

LFAR-2020

Long Form Audit Report (Revised) & Audit Planning

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Disclaimer: All the statements made in presentation are author's views.

Bank Branch Audit – Pune- 14th March 2021

Audit Planning

- Time Constraint
 - Delayed appointments
 - Less time : More Work; Quality of work
- Before the Audit /Off site planning:
 - Work plan
 - Manpower plan
- Actual work:
Increase in workload due to change in LFAR
- Compilation of Audit reports
- Reliance upon system generated reports (?)



LFAR

The underlying factors

- Difference in Statutory Report and LFAR
- Guiding Principles to Statutory Central Auditors SCA:
 - I. Credit Risk Areas
 - II. Market Risk Areas
 - III. Governance, Assurance Functions and Operational Risk Areas
 - IV. Capital Adequacy
 - V. Going Concern and Liquidity Risk Assessment
 - VI. Information Systems
 - VII. Other Matters

Annexure II: LFAR

- Guiding principles for Branch auditors:
 1. Transaction testing and implementation adequacy
 2. Efficacy of system: Risk management, compliance and internal audit
 3. Systems and Processes
 4. Data Inputs used for MIS

Significant changes

- 23 basic changes
- Detailed workings and documentation
- Huge information to be gathered for reporting including quantification
- Transaction Audit : Account operation transactions to be checked in detail
- To check system and processes: Banking supervision on the account operations/ transactions
- Systems audit

Significant changes: Loans and Advances

- Sampling details: No. of accounts verified, % of test-check - Threshold limits ?
- Quick mortality
- Credit rating system and quantitative details
- Analysis of the accounts overdue for review/renewal and comments on major shortcomings in monitoring with quantitative details- 3 to 6 months, over 6 months
- Drawing Power computation

Significant changes: Loans and Advances

- Status of stock audits, Action by bank, quantitative data on status of stock audits
- Stock audits:
 - Not conducted
 - Conducted with adverse remarks

Significant changes: Loans and Advances

- Due diligence reports (Consortium & **Multiple Banking**) and give quantitative data on status of Due Diligence reports
- Substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record
- Auditors to comment on deficiencies: including in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage,
- Early warning systems - **Red-flagged accounts (?)**
- Adverse features considered significant in top 5 standard large advances and which need management's attention – **Certification (!)**

Significant changes Monitoring and Review

- Branch identification and classification of advances through the computer system, without manual intervention.
- System of classifying the account into SMA-0, SMA-1, and SMA-2
- 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
- NPA Upgradation
- System of restructured or rephased accounts during the year and quantitative details of restructured and rephased accounts
- Accounts wherein process under IBC is mandated but not initiated by branch and quantitative details of such accounts.: Age-wise analysis of decrees obtained and pending execution.

Significant changes Monitoring and Review

- Cases concluded and the recoveries have been properly appropriated against the principal / interest as per the policy of the bank.
- Documents verified through centralised processing system and report on exceptions.
- List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.

LFAR: Loans and Advances

- Sampling ?????? Vs. Risk
- Old loans vs New loans
- Cash Credits – How many?
- Others – Rescheduled Loans
 - Restructured Loans

LFAR: Loans and Advances contd.

- Loan Policy/ Recovery Policy
- Reporting about:
 - Credit Appraisal
 - Sanctioning/ Disbursement
 - Documentation
 - Review/ Monitoring and Supervision
 - Asset Quality/ Resolution of Stressed Assets

LFAR: Liabilities

- Deposits
 - After Balance-sheet date changes
- Other Liabilities
- Contingent Liabilities
 - to be identified in addition to L/C, BG

LFAR: Profit and Loss

- Revenue leakage
- Revenue recognition
- Variance analysis / divergent trends

LFAR: General



- Gold -Bullion / Security items
- Books and Records
 - Software not coordinated with CBS
 - Generation of Exception reports, audit trail, ATR
 - System Audit
- Inter-branch accounts

LFAR: General



- Frauds
 - Not only reported but **Fraud Prone Areas**
- KYC/ AML guidelines
 - PMLA and Terrorist Funding
- Management Information system- MIS
 - Data Integrity - whether feasible?
- Miscellaneous: Various reports/ Other comments

Loans and Advances contd.

Credit Appraisal

- Repayment
- Security
- Valuation
- Purpose – END USE

RSVP



Loans and Advances contd..

- Latest financial statements
- Qualifications in Audit reports
What if no Audit reports?
- Past dealings (6 months account statement, CIBIL, market credit)
- Business Experience – Key Persons
- Pre-sanction Inspection / Visit Reports

Sanctioning/ Disbursement

- Sanctioning: Delegation of Financial Powers
- Loan sanctioned.
- Operation permitted above sanctioned limits.
- Temporary overdraft.
- Withdrawal permitted against cheque pending in clearing.
- Cheques/bills purchased.
- Any other credit facility permitted
- Disbursement Issues: To which Account?,
Sanction Terms?





Documentation

- “In respect of advances examined by you, have you come across instances of deficiencies in documentation, non-registration of Charges, non-obtaining of guarantees etc.? If so give details of such cases”
- List of documents - various types of credit facilities -bank loan manual or bank circulars.
- “Whether advances against lien of deposits have been properly granted by marking lien on the deposits in accordance with the guidelines of the controlling authorities of the Bank.”

Review



- Time Barring of Documents
- Accounts overdue for review/renewal
 - a) between 6 months and 1 one year and
 - b) over one year
- “Are the stock/book debt statements and other periodic operational data and financial statements etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases? “
- Stock Audit Reports
- “Advances to non-corporate entities with limits beyond Rs.10 lakhs where the branch has not obtained the accounts of borrowers, duly audited under RBI guidelines with regard to compulsory audit or under any other statute”

Review/ Monitoring

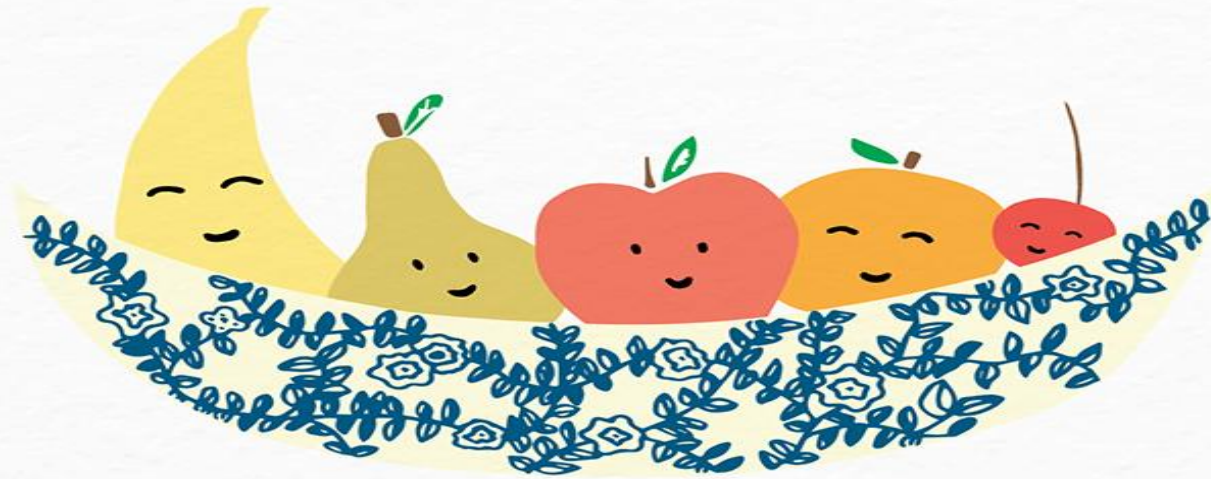
- Inspection or Physical Verification of securities, properties, primary as well as collateral- if any
- Operations in the account- frequent overdrawings (TOD- EOD), recovery source, financial discipline, under/over insurance
- Credit cards





Monitoring aspects

- Borrower has not deviated from terms and conditions of sanction.
- Borrower is repaying as per schedule without any default.
- There is no major difference between audited financial data and projections submitted earlier.
- Unit is functioning properly – Post disbursement visits
- All primary and collateral securities are in order and fully insured.



T H A N K Y O U

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