPA

- As per Circular of RBI in absence of Clear Agreement between Bank and Borrower an appropriate policy to be followed In **uniform and Consistent Manner**

Suggested Manner but not Mandatory

- i. Unrealized Expenses
 - ii. Unrealized Interest
 - iii. Principal Outstanding
- **Any partial recovery in NPA may be taken in to income account provided credits are not through fresh/additional credit facilities.**

UPGRADATION OF NPA

- An account classified as NPA shall be upgraded to standard category if all the dues (principal+ interest as on date of upgradation) are fully recovered in all accounts
- It shall be through self sources of borrower and not by way of additional finance etc.,

PROVISIONING NORMS

STANDARD ASSETS

Type of Standard Asset	Provisioning required for Standard Asset
Direct advances to agricultural and SME sectors	0.25%
Commercial Real Estate (CRE) Exposures	1%
Commercial Real Estate Residential Housing Sector	0.75%
Provisioning for housing loans at teaser rates	Initially 2% and later 0.4%
Accounts Restructured during the current year	5%
All other Standard Advances	0.4%

PROVISIONING NORMS NON PERFORMING ASSETS

SUB STANDARD ASSET

- General Provision of **15 %** on Total outstanding should be made without making allowances for ECGC Guarantee Cover And Securities Available
- Unsecured Exposures which are identified as Substandard attract **25%** of Provision. For infrastructure project – 20%

PROVISIONING NORMS NON PERFORMING ASSETS

- Loss Assets Loss assets should be written off after taking permission from reporting authorities. If loss assets are permitted to remain in the books for any reason, **100%** percent of the outstanding should be **provided for**.
- Doubtful Assets:- Unsecured Portion- 100%

Period for which the advance has remained in 'doubtful' category	Provisioning requirement
Up to one year	25%
One to three years	40%
More than Three Years	100%

PROVISIONING NORMS

- With a view to bringing down divergence arising out of difference in assessment of the value of security, **in cases of NPAs with balance of ₹5 crore and above Stock Audit at Annual Intervals by External Agencies** appointed as per the guidelines approved by the Board would be mandatory in order to enhance the reliability on stock valuation.
- **Collaterals** such as immovable properties charged in favour of the bank should be got valued **once in three years** by valuers appointed as per the **guidelines approved by the Board of Directors**.
- Provisins for fraud accounts for entire amount

OPEN FOR DISCUSSIONS

Thank you

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BANK AUDIT PLANNING & DOCUMENTATION

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Disclaimer

These are my personal views and shall not be construed to be the views of the ICAI.

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

Agenda for a Bank Audit

Planning & Documentation

Verification of Advances

IRAC Norms

LFAR & Certificates

Planning & Documentation

Objective

- **Compliance with:**
 - **RBI / ICAI Guidelines**
 - **Terms of Appointment**
 - **Accounting Standards**
 - **Standards on Auditing**
- **Other Certification work**
- **Effective Reporting**
- **Completion of Work in Time**

Groundwork at Office

Preliminary Work

Evaluation of Internal Controls

Prepare Audit Program

Overall Time & Manpower Planning

Laying Overall Audit Plan

6

Audit Planning

Applicable Act for the Bank

Appointment Letter / Acceptance Letter

Closing Manual of Bank

NOC of Previous Auditor.

Audit Engagement Letter.

Basic Information from branch.

Audit Program / Checklist

Study RBI Circulars

Attend Trainings / Workshops /

Seminars

Standards on Auditing

- **SA 200 – Basic Principles Governing Audit.**
- **SA 210 - Agreeing the Terms of Audit Engagements**
- **SA 220 – Quality Control for Audit Work.**
- **SA 230 – Audit Documentation.**
- **SA 300 – Audit Planning.**
- **SA 310 – Knowledge of Business.**
- **SA 315 - Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment**
- **SA 400 – Risk Assessment and Internal Control.**
- **SA 500 – Audit Evidence.**

Knowledge about Computer Aided Audit Tools (CAAT).

Audit Planning

Have knowledge of the :

- **Economy**
- **Banking Industry**
- **Government Policies**
- **Rules & Regulations applicable to the Bank**
- **Products handled by Bank**
- **Complexities involved**
- **Applicability of Accounting Standards**
- **Applicability Auditing and Assurance Standards.**
- **Foreign Exchange Dealers Association of India (FEDAI) Guidelines**

Audit Planning

- **Plan your travel itinerary based on the location of the branches**
- **Compile a list of all the reports and certificates that need to be attested and the number of copies to be certified**
- **List of persons to whom the reports and certificates need to be sent.**

Audit Program

- **Define broadly the scope of audit.**
- **Identify the thrust areas.**
- **Set materiality levels standards for each area.**
- **Lay down over all time schedule.**
- **Training to Audit staff and special skill if required.**
- **Weak areas identified during the Audit be given extra focus.**
- **Physical verification of cash and other securities / Sensitive Accounts**
- **Frauds / Sundry Assets / Suspense Account / Inter Branch reconciliation**
- **Contingent liabilities**

Statutory Branch Auditing of Banks: Using CBS Reports

- **Please read article by CA Ishwar Chandra published in the Institute's journal- March 2023 issue....page no. 83 to 89.**

Work at Branch

“Firsthand feel” of the Branch:

- **Previous Years Audited Return**
- **Concurrent Audit Report.**
- **Internal Inspection Report.**
- **RBI Inspection Report.**
- **Various Other Audit Reports**
- **Review Compliance of these Reports.**

Structure on Internal control procedures in Banks

- **Delegation of powers.**
- **Authorization of transactions.**
- **Take a copy of the approved delegation of powers.**
- **Review the delegation of powers to note the authorization, approval, exception, waiver and ratification powers of each bank official.**

Structure on Internal control procedures in Banks

- **Segregation and Rotation of Duties**
- **Work of one person is supervised or checked by another usually of a higher rank.**
- **Take on record the evidence that rotation of duties has in fact taken place at the branch.**

Documentation

- **Copies of all the relevant Master circulars issued by the RBI.**
- **Remember that the Branch auditors are responsible not only to the SCA's but also to the shareholders, Bank Management and RBI.**
- **Verification of various reports and the issues identified.**
- **Substantive procedures carried out**

What is to be done?

- **It is practical to keep a document showing the information requested, the person who was requested and the date and time when the information was received**
- **Keep the team members abreast of the relevant RBI circulars and the closing circulars of the bank**

Structure on Internal control procedures in Banks

- **Maintenance of adequate records and documents. Accountability and Safeguarding of assets.**
- **Take a list of all the records registers maintained at the branch. Maintenance of records and their physical verification.**

Documentation

- **Document how you have understood the CBS system. Understand which are the fields that are manually input by the branch, and which fields are editable.**
- **Main points out of all the reports, studied should be documented. Also document how the audit is planning to deal with them.**

Documentation

- **External confirmations should be taken on file.**
- **In case of differences, the reconciliation must also be taken on file.**
- **Document the physical verification of cash, gold, security documents, investments if any etc.**
- **Document the analytical procedures carried out.**

Documentation

- **Management Representation.**
- **Queries should be in writing along with the written replies.**
- **Who has carried out the comparison of the previous years' figures.**
- **Financial and non-financial information should be verified for accuracy.**

Audit Trail

- ✓ **Manual Registers / Records**
- ✓ **Core Banking Solution CBS**
- ✓ **Lack of Adequate Information**
- ✓ **Lack of Adequate Knowledge of system**
- ✓ **Lack of audit Trail**

Audit Execution

- **SA 320 – Audit Materiality.**
- **SA 520 – Analytical Procedures.**
- **SA 530 – Audit Sampling.**
- **SA 220 – Quality Control For Audit Work.**
- **Analyse and Evaluate the errors in samples selected.**
- **Get the rectification / MOC Passed.**
- **Work as per Audit Program and schedule.**
- **Prepare reports according to requirement.**
- **Qualify in Audit Report if necessary.**

Audit Files

Permanent Audit File

Working Papers File

Form and Contents

To understand:

The nature, timing and extent of the audit procedures performed.

Results of audit procedures performed; audit evidence obtained.

Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgment made in reaching those conclusions.

Documentation

SA 230 – Audit Documentation

Nature & Purpose of Audit Documentation

Evidence of Auditors basis for a conclusion about the achievement of overall objectives of the auditor and

Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements

Documentation

Audit Documentation depends on factors such as:

Size and complexity of entity

Nature of the audit procedures to be performed

Identified risks of material misstatements

Significance of the audit evidence obtained

Nature and extent of exceptions identified

Audit methodology and tools used

THANK YOU