

LFAR – Statutory Branch Auditors

(Other than Advances)

Seminar on Bank Branch Auditors

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GN Ramaswami, B.Com, FCA, DISA (ICAI)
Chartered Accountant
Insolvency Professional, Regd. Valuer (FSA)

gn.rams@asa.in



Long Form Audit Report

Introduction

- LFAR
- Previous Year LFAR & Audit Reports – To check the observations / comments
- Format prescribed by RBI for the comments of the auditors
- Its purpose and relevance
- Timing of completion of LFAR
- Reconciliation – MOCs / Modification in AR / LFAR Comments
- Whether it is part of our branch audit report or supplementary
- Whether Expression of Opinion or Statement of Facts
- Details for items reported
- Whether it is substitute to MOC / Modification of Audit Report

Coverage

Assets (Applicable to all branches)

- Cash
- Balances with RBI, SBI & Other Banks
- Money at Call and Short Notice
- Investments (For Branches Outside India)
- Advances
- Other Assets – viz., Suspense Accounts / Sundry Assets;

Liabilities (Applicable to all branches)

- Deposits
- Other Liabilities – Bills Payable, Sundry Deposits etc.,
- Contingent Liabilities

Coverage (contd.,)

Profit and Loss Account (Applicable to all branches)

General (Applicable to all branches)

- Gold / Bullion / Security Items
- Books and Records
- Inter Branch Accounts
- Frauds
- Implementation of KYC AML Guidelines
- Management Information System
- Miscellaneous

Objective, Strategy, Scope and Coverage

The LFAR for branches is important for

- Statutory Central Auditors
- Bank Management

As it provide information about compliance by branches with RBI guidelines / directives / instructions and HO Instructions

LFAR does not only expect to bring out transaction level issues but also expect comments on adequacy of controls

Threshold – Transaction Level Comments vs Process Review

Objective, Strategy, Scope and Coverage (contd.)

Verification of data integrity and data related control systems and process – with a special thrust on those data inputs which are to be used for MIS at Corporate Office Level and for Supervisory Reporting purposes

Adverse comments in LFAR – Whether a qualification in main report is required?

However, every adverse comment will not warrant a qualification – Auditors to use their professional judgment based on the facts and circumstances of each case.

Cash

System to ensure that cash is maintained in effective joint custody of two or more officials as per the policy of the bank

Whether the cash balances at the branch / ATMs been checked at periodic intervals as per the procedures prescribed by the controlling authorities of the bank

Whether the surprise verification is carried out by the branch head / officer from other branches

To check the cash register and ATM related records to verify whether the prescribed procedures have been followed

Cash (contd.)

Whether the physical cash is within the prescribed limit or significantly vary from the limits fixed by the HO

Whether the ATM cash as per the branch record agrees with the balances with the respective ATMs, based on the year end scroll generated by the ATMs.

Adequacy of Insurance coverage – for both cash in hand and cash in transit

Balances with RBI, SBI & Other Banks
(For Branches with Treasury Operations)

Confirmation of Balances as at Year End – Whether obtained & Reconciled

Differences, if any, to be reported

Observations, to be reported as under:

- Cash transactions remaining un-responded
- Revenue items requiring adjustments / write-off
- Other credit / debit entries originated from bank statements, remaining un-responded for more than 15 days
- Where balances with RBI – 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

Any matter deserves special attention of the management, the same may be reported

Assets – Money at Call and Short Notice

- To check whether the branch is a designated branch, if so, to obtain the details of transaction entered throughout the year and verify the same with the relevant documents
- Year end balance – whether duly confirmed and reconciled
- Interest accrued upto the year end – whether properly recorded
- Whether HO instructions / guidelines have been complied with

Investments – For branches outside India

- Whether the purchases and sales are within the delegated authority
- Whether Investment held at Branch on Own A/c or on Account of HO / Other Branches are made available for physical verification? If not in hand – alternate procedures / evidences
- Whether valuation of investments are in accordance with the prescribed guidelines
- Any matured / overdue investments which have not been en-cashed and /or has not been serviced – If so, details thereof

Other Assets – Suspense Accounts / Sundry Assets

- Whether there is a system for expeditious clearance of items debited to suspense accounts
- Details of outstanding entries for more than 90 days to be obtained from the branch and analysed
- To check whether any of the above items are not recoverable, if so, to provide / write off
- Any unusual items in these accounts? If so, report the same
- Are there any intangible items in these heads? – Losses not provided / pending investigation

Liabilities - Deposits

- Whether there is a system for identification of dormant / in-operative accounts and internal controls with regard to operations in such accounts
- Whether the guidelines have been followed? If not, report
- Whether any unusual large movements (both Increase / decrease) in these account post balance sheet date till date of audit? Obtain clarification from branch and give your comments.
- Whether the FCNR (B) accounts are automatically renewed on maturity? If so, check how the branch ensures the NRI status of the depositor. Check how the original deposit receipts / soft copies have been sent to these depositors
- Compliance of Minimum Balance Requirement and levy of charges as per prescribed by RBI / HO (RBI Circular dt. 20 Nov 2014 & 1 Jan 2024)

Other Liabilities – Bills Payables, Sundry Deposits etc.,

Number of items and aggregate amount of old items outstanding for more than 1 year – Analyse and give the details in the report

Does the test check indicate any unusual items or material withdrawals in these accounts, if so, give details

Liabilities – Contingent Liabilities

List of major items of Contingent Liabilities (Other than constituent's liabilities such as guarantees, letter of credit, acceptances, endorsements, etc.) not acknowledged by the bank branch – give details

Check whether any of the contingent liabilities as reported by the branch has to be provided

Profit and Loss Account

- Test Check of Interest / Discount / Commission / Fees etc., Whether the test check reveals any excess / short credit, if so, give details thereof
- To check the latest revenue audit / income & expenditure audit / concurrent audit report
- To review exceptional reports of the branch
- To check loan processing charges / interest charges / lead bank charges etc

Profit and Loss Account (contd.)

- Compliance of IRAC Norms
- Interest on Deposits – Test Check and report on any excess or short debit
- System for providing interest on matured / overdue / unclaimed / unpaid deposits
- Divergent trends in major items of income / expenditure – Perform Ratio Analysis and also Variance Analysis

Gold / Bullion / Security Items

- Whether in joint custody of two or more officials as per guidelines of bank
- Whether branch has adequate records for receipts / issues & balance of gold / bullion and updated regularly
- Whether periodical physical verification is undertaken
- Whether bank ensure adequate internal control for issue and custody of Term Deposit Receipts / Drafts / Pay orders / Cheque Books etc., - Whether the system is followed by the branch? – Whether any missing / lost items noticed during the audit?

General – Books and Records

- Whether there are any software / systems (manual or otherwise) used at branch level which are not integrated with the CBS? If so, give details.
- Whether any IS audit conducted during the year? If so, review the report, and give details of any adverse features reported which will have a bearing on the branch accounts
- Whether the branch is generating and reviewing the exception report as prescribed by HO
- Whether the system of the bank warrants expeditious compliance of daily exception reports – Any major observations pending such compliance at the year end
- Whether the bank has laid down procedures for manual intervention to system generated data – proper authorization have been obtained – audit trail for such transactions
- Comments on data integrity (including data entry / checking correctness / integrity of data / no backend strategies etc.) which is used for MIS at HO / CO level

General – Inter Branch Accounts

- Whether the branch expeditiously comply with / respond to the communications from the designated cell / HO as regards unmatched transactions?

- As at the year end are there any un-responded / un-complied queries or communications beyond 7 days? If so, give details

General – Frauds

Frauds detected / classified but confirmation of reporting to RBI not available on record at branch – report the details

Whether any suspected / likely cases of fraud are reported by the branch to the HO during the year? If so, provide the details with the status of investigation

Effectiveness of system of Early Warning Framework

General – Implementation of KYC / AML Guidelines

Whether the branch has adequate systems and processes, as required, to ensure the adherence to KYC / AML guidelines towards prevention of money laundering and terrorist financing

Whether the branch followed the KYC / AML guidelines prescribed

General – Management Information System

Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. Have you come across any instances where data integrity was compromised?

General – Miscellaneous

In framing your audit report/LFAR, have you considered the major adverse comments arising out of the latest reports such as:

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 & Expenditure (Revenue) Audit
vii) IS / IT / Computer / System Audit
viii) Any other special inspection / investigation report

Are there any other matters, which you, as branch auditor, would like to bring to the notice of the management or the Statutory Central Auditors?

Additional Questionnaire for specialized branches

A. Branches dealing in Foreign Exchange Transactions
B. Branches dealing in Clearing House Operations (Service Branches)
C. Branches dealing in recovery of NPA Assets (Asset Recovery Branches)

Wrap-up

As an auditor we need:

- Strong foundation in Auditing techniques
- Expert Knowledge of banking – Thoroughly read the circulars of RBI / HO
- Overall understanding of the IS working – If need, engage IT Team
- NDND – No Documentation, Not Done
- Document all the work done properly, take screenshot wherever required
- MRL alone is not sufficient, your workpaper should speak about the quality of work performed.

Wrap-up (Contd.)

As an auditor we need to:

- Documentation of audit observations
- Summing up and discussion with Branch officials
- Review after discussion & follow up
- Final Report to be drafted with detailed statistics
- Wherever required provide for MOC
- Wherever not possible to commit, give a disclaimer
- Follow the circulars of RBI & Guidance Note of ICAI
- Discuss with SCA, if required

Q & A

Thank You

GN Ramaswami
gn.rams@asa.in
+91 96293 96793