



**EIRC of ICAI &
Vita Salahakar CA Study Circle**

Bank Audit Seminar
LFAR, Advances & Documentation

1

CA Niranjan Joshi
01.04.2023
Kolkata

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3

Agenda


Audit Planning

- Ethical Compliance
- Compliance with Standards on Auditing
- Compliance with Guidance Note

Advances

Long Form Audit Report

Documentation




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4

Agenda

Ethical Compliance

- Compliance with Standards on Auditing
- Compliance with Guidance Note



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5

Guide to the COE

| | | |
|----------|---|--------------------|
| Part 1 | Complying with the Code, fundamental principle and conceptual framework | Section 100 to 199 |
| Part 2 | Professional Accountants in service | Section 200 to 299 |
| Part 3 | Professional accountants in public practice | Section 300 to 399 |
| Part 4 | Independence Standards | Section 400 to 999 |
| Part 4 A | Independence for Audit and Review Engagements | Section 400 to 899 |
| Part 4 B | Independence for assurance engagements other than audit and review | Section 900 to 999 |

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Fundamental Principles

Integrity - Straightforward and honest approach, Fair dealing and truthfulness, Do not associate with communication or information containing false or misleading information, Steps to disassociate with above information once known

Objectivity - Not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others. Not to undertake a professional activity if it unduly influences the accountant's professional judgment.

Professional Competence and due care - Attain and maintain professional knowledge and skill, Act diligently and in accordance with applicable technical and professional standards, Ensure appropriate training and supervision of subordinates

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Fundamental Principles

Confidentiality - Maintain confidentiality of information acquired as a result of professional and employment relationships, Disclose information when required by law or authorised by the client, Consider relevant factors while deciding disclosure of confidential information, Maintain confidentiality even after the end of relationship with client


Professional Behaviour - Avoid activities that impair the reputation of the profession, Do not make exaggerated claims for services offered, and disparaging references or unsubstantiated comparisons with others, Do not advertise any professional/other facts which are in violation of Advertisement Guidelines of ICAI

Threats to avoid
Self Interest Threat, Self Review Threat, Advocacy Threat, Familiarity Threat, Intimidation Threat.

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Agenda



Ethical Compliance

Compliance with Standards on Auditing

Compliance with Guidance Note

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Standards on Auditing




- SQC1 – Quality Control for Firms
- SA 200 – Basic Principles Governing Audit.
- SA 230 – Audit Documentation
- SA 500 – Audit Evidence
- SA 400 – Risk Assessment and Internal Control
- SA 300 – Audit Planning
- SA 220 – Quality Control for Audit Work
- SA 299 – Joint Audit of Financial Statements
- SA 310 – Knowledge of Business
- SA 600 – Using work of another auditor

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Audit Execution

- SA 320 – Audit Materiality
- SA 520 – Analytical Procedures
- SA 530 – Audit Sampling
- SA 220 – Quality Control For Audit Work
- Analyze 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
- Knowledge about CAAT tools




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Audit Planning & Checklist

- 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
- Have knowledge of current affairs



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12

Audit Planning & Checklist

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.
- FEDAI Guidelines



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13

Audit Program

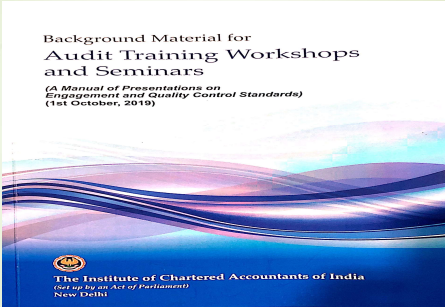


- Define broadly the scope of audit.
- Include Certificates in main audit plan.
- Identify the thrust areas.
- Set materiality levels standards for each area.
- Lay down over all time schedule.
- Training to Audit staff and special skill if required.
- Weak areas identified during the Audit – extra focus.
- Physical verification of cash and other securities / Sensitive Accounts
- Frauds / Sundry Assets / Suspense Account / Inter Branch reconciliation
- Contingent Liabilities
- Contingent Liabilities not acknowledged

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14

Background Material for SA's



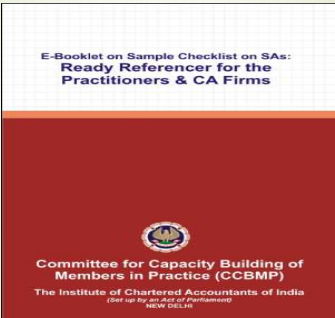
Background Material for
Audit Training Workshops
and Seminars
*(A Manual of Presentations on
Engagement and Quality Control Standards)
(1st October, 2019)*

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(Set up by an Act of Parliament)
New Delhi

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15

Sample Checklists



E-Booklet on Sample Checklist on SAs:
Ready Referencer for the
Practitioners & CA Firms


Committee for Capacity Building of
Members in Practice (CCBMP)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
NEW DELHI

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16

Agenda

- Ethical Compliance
- Compliance with Standards on Auditing
- Compliance with Guidance Note**



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17

Objective

Compliance with:

- RBI / ICAI Guidelines
- Terms of Appointment
- Accounting Standards
- Standards on Auditing

Other Certification work
Effective Reporting
Completion of Work in Time

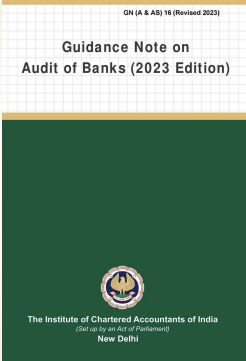


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18

Branch Audit

GN (A & AB) 16 (Revised 2023)
Guidance Note on
Audit of Banks (2023 Edition)



Read and Follow


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Ground Work at Office

- Preliminary Work
- Evaluation of Internal Controls
- Prepare Audit Program
- Overall Time & Manpower Planning

Laying Overall Audit Plan



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20

Audit Process

- Audit Program
- Audit Execution
- Effective Reporting
- Working Papers




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21

Audit Trail

- Manual Registers / Records
- Core Banking Solution CBS
- Management Information System
- Data made available for remote audit
- Lack of Adequate Information
- Lack of Adequate Knowledge of system
- Lack of audit Trail



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22 **RBI Circulars**

Read and Check compliance for RBI Circulars hosted on website / available with bank branch

Index to RBI Circulars
https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx

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INDEX TO RBI CIRCULARS

| Circular Number | Date of Issue | Department | Subject | Month/Year |
|---|---------------|--------------------------|--|--|
| RBI/2020-2021/105 A.P. (DIR Series) Circular No. 12 | 26.2.2021 | Regulation Department | Investment by Foreign Portfolio Investors (FPIs) in Defaulted Bonds - Relaxations | 2021 January February March April May June July August September October November December |
| RBI/2020-2021/104 DOR No.CRE/BC/452 1.01.0032020-21 | 24.2.2021 | Department of Regulation | Large Exposures Framework - Exemptions | 2020 2019 2018 2017 2016 2015 2014 2013 |
| RBI/2020-2021/103 DOR No.BC/No.441 4.06.0012020-21 | 24.2.2021 | Department of Regulation | Implementation of Section 51A of UAPA, 1967 - Updates to UNOCI System in ISL (De-Web) & AS-Qualis Sanctions List | The Chairpersons CEOs of all the Regulated Entities |

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Audit Planning

- Ethical Compliance
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Advances

Long Form Audit Report

Documentation

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25 **Types of Advances**

Fund Based – Outflow of Funds immediate

Cash Credit – Clean, Hypothecation

Overdrafts – Secured/Unsecured

Term Loans – Fixed Period / Asset Created

WCTL – Fixed Period/Renewable

Bills – Purchase/Discounted or Collection

Exports Credit – Pre/Post Shipment

Imports Credit – Capital Goods/RM

Non Fund Based – Outflow of Funds not immediate

Letter of Credit (LC)/ Letter of Guarantee (LG/BG)/ Letter of Comfort (LoC)/ Buyers Credit (BC)/ Standby Letter of Credit (SBLC)/ Deferred Payment Guarantee (DPG)

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26 **Types of Advances**

Security wise Classification

Secured (Prime / Collateral) (Tangible / Intangible)
(Hypothecation, Pledge, Mortgage, Assignment)

Unsecured

Sector wise Classification

Priority Sector Advances – (Agriculture, Education, Housing, Export Credit, MSME, Social Infra, Renewable Energy)

Other (Non Priority Sector) Advances

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27 **Verification of Advances**

Set up materiality

Selection of Sample

Testing of Sample Selected

Noting down the observations

Discussion with the branch Management

Reporting appropriately

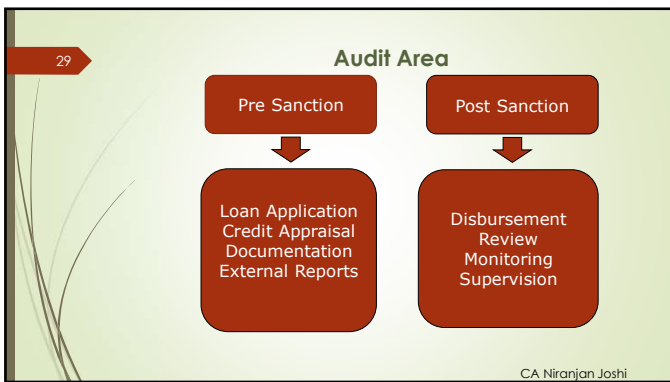
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Sample Selection - Advances

| | |
|-----------------|---|
| Cash Credit | 25% - 40% Sanction 25% - 40% Renewals |
| Overdraft | 5% - 10% Against Security 75% - 100% Clean |
| Term Loans | 20% - 30% Sanction |
| Import / Export | 15% - 25% of Sanction |
| BG | 15% - 20% of Sanction |
| LC | 15% - 20% of Sanction |
| Loc/BC | 50% - 75% of Sanction |

10% of Total Advances of Branch OR Rs. 10 Crores whichever is lower - 100%

Schematic / Retail Loans at least 5% - 10% of each type (Housing/Vehicle/Personal/Against Deposit/Gold/Education/etc.)



- ### Loan Application/ Credit Appraisal
- Application Form
 - KYC Compliance
 - Project Reports / Feasibility Report
 - Latest audited financial statements
 - Statutory Registrations
 - NOCs from Government Departments
 - Adequate security cover
 - Sanctions within the discretionary DOP
 - Change in the terms of sanction is ratified by appropriate authority.
 - Short Review / Technical Review
 - Adhoc Limits / Temporary limits
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31 **Adhoc/Short Review – 21.08.2020**

Banks are expected to have a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly.

However, an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals, non-capturing and/or inaccurate capturing of review/renewal data in the banking/information systems, and non-coverage of review/renewal activities under the concurrent audit/internal audit mechanism.

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32 **Adhoc/Short Review – 21.08.2020**

In this connection, we reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and **banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons.**

Banks are also advised to 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 systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities should be brought under the scope of concurrent/internal audit/internal control mechanism of banks with immediate effect.

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33 **Documentation**

Sanction T & C to be accepted by the borrower.
Execution of Loan documents, as per the sanction letter & loan policy.
Fresh loan documents are obtained on change in limit, change in constitution of the borrower
Original documents are held in safe custody
Charge at Appropriate Authorities Registered
Updation of Information in CBS Master
Compliance with Stamp Duty
Adequate Insurance of Securities and Bank's Clause.

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34

External Reports / Documents

- Confidential report & NOC from existing banker.
- CIBIL Report – Adverse comments / Score
- Valuation of Securities.
- Credit Rating – Internal / External
- Due Diligence Certificate [Multiple/ Consortium]
- Vetting of Legal Documents by Legal Expert.

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35

Disbursement

- Client Master in CBS Properly recorded.
- Verify that Disbursement done only after compliance of all terms & conditions of Sanction.
- Acceptance of the borrower confirming the terms & conditions of sanction is obtained.
- Home Loans/ term loans to be disbursed directly to the Builder / Owner/ supplier.
- Post Disbursement Inspection

Monitoring of End Use of Funds

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36

Review / Monitoring / Supervision

- TOL / TODs
- Stock Statements / Drawing Power
- Insurance Policy
- Submission of Audited FS
- Credit Audit / Stock Audit etc
- Visit Reports
- Account Statements / Operations
- Review / Renewal of Proposals
- Early Warning Signals (EWS)

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37

Agenda



- Audit Planning**
 - Ethical Compliance
 - Compliance with Standards on Auditing
 - Compliance with Guidance Note
- Advances**
 - Long Form Audit Report**
- Documentation**

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Reporting

- Statutory Audit Report – Addressed to SCA/Bank**
- SA 700 – Forming an opinion & Reporting on Financial Statements**
- SA 701 – Communicating Key Audit Matters**
- SA 705 – Modifications to the opinion in the independent auditors report**
- SA 706 – Emphasis of Matter Paragraph or Other Matter Paragraph**
- SA 720 – Auditors Responsibility relating to Other Information**
- KAM / Modified Opinion / EOM / OM – all are different.**

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39

Reporting

Statutory Audit Report

- Compliance with Accounting Standards to be mentioned in main report.**
- Qualifications can be through Memorandum of Changes or Specific remarks in the last para.**
- Illustrative Format Bank Audit Guidance Note 2020**
- Add annexures / supporting documents to the report wherever necessary**

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Memorandum of Changes – MOC

| Memorandum of Changes (summary) | | | |
|--|-----|----------|----------|
| | No. | Increase | Decrease |
| In respect of Income | | | |
| In respect of expenditure | | | |
| In respect of Assets | | | |
| In respect of Liabilities | | | |
| In respect of Gross NPAs | | | |
| In respect of Provision on NPAs | | | |
| In respect of Classification of Advances | | | |
| In respect of Risk Weighted Assets | | | |
| Other items (if any) | | | |

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Long Form Audit Report

41


- Internal control evaluation questionnaire**
- Comprehensive in scope and coverage**
- Covers Balance Sheet & Profit & Loss A/c**
- Important check list for Audit Plan**

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Technical Guide on Revised L FAR 2021

42

Technical Guide on
Revised Formats of Long Form
Audit Report

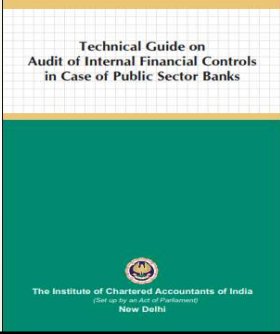


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43

Technical Guide on IFCoFR 2021



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44

LFAR Audit Approach

- Read All questions in LFAR
- Plan & Design Audit Program to cover all aspects of LFAR
- Prepare separate checklists for each point to be reported.
- Record the extent of checking / sample selected.
- Proper documentation & collecting SAAE during the audit.
- Write descriptive answers. Avoid Y/N/NA
- Include facts, figures and examples to the extent possible in all answers to the questions.

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LFAR Audit Approach

- Observations resulting in adjustments to account heads needs to be reported along with MOC
- Discuss the contents of report with Branch Management
- Obtain Management Representation from Branch Manager on various matters based on Audit.
- LFAR is an independent report, hence do not give cross reference or qualifications or MOC in LFAR.
- It's a very important report for readers such as SCA and Management of Bank.

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46



You can please some of the people some of the time...



But you can't please all of the people all of the time.

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47

Revised LFAR – 05.09.2020

Long Form Audit Report for FY 2020 – 21

The format of LFAR, as mentioned below, have been revised:

- Annex I for Statutory Central Auditors (SCA)
- Annex II for Branch Auditors
- An Appendix as part of Annex II for the specialized branches and
- Annex III on Large / Irregular / Critical accounts for branch auditors.

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48

Revised LFAR – 05.09.2020

The overall objective of the branch audit should be to have transaction testing and provide inputs to the SCAs on adequacy of implementation of various policy and regulatory requirements, including efficacy of the system and assurance functions (risk management, compliance and internal audit) at branch level.

- The threshold fixed for different purposes for comments in the LFAR will decide that above the threshold, the transaction detailing needs to be seen and commented upon. However, below the threshold, the system and processes should be checked and commented upon.
- Verification of data integrity and data related control systems and processes should be carried out and commented upon, with the special thrust on those data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes.

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Revised LFAR – 05.09.2020

49 - Where any of the comments made by the auditors in their LFAR is adverse, they should consider whether a qualification in their main report is necessary. It should not, however, be assumed that every adverse comment in the LFAR would necessarily result in a qualification in the main report. In deciding whether a qualification in the main report is necessary, the auditors should use their professional judgment in the facts and circumstances of each case.

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Overview of LFAR - Assets

50

| Particulars | Check Points |
|--|--|
| I. 1. Cash (4 / 5) | |
| cash maintained is in effective joint custody of two or more officials, | Review effectiveness of joint custody of Cash Vault / ATM |
| Have the cash balances at the branch/ATMs been checked at periodic intervals | Check policy of bank Verify from cash register Report inconsistencies |
| cash balances, which vary significantly from the limits fixed | Cash Retention Limit for branch Verify the status of cash retained by branch during the year and comment. Verify instances of excess cash are being reported to the CO/HO. |

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Overview of LFAR - Assets

51

| Particulars | Check Points |
|--|---|
| I. 1. Cash (4 / 5) | |
| 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? | Verify with the ATM Balance Reports and comment |
| Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit? | Verify the Insurance Policy and Comment |

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52

Overview of LFAR - Assets

| Particulars | Check Points |
|--|---|
| 2. Balance with RBI, SBI and Other Banks (For branches with Treasury Operations) (3/3) | |
| Balance Confirmation | Obtain balance confirmations |
| Review of Reconciliation Statement | Review reconciliation process and its consistency through out the year |
| Any special Observations | Review the reconciliation items compelling MoCs and special attention items |

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53

Overview of LFAR - Assets

| Particulars | Check Points |
|---|---|
| 3. Money at Call and at short Notice (1/4) | |
| Whether "branch" has kept anytime during the year | Generally not observed in PSU Bank's Branches (applicable to Treasury Department) |
| Has the year-end balance been duly confirmed and reconciled? | |
| Has interest accrued up to the year-end been properly recorded? | |
| Whether instructions/ guidelines, if any, laid down by the controlling authorities of the bank have been complied with? | |

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54

Overview of LFAR - Assets

| Particulars | Check Points |
|---|--|
| 4. Investments – Branches in India (4/0) | |
| 4. Investments – Branches outside India (4/4) | |
| has the branch acted within its delegated authority | Generally SBAs are appointed locally for Branches outside India. |
| physical verification of the investments held by the branch | |
| valuation of investments in accordance with the RBI /regulatory authority of the country in which the branch is located whichever are more stringent? | |
| any matured or overdue investments | |

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55

Overview of LFAR - Assets

General Instructions for Advances
 The answers to the following questions may be based on the auditor's examination of all large advances.

For this purpose, large advances are those in respect of which the outstanding amount is in **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.

Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. 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.

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Overview of LFAR - Assets

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.

List of Advances Accounts examined for Audit

**Account Number,
 Account Name,
 Balance as at Year end (Funded),
 Balance as at Year end (Non Funded),
 Total.
 Specify % of examined by SBAs**

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57

Overview of LFAR - Assets

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Credit Appraisal | |
| 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:- • Account No. • Account Name • Balance as at year end | Verify the list of such cases from correspondence / MIS reporting Comment appropriately Include in MRL, if there are no quick mortality cases at branch |

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58

Overview of LFAR - Assets

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Credit Appraisal | |
| Compliance with the procedures/ instructions of the HO/CO regarding loan applications, preparation of proposals for grant/ renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof. What, in your opinion, are the major shortcomings in credit appraisal, etc. | Read Loan / Credit Policy Verify the sample selected as per requirements of HO Guidelines Comment about deficiencies observed as per the points mentioned in question |

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59

Overview of LFAR - Assets

| Particulars | Check Points |
|--|--|
| 5. Advances | |
| Credit Appraisal | |
| applicable interest rate is correctly fed into the system? | Verify Account Master on test check and comment. Also ROI related reports generated by CBS |
| Interest rate is reviewed MCLR / EBLR (External Benchmark Lending Rate)? | Refer to HO Circular and comment appropriately |
| Have you come across cases of frequent renewal / rollover of short-term loans? | Verify the accounts renewed / rolled over and comment |
| Correct and valid credit rating | Verify the requirements of Internal / External Credit Rating and comment |

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Overview of LFAR - Assets

| Particulars | Check Points |
|--|---|
| 5. Advances | |
| Sanctioning and disbursement (3/4) | |
| Facilities sanctioned beyond delegated authority and reported to CO | Refer Credit Policy and authority matrix (DOP) and comment |
| Disbursement without complying with terms and conditions | Refer terms and conditions and moratorium period given if any for compliance |
| Acceptance and compliance with Sanction letter & Disbursement without executing loan documents | Signatures of the borrower / co-borrower and guarantor required Partially filled up / documents executed blank / LAD / SC/BC |
| loans to companies for buy-back of shares/securities? | Enquire with management, check the sample selected and verify end use of funds by borrower and comment |

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Overview of LFAR - Assets

| Particulars | Check Points |
|---|--|
| 5. Advances | |
| Documentation (3/3) | |
| Without execution of necessary documentation | Verify loan documents for sample selected and comment |
| Deficiencies - non-registration of charges, non-obtaining of guarantees, etc. | SERSAI / ROC-MCA Charge/Society Charge for housing loan / Charge on land in case of Agri Loans etc |
| Loan against deposits granted without marking a lien | Lien marking physically and in system System of renewal of such FDRs |

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62

Overview of LFAR - Assets

| Particulars | Check Points |
|--|---|
| 5. Advances | |
| Review / Monitoring / Supervision (10/10) | |
| Periodic Review / Balance Confirmation / Letter of Acknowledgement of Debts | Blank undated LAD / BC / SC LAD to be obtained as per HO Policy |
| Scrutiny of Stock & Book Debts Statements / Other Financial Statements | Review system of calculation of Drawing Power vis-a-vis financials Maintain test data records |
| Stock Audit Reports / Compliance | Review stock audit reports on sample basis with special thrust on adverse comments |
| Deficiencies - in value of securities & inspection thereof, frequent overdrawn beyond limits, inadequate insurance coverage, etc.? | For sample selected, verify and comment about current and previous valuation of security / inspection etc. and comment. Also verify the value mentioned in Insurance Policy with valuation report |

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Overview of LFAR - Assets

| Particulars | Check Points |
|---|--|
| 5. Advances | |
| Review / Monitoring / Supervision | |
| Whether the branch has any red-flagged account? any deviations were observed related to compliance | List to be obtained from branch / MIS Verify and comment about red-flagged accounts |
| adverse features considered significant in top 5 standard large advances and which need management's attention. | List of top 5 standard account (exposure / outstanding as on 31.03.2021) Verify annexure to LFAR and comment about adverse features, if any |
| leasing finance activities, Compliance | Obtain list, verify the sample and comment |
| Advance to non- corporate entities (limits fixed by banks) branch has not obtained the duly audited accounts | Obtain HO circular for limit of 10/25 Lakh Verify whether Audited Financial Statement obtained for 31.03.2020 and comment |

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64

Overview of LFAR - Assets

| Particulars | Check Points |
|--|--|
| 5. Advances | |
| Review / Monitoring / Supervision | |
| due diligence report of advances under consortium and multiple banking arrangements. Give the list of accounts non compliance. | Obtain list of Consortium/ MB account Verify the due diligence report of sample selected and comment Report cases where such report is not available |
| Inspection or physical verification of securities charged to the bank. Is there a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record? | Obtain policy of bank in this regard Verify register maintained for visits Verify visit report submitted by officers Check and comment based on sample selected |

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65

Overview of LFAR - Assets

| Particulars | Check Points |
|--|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| i) a) Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention? | Verify the software used and comment whether manual intervention is observed or not. |
| b) Is this identification & classification in line with the norms prescribed by the Reserve Bank of India | System of (auto-marking) auto-identification and marking of NPAs Classification and reporting of Advances Lodgment of claims for DICGC / ECGC (in chart format), etc. |

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66

Overview of LFAR - Assets

| Particulars | Check Points |
|--|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| 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) / SS / DB / Loss. | Verify the MIS/CBS Reports Check sample for verification of SMA category Report inconsistencies Verify NPA Statement and comment |
| d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes. | If MOC suggested, report appropriately here |

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Overview of LFAR - Assets

67

| Particulars | Check Points |
|--|--|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| 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. | Select these accounts in Sample for verification. Check upgrades are as per the criteria mentioned in Prudential Guidelines on IRAC Check downgrades are as per ageing process from Std to S5/DB1/DB2/DB3/Loss Report appropriately. |
| f) Whether RBI guidelines on income recognition and provisioning have been followed. | Verify the sample selected and report appropriately. |

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Overview of LFAR - Assets

68

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| ii) a) Whether the branch has reported accounts restructured/ rephased during the year to CO of the bank? | Verify the Santion Letter Report compliance with T & C |
| b) Whether the RBI Guidelines for restructuring on all such cases have been followed. | Refer to various RBI Circulars on restructuring and verify the accounts restructured. |
| 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? | Verify sample selected and comment |

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Overview of LFAR - Assets

69

| Particulars | Check Points |
|--|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| iii) a) Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India | Select sample of accounts upgraded and report appropriately |
| b) Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof. | Select sample of accounts upgraded and report appropriately |

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70

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| iv. Have you come across cases where the relevant Controlling Authority of the bank has authorized legal action for recovery of advances or recalling of advances, but no such action was taken by the branch? | Verify sample selected and comment |
| 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? | Obtain list of eligible case for IBC Check approvals of competent authority to proceed for IBC and comment |

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71

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| vi) a) Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled? (Details to be given in format prescribed) | Check ECGC claims filed by the bank and verify the statement of claims received along with the necessary documentation regarding claims lodged and settled. |
| b) Give details of claims rejected? (As per the given table) | Verify the claims rejected and comments |
| c) Whether the rejection is appropriately considered while determining the provisioning requirements | Verify the amount of ECGC claims in NPA statements along with documents and comment |

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72

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| vii) In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration? | Check the list of NPA accounts and date of valuation reports. Wherever the valuation report is older than 3 years, report [Desktop approach of valuation should be commented upon in the report.] |

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Overview of LFAR - Assets

73

| Particulars | Check Points |
|---|---|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| viii) In the cases examined by you, has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/settlement and write-off cases? Details of the cases of compromise/settlement and write-off cases involving write-offs/waivers in excess of Rs. 50.00 lakhs may be given. | Check the banks policy for compromise, settlement, OTS etc. Check number of cases settled under these schemes during the year. Check compliance with all terms and conditions Check accounting entries for apportionment of receipts towards Income/Charges/Principle amount etc. as per Accounting policy |

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Overview of LFAR - Assets

74

| Particulars | Check Points |
|--|--|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| ix) 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. | Verify the list of decrees obtained and age wise listing along with reasons for delay, if any, in execution. Comment appropriately |
| x) Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank? | Check accounting entries for apportionment of receipts towards Income/Charges/Principle amount etc. as per Accounting policy |

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Overview of LFAR - Assets

75

| Particulars | Check Points |
|--|--|
| 5. Advances | |
| Asset Classification, Provisioning of Advances and Resolution of Stressed Assets (0/12) | |
| i) List of borrowers with details of LCs devolved or BG invoked | Obtain and verify the list of LCs devolved and BGs invoked |
| ii) List of borrowers where the LCs devolved/ BG invoked but not paid with amount thereof. | Unpaid LC devolved / BG invoked should be verified, report whether debited |
| iii) List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG. | Check T & C as per sanction letter regarding interchangeability and verify from account operations whether such facility was utilized during the year. Comment appropriately |

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76

Overview of LFAR - Assets

| Particulars | Check Points |
|---|--|
| 6. Other Assets | |
| Suspense Account / Sundry Asset | |
| i) Expeditious clearance of items / Year-wise break-up required to be given | Check the list suspense A/c and vouch it Verify nature of transactions and efforts taken to regularise/rectify the same. If amounts are not recoverable, propose write off / provisions appropriately |
| ii) Does your test check indicate any unusual items in these accounts? | test the originating debits and verify the correctness of the transactions. If any unusual item is noticed, take full details of the same. if amounts are not recoverable, propose write off / provisions appropriately |

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77

Overview of LFAR - Liabilities

| Particulars | Check Points |
|---|---|
| 1. Deposits | |
| Does the bank have a system of identification of dormant/ Inoperative accounts and internal controls with regard to operations in such accounts? Report instances | Controls over marking and unmarking of inoperative account to be reviewed and tested |
| Unusual moment in deposit accounts at year-end after BS | Abnormal increase / decrease before and after year-end to be verified and clarifications thereof to be obtained |
| automatic renewal of deposits applies to FCNR(B) deposits? whether the branch has satisfied itself as to the 'NR status' | Verify the FCNR(B) deposits and comment check KYC Compliance along with verification of status of depositor as NR on the date of renewal of such deposits |

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78

Overview of LFAR - Liabilities

| Particulars | Check Points |
|--|---|
| 1. Deposits | |
| Compliance with regulations on minimum balance requirement & levy of charges on non-maintenance of minimum balance in individual savings accounts? | Check the policy of bank regarding requirement of minimum balance / AQB etc. along with statement of bank charges for non maintenance. Verify and comment about the process followed at branch regarding the same |

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79

Overview of LFAR - Liabilities

| Particulars | Check Points |
|---|--|
| 2. Other Liabilities | |
| Bills Payable / Sundry Deposits | |
| No. of items and aggregate amount outstanding for more than three years | Obtain age-wise break-up from branch and verify the same with details and narrations related to old entries |
| Unusual items / moment / withdrawals / debits in such accounts | Verify the transactions through ledger scrutiny |
| 3. Contingent Liabilities | |
| Contingent Liabilities Not acknowledged as debts (other than guarantees / letter of credits / acceptances/endorsements) | Obtain list of contingent liabilities Review the list for bifurcation between liabilities and contingent liabilities (rent) |

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80

Overview of LFAR – Profit & Loss

| Particulars | Check Points |
|---|--|
| Has the test checking of interest/discount/ commission/ fees etc. revealed excess/short credit of a material amount? If so, give details thereof. | Verify at least one (1) account of each type of loan and check wither interest/discount/ commission/ fees etc has been charged correctly. Report discrepancies |
| Has the branch complied with the Income Recognition norms prescribed by R.B.I.? | (Check Q No. 5(f)(i)) Verify the sample selected and report appropriately. |
| Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof. | Verify at least one (1) account of each type of deposit and check whether interest has been charged correctly. Report discrepancies. Cover accounts for pre mature withdrawal etc in sample. |

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81

Overview of LFAR – Profit & Loss

| Particulars | Check Points |
|--|---|
| 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? | Verify the policy of Bank regarding provision for interest accrued on matured deposits and comments. Generally this is being done at HO/IT Team centrally |
| Are there any divergent trends in major items of income and expenditure in comparison with corresponding previous year, which are not satisfactorily explained by the branch? If so, the same may be reported. | Compare Previous year figures with current year figures of major items of income and expenditure and analysis of the same would reveal whether there are divergent trends or not. Comment appropriately |

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82

Overview of LFAR - General

| Particulars | Check Points |
|--|--|
| 1. Gold/ Bullion/ Security Items | |
| effective joint custody of two or more officials, | Review effectiveness of joint custody of Safe Deposit Vault / locker for security items and comment |
| adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks | Verify the records for receipt / issue maintained as well as periodic statement of balances reported to CO. report discrepancies |
| Adequate Internal Controls over issue and custody of security items | Review the process of receipt / issue of security items based on policy of bank and comment |

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83

Overview of LFAR - General

| Particulars | Check Points |
|---|---|
| 1. Books and Records | |
| Whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS? | Obtain list of software used by branch. Check whether any of the software is not integrated and report accordingly |
| 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 IS audit conducted during the year, obtained copy of the same and check for compliance with adverse remarks/ comments and report appropriately |
| Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank | Verify the banks policy regarding exception reports. Check / enquire whether the same is being followed by branch. Verify the exception reports available and comment |

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84

Overview of LFAR - General

| Particulars | Check Points |
|---|---|
| 1. Books and Records | |
| expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end. | Check for major / persisting irregularities report in exception reports and comment appropriately Verify the compliance report of branch for daily exception reports |
| manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained. | Check manual intervention to system generated data, if any, and verify whether the same is properly documented. Verify the audit trail and comment appropriately |

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85

Overview of LFAR - General

| Particulars | Check Points |
|---|---|
| 1. Books and Records | |
| Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) | Verify the process of input data / maker checker concept / verification and rectification of reports generated by CBS etc. and comment appropriately. |

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86

Overview of LFAR - General

| Particulars | Check Points |
|--|---|
| 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 beyond 7 days? If so, give details? | Check Banks policy regarding interbranch accounts. Generally the entries are reconciled but not knocked off. Since CBS is installed at all branches, the inter branch accounts will be recorded through CBS. Ask for the copy of latest reconciliation statement of inter branch accounts / head office account and report accordingly. |

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87

Overview of LFAR - General

| Particulars | Check Points |
|--|---|
| 4. Frauds | |
| (i) Frauds detected/classified but confirmation of reporting to RBI not available on record at branch. | Check the list of frauds detected but not reported to RBI and report |
| (ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? | Check the list of suspected frauds detected and reported to CO |
| (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 | Comments, if any, regarding the fraud cases verified should be reported |

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Overview of LFAR - General

88

| Particulars | Check Points |
|--|---|
| 5. Implementation of KYC / AML | |
| Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC/AML guidelines towards prevention of money laundering and terrorist financing | Check the banks policy regarding KYC and AML and verify on test check basis whether the same is followed at branch. |
| Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors | Select sample for verification and comment. |

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Overview of LFAR - General

89

| Particulars | Check Points |
|---|---|
| 6. 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? | Verify the MIS system available at branch. Check reports and contents of the same and comment about system and procedures. On a test check basis one can verify input data from source documents and comment appropriately. |

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Overview of LFAR - General

90

| Particulars | Check Points |
|--|--|
| 7. Miscellaneous | |
| have you considered the major adverse comments arising out of the latest reports such as: PY Branch Audit Report / LFAR; Internal audit/ Snap Audit/ concurrent audit report(s); Credit Audit Report; Stock audit Report; RBI Inspection Report I&E (Revenue) Audit; IS/IT/Computer/Systems Audit; special inspection / investigation | Obtain list of various audit reports and review major observations from the same. Verify compliance reports submitted by branch for these observations. Report observations which are pending for compliance |
| Any matter for the notice of the Statutory Central Auditors | Mode of communication for branch auditor with Central Statutory Auditors of the bank |

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91

LFAR for specialised Branches

| Particulars | Check Points |
|---|---|
| 1. Branches dealing in Foreign Exchange Transactions | |
| Adverse features pointed out by other auditor regarding NRE/NRO/NNRR/FCNR/EEFC/RFC and other similar accounts | Specify the test-data verified Adverse features to be reported by the auditor |
| Compliance to instructions issued by Controlling Office | To be verified by the auditor along with relevant FEMA guidelines |
| NOSTRO Accounts (obtain list) periodic confirmation/reconciliation of NOSTRO | Verify balances with balance confirmations and reconciliation items to be reviewed and verified |
| all entries originated by overseas banks/ correspondents, have been duly responded promptly | Check with SWIFT messages and confirm |

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92

LFAR for specialised Branches

| Particulars | Check Points |
|--|---|
| 1. Branches dealing in Foreign Exchange Transactions | |
| Are there any dormant/closed NOSTRO accounts in respect of which balances continue to exist in the books of the branch, at year end? | Specify the test-data verified Adverse features to be reported by the auditor |
| Have the NOSTRO balances been converted at year end at the rates of exchange as prescribed by controlling authorities? | To be verified by the auditor along with relevant FEMA guidelines |
| In case, any matter deserves special attention of the management, the same may be reported | Verify balances with balance confirmations and reconciliation items to be reviewed and verified |
| VOSTRO Accounts | To be verified by the auditor along with relevant FEMA guidelines |

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93

LFAR for specialised Branches

| Particulars | Check Points |
|---|--|
| 2. Branches dealing in Clearing House Operations, normally referred to as Service Branches | |
| Periodic review of outstanding entries in clearing adjustment account | Obtain age-wise outstanding entries Review the list for requirement of provision for old outstanding debit entries, especially in cases wherein the bank has sought permission of one time crystallization of net debit and credit entries which are very old |
| Method of squaring off / clearing the old / large / unusual entries | Review the method of matching of old entries |
| Comments on system and procedure following by branch related to clearing transactions? | Check policy of bank post CTS 2010, check authorization of instruments at branch level. Verify the Positive Pay System for CTS requirements |

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94

LFAR for specialised Branches

| Particulars | Check Points |
|---|--------------|
| 3. Branches dealing in recovery of Non-Performing Assets such as Asset Recovery Branches | |
| 1. In respect of borrowers with outstanding of Rs. 10.00 Crores and above the information should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and which might need the attention of the management / Statutory Central Auditors should be appended to the LFAR. | |
| 2. List the accounts with outstanding in excess of Rs. 10.00 Crores, which have been upgraded from Non-Performing to Standard during the year and the reasons thereof. | |
| 3. Whether the branch has a system of updating periodically, the information relating to the valuation of security charged to the bank? | |
| 4. Age-wise analysis of the recovery suits filed and pending may be furnished, for the last three years along with latest status thereof. | |

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95


LFAR for specialised Branches

| Particulars | Check Points |
|--|--------------|
| 3. Branches dealing in recovery of Non-Performing Assets such as Asset Recovery Branches | |
| 5. Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Also list the time barred decrees, if any, and reasons thereof. Give age-wise analysis of decrees obtained and not executed. | |
| 6. List the recoveries and their appropriation against the interest and the principal and the accounts settled / written off / closed during the year as per the bank's policy. Give particulars of recoveries which are pending for appropriation as on year-end with reasons thereof. | |
| 7. List the new borrower accounts transferred to the branch during the year. Have all the relevant documents and records relating to these borrower accounts been transferred to the branch? Has the branch obtained confirmation that all the accounts of the borrower [including non-fund-based exposures and deposits pending adjustment / margin deposits] been transferred to the branch? | |

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96

Agenda



- Audit Planning**
 - Ethical Compliance
 - Compliance with Standards on Auditing
 - Compliance with Guidance Note
- Advances**
- Long Form Audit Report**
- Documentation**

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97

SA 230 – Audit Documentation

Prepare documentation that provides

- Sufficient & Appropriate record of basis of auditor's report
- Evidence that audit was planned & performed in accordance with SAs

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98

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.

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99

Audit Files

Permanent Audit File

Working Papers File

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100

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.

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101

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

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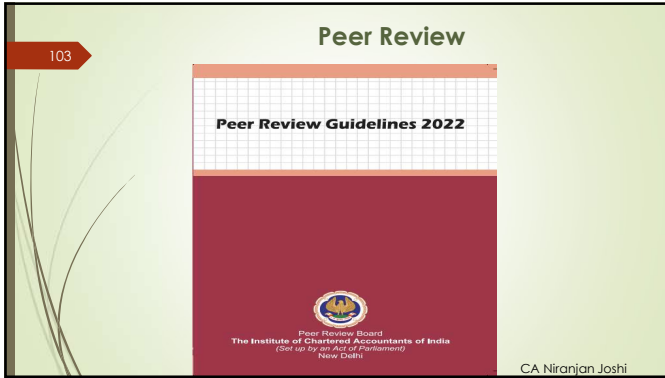
102

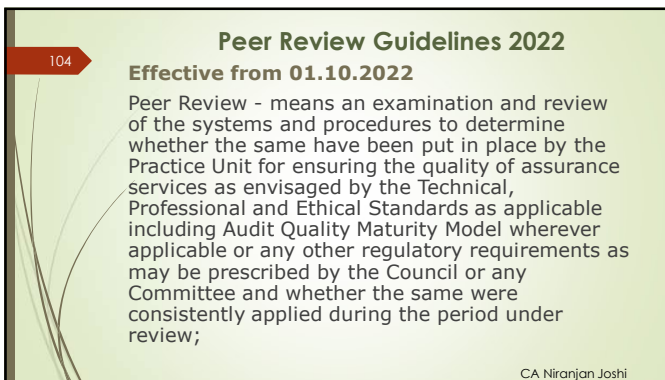
Documentation

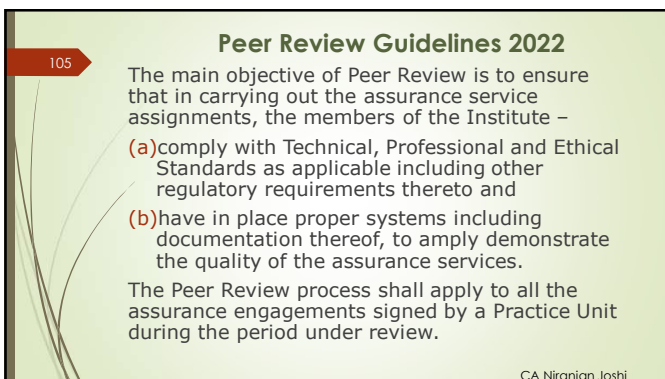
Examples of Audit Documentation:
(Paper / Electronic/Other media)

- Audit Programms
- Analysis
- Issues memoranda
- Summary of Significant matters
- Letters of confirmations and representations
- Checklists
- Correspondence regarding significant matters.

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106

Questions



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107



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