BANK AUDIT

Long Form Audit Report In Case of Bank Branches

-CA. Ajay Kumar Jain
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Auditors are eyes and ears for Banks. Regulators have put responsibility on Branch Statutory Auditors to provide information on issues given in LFAR. Particularly, after migration of banking on computers, proper control on processes has become very important. LFAR is a vital tool available to auditors through which they can comment on Balance Sheet, Profit & Loss account, Prudential norms, process lapses in operations and other issues relating to Branch Statutory Audit. In this article, effort has been made to make auditors understand the importance and coverage of LFAR in computerised banking.

Branch auditors have to answer a detailed questionnaire formulated by RBI. Most of the questions in LFAR contain following lines:
1) Does the branch generally carry or comply.....
2) In the cases examined by you, have you come across instances.....
3) 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.

I **ASSETS**

1 **Cash :**

a)		Does the branch generally carry cash balances, which vary significantly from the limits fixed by the Controlling authorities of the Bank? Whether excess balances have been reported to the Controlling authorities of the Bank?		• Auditor should obtain the cash retention limit of branch. He should review the cash records and comment, if cash balance generally exceeds significantly the retention limit. He should verify that instances of excess cash beyond retention limit are being regularly reported in returns to HO. • In case, ATM is being operated by branch, obtain cash limit fixed for ATM machines. Generally, during festival season or continuous holidays, cash is fed more than limit some times to serve customers. Verify, whether excess cash beyond limit has been intimated to higher authorities.
b)		Does the branch hold adequate insurance cover for cash on hand and cash-in-transit?		• Auditor should ask the branch as to who is getting the cash insured. In case, it is done by HO, a management representation should be obtained and commented upon accordingly. • If insurance cover details are available at branch, auditor should verify, whether branch holds adequate insurance cover of cash on hand, cash in ATM, and cash-in-transit. Verify insurance cover is in force. • Generally, cash in transit includes the movement of cash between currency chest and branch, one branch to another branch, cash movement for door step banking facility to clients, etc.
c)		Is cash maintained in effective joint custody of two or more Officials, as per the instructions of the controlling authorities of the Bank?		• Auditor should obtain the prescribed guidelines from branch with regard to custody of vault cash/ATM cash and comments in case of deviation. • Cash vault/ATM machines can be opened by joint custodians. Auditor should physically verify the vault cash/ATM Cash and observe that vault/ATM machines are being opened by joint custodians as prescribed only. Ensure that custody of keys of vault/ATM machines should be with the staff as mentioned in key register of the branch. • Verify from records, whether duplicate keys of cash vault and ATM machines are deposited with other branches as prescribed.

d)		Have the cash balances at the branch been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the Bank?		• Auditor should obtain the prescribed procedure in the bank for periodical verification of cash and ensure that it is being strictly adhered to. If, there is any deviation from the prescribed process, auditor should report. • Generally, in every bank, joint custodians are supposed to verify cash every day at the time of cash closing and to sign the cash records evidencing the same. Similarly for ATM machines, cash is being verified daily at the time of feeding of cash in machine by joint custodians. • Further in some banks, there is also prescribed procedure for monthly verification of cash by officer other than custodians. Ensure same has been conducted and evidenced on records.
				FOREIGN CURRENCY-- All above points are applicable to foreign currency also.
				<u>Reconciliation of ATM balance with GL at year end</u> • Ensure, the figure of the balance in the branch books in respect of cash with its ATM(s) tally with the amounts of balances with the respective ATMs, based on the year scrolls generated by the ATMs
				<u>Where bank has appointed the agents for cash feeding in ATM</u> • If the account relating to cash with agent is being maintained with branch, verify the figure of cash with agency is forming part of cash in hand. • Ensure the branch holds periodic as well as period/year end confirmation of balances of cash held by such agents. Whether discrepancies, if any, have been reported to controlling authorities. • Verify retention limit of cash/ custody process is being adhered to • Verify the process of physical verification of cash with agent and cash in ATM by bank officials. **<u>Excess cash in ATM</u>** Banks are advised by RBI that pending reconciliation or matching claim by customers, such ATM related credit balances represent unclaimed balances and should not be transferred to profit and loss account. <u>For above auditor can refer to:-</u> Rbi Cir DBOD.BP.BC.No.49/21.04.018/2013-14 dt Sept 3, 2013
2		**Balances with Reserve Bank of India, State Bank of India and other Banks:**		

a)		Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? If not, the nature and extent of differences should be reported.		• Auditor should obtain balance confirmation at year end. In case confirmation is not received, same should be commented with name of bank and outstanding balance pending for confirmation. • Verify whether reconciliation of balance as per confirmation obtained at year end has been done with books of account maintained by bank. If not reconciled, same should be commented upon. • Comment on nature of entries and extent of differences if any.
b)		The observation on the reconciliation statements may be reported in the following manner:		
		i. Cash transactions remaining unresponded (give details):		Cash deposited at or taken from SBI/RBI/other bank and entries are pending in reconciliation unresponded. Auditor should obtain and furnish the details about such unresponded entries along with reasons.
		ii. Revenue items requiring adjustments/write-off (give details):		• Comment, whether any 'charges' entry is pending for adjustment in reconciliation or any entry needs to be written off as on 31.3.2014. **Example** --Some times, clearing house charges or interest for overdrawn amount are debited by clearing house and same are not accounted for at branch during the year. **Example**- There are some entries debited by other banks, which are not accepted by branch due to some dispute. • In case, auditor is of opinion that charges should have been debited to expenses account or amount lying in reconciliation is not recoverable and needs provision, such entries should be commented upon in LFAR. Auditor should also recommend such cases in Memorandum of Changes.
		iii. Old outstanding balances remaining unexplained/ unadjusted. Give details for: a) Outstanding between six months to one year b) One year and above.		From reconciliation, auditor should find out old unexplained/ unadjusted entries and give the details of old entries along with reasons. **Example**- Differences of inward and outward clearing transactions with clearing house not identified and lying in reconciliation.

c)		In case, any item deserves special attention of the management, the same may be reported.		In case auditor feels that in reconciliation, any entry needs special attention of the management, same should be reported. Instances are: **Example**- Inward clearing cheques received from clearing house are lying in reconciliation instead of debiting to operating account. There is possibility that limit account/SB/current A/c were out of funds and would have become NPA in case of debit to these accounts on the date of payment to clearing house. Auditor should look into such cases and take the decision. **Example**- In case, branch is not obtaining balance confirmation and not reconciling periodically the bank accounts as prescribed, such default should be commented. **Where the branch maintains an account with the Reserve Bank of India, verify the the following issue:** 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/ withdrawls from the currency chest attached to such branches. Give the details of such transactions.
3		**Money at call and Short Notice :**		
		Has the branch kept money-at-call and short notice during the year? If so, whether instructions/guidelines, if any, laid down by Controlling Authorities of the Bank has been complied with?	-	• Auditor should, go through instructions received from HO with regard to amount deposited. • Verify whether instructions/ guidelines laid down by the controlling authority for money at call and short notice have been complied by branch. If there is any deviation, same should be commented. • In case of unauthorised deposits including those made in excess of the authorised limits arising in this account should be reported with name of bank, account and other details. • Verify interest accrued upto the year end has been has been accounted for. • Balance is duly confirmed and reconciled
4		**Investments :**		
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A		**For Branches in India:**		If branch does not hold any investments, obtain NIL certificate from branch and comment accordingly. In case branch is having investment certificates, auditor should obtain a certificate from the branch giving details of all investments held by branch.

a)		Are there any investments held by the branches on behalf of Head Office/other offices of the Bank? If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?		• Auditor should do physical verification of investment certificates with the investment register. • In case, if any certificate is not available, verify evidence for not keeping the same in possession. • If certificates are sent for realisation, verify acknowledgment. • In case, neither certificates have been made available for physical verification nor evidences as mentioned above are available, auditor should comment for these certificates.
b)		Whether any amounts received as income on such investments have been reported to the Head Office?		Verify the system of reporting the receipt of income on the investment held on behalf of corporate office and ensure in all the cases, income is received on due date and reported to HO.
c)		In respect of investments held by the branches on behalf of Head Office / other offices of the bank whether any income is accrued /received and recognised as income of the branch contrary to the instructions of the controlling authorities of the Bank?		Verify instructions from Corporate office regarding accounting of income on investments. Generally, instructions are, income received on investments should be sent to HO through IBR and same should be recognised as income at HO to have better control. Comment in case, income is accrued/received and recognised as income of the branch, contrary to the instructions of controlling authorities of the branch.
d)		Whether there are any matured or overdue investments, which have not been encashed? If so, give details?		Auditor should verify the Investment register maintained at the branch and comment the cases, where investments have been matured or overdue and same have not been encashed. Give details of such investments.
e)		Whether the Guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with?		For item (e) and (f)- Generally these activities are being done at corporate office/specialised branches. If being done at branch, obtain the guidelines issued by corporate office/RBI for transactions in securities and ensure whether same are complied with. In case of any deviation same should be commented upon.
f)		Whether the Guidelines of the Reserve Bank of India regarding Valuation of Investments have been complied with?		Obtain corporate office guidelines for valuation of investment. Auditor should obtain from bank management a statement showing the basis of valuation of investment. If statement not received, comment accordingly in report. In case valuation is not as per guidelines, impact of the same on profit should be reported along with deviation details.
B		**For Branches outside India:**		Normally the central/head office of the bank deals with these investments. Hence not discussed in this article

5		**Advances :**		
a)		**Credit Appraisal**		
		In your opinion, has the branch generally complied with the procedures/instructions of controlling authorities of the bank regarding loan applications, preparation of proposals for grant/ renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof.		On the basis of verification of documents relating to loans, auditor should form opinion, whether branch has complied with procedures/ instructions issued by Head Office on following key issues. If there is any deviation same should be commented. **Loan Application**- Auditor should examine, whether appropriate forms as prescribed by corporate office are being obtained according to nature of loan/limit.
				Preparation of Proposals- Proposals for grant/renewal of advances, enhancement of limits are being recommended after due consideration of all relevant factors like latest financial statement, past dealings, repayments capacity of the parties. Auditor should verify, whether in appraisal, important informations for the borrower have been commented by branch officials. Instances of important information are given below: • Unit is functioning properly. • All primary and collateral securities are in order and fully insured. • Borrower has not deviated from terms and conditions of sanction. • End use of loan is being done for the purpose for which it was disbursed. • Borrower is repaying as per schedule without any default. • Operation of account is satisfactory. • There is no major difference between audited financial data and projections submitted earlier.
				Documentation- Auditor should verify, whether all legal documents as prescribed in bank and as per sanction have been taken, executed and completely filled. All legal formalities relating to documentation has been completed like stamping as applicable to respective States.
				Compliance of RBI guidelines: Lending under Lending under Consortium Arrangement / Multiple Banking Arrangements • Auditor should verify that in case of Lending under Consortium Arrangement / Multiple Banking Arrangements' banks, any sanction of fresh loans/*ad hoc* loans/renewal of loans to new/existing borrowers should be done only after obtaining/sharing necessary information among banks. Report the cases where prescribed guidelines are not followed • Auditor should verify that bank branch has on its record a due diligence certificate/report in the form and manner required by the Reserve Bank of India in

				respect of advances under consortium and multiple banking. Give the list of accounts where certificate is not obtained or on record.
				For above auditor can refer to following circulars issued by RBI DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008 DBOD.BP.BC.94/ 08.12.001/2008-2009 dated December 8, 2008 DBOD No. BP.BC.110/08.12.001/2008-2009 dated February 10, 2009 DBOD.BP.BC.No. 62 /21.04.103/2012-13 November 21, 2012 Transfer of Borrowal Accounts from One Bank to Another bank • Verify that before taking over an account, the transferee bank has obtained necessary credit information from the transferor bank as per prescribed in following circulars issued by Reserve Bank of India DBOD.BP.BC.94/ 08.12.001/2008-2009 dated December 8, 2008 DBOD.No.BP.BC- 104 /21.04.048/2011-12 May 10, 2012
				Legal audit of title documents in respect of large value loan accounts Banks should also subject the title deeds and other documents in respect of all credit exposures of 5 crore and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid. For Above auditor can refer to: RBI cir - DBS.FrMC.BC.No.7/23.04.001/2012-13 June 07, 2013
b)		**Sanctioning/Disbursement**		
		i) In the cases examined by you, have you come across instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? Are such cases promptly reported to higher authorities?		In the cases examined by auditor, he should verify, whether the credit facilities were sanctioned beyond limits defined as per delegation financial powers (DFP) and same have been reported to higher authority as per prescribed procedure. In case of non-reporting, auditor should report the same. Following are Instance which needs reporting if exceed DFP: • Loan sanctioned. • Operation permitted above sanctioned limits. • Temporary overdraft. • Withdrawal permitted against cheque pending in clearing. • Cheques/bills purchased. • Any other credit facility permitted

		ii) In the cases examined by you, have you come across instances where advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.		In case, auditor comes across the instance, where loan has been disbursed without complying the terms and conditions mentioned in sanction letter, same needs to be reported. Few instances are: • Loan disbursed without creating EM on property. • Loan disbursed without obtaining personal guarantees of directors. • Loan disbursed without completing the requirements mentioned in legal report of lawyer relating to property kept under EM.
c)		**Documentation**		
		i) In the cases examined by you, have you come across instances of credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.		Generally, list of documents to be obtained from borrower for various types of credit facilities is available in bank loan manual or bank circulars. In the cases verified by auditor, if he comes across any deviation in execution of documents as per procedure, same should be commented with details of accounts and documents not obtained.
		ii) 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.		In the cases verified by auditor, if he comes across any deficiencies in documentation particularly as mentioned in questionnaire, same should be reported.
		iii) 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.		In cases verified by auditor, if he finds any deviation in process of marking lien on FDR pledged against loan, such cases should be commented with details of deviations. Key points which can be verified by auditor are given below: • Lien of FDR receipt has been marked by branch officials. • FDR is properly discharged by all the parties to deposit. • Signature discharging the FDR has been verified by branch officials. • In computerised branches, lien has been marked in computer also. • Similarly, in case of loans against LIC/NSC/KVP, lien has been got marked in favour of bank from LIC/Post office as per prescribed procedure. • All such securities matured but not adjusted in loan
d)		**Review/Monitoring Supervision**:		

		i) Is the procedure laid down by the controlling authorities of the Bank for periodic review of advances including periodic balance confirmation/ acknowledgement of debts, followed by the Branch? Provide analysis of the accounts overdue for review/renewal a) between 6 months and 1 one year and b) over one year		Auditor should verify whether branch has followed procedures laid down by bank for timely review/renewal. If there is any deviation in process, same should be commented. Auditor should also verify following: • At the time of review/renewal, there is system of recording adverse remarks already reported in internal audit report/concurrent audit reports in review note. • There is system of obtaining the latest balance sheet, other supporting papers, key information required for review/renewal. • Periodic balance confirmation of debts, to ensure that documents are not time barred, has been obtained.
				• Auditor should collect the details of accounts overdue for review/renewal from concurrent audit report, internal audit reports, review/renewal register and furnish the details of accounts due for review/renewal between 6 months and 1 year and over one year. • Auditor should verify that whether accounts, due for review/renewal more than 180 days reported in LFAR, are NPA as per clause no 4.2.4 (ii) of Master circular on Prudential norms RBI/2013-14/62, DBOD.No.BP.BC. 1/21.04.048/2013-14 dated July 1, 2013. In case, account is NPA as per above guidelines, account should either be declared by branch as NPA or auditor should recommend same in MOC.
		ii) 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?		• Auditor should verify stock/book debt statements/ QIS data, other periodical operational data and financial details are being received regularly as prescribed. In cases, statements not received, same should be commented with detailed particulars of account and period since when statements not received. For these details, apart from document files, auditor can take help of stock statement/DP register, concurrent audit report and internal audit reports. • Auditor should verify that statements received are being scrutinized by branch officials and if there is any adverse observation, suitable action has been taken by branch. If process is not being followed, auditor should comment in report with details of accounts.

				• Auditor should verify as to whether accounts, where stock statements have not been received since long and commented in LFAR, will become NPA as per clause 4.2.4 (i) of Master circular on Prudential norms RBI/2013-14/62, DBOD.No.BP.BC. 1/21.04.048/2013-14 dated July 1, 2013. • In case, account is NPA as per above guidelines, account should either be declared by branch as NPA or auditor should recommend same in MOC.
		iii) Whether there exists a system of obtaining reports on stock audit periodically? if so, whether the branch has complied with such system?		Auditor should verify, that branch is obtaining stock audit reports periodically in all the cases as required by bank policy. If stock audit reports were not obtained as per bank procedure, same should be commented in report. Further, verify deficiencies, reported in report, have since been rectified, if pending, auditor should give the details of pending issues.
		iv) Indicate the cases of 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 statue.		Auditor should obtain from branch a complete list of all the accounts where limits have been sanctioned or renewed beyond Rs.10 lacs. Auditor should verify that in all cases, branch has obtained the latest audited accounts of borrowers. In case of deviation, auditor should give the details of all such accounts along with sanctioned limit and outstanding balances.
		v) Has the Inspection or Physical Verification of securities charged to the Bank been carried out by the branch as per the procedure laid down by the controlling authorities of the Bank?		Every bank is having system of conducting physical verification of securities periodically. Auditor should obtain a list of cases where physical verification is not done as per prescribed guidelines. Auditor should review inspection register maintained by branch to find out such accounts.
		vi) In respect of advances examined by you , have you come across cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent / unauthorised overdrawing beyond limits , inadequate insurance coverage , etc?	-	• In the cases examined, if auditor comes across any deficiencies in value of securities, frequent overdrawing, unauthorised overdrawing, inadequate insurance cover, he should give the detail particulars of these accounts along with adverse features observed. • In case of cash credit limits, verify that there should not be major variation between stock/ book debts/ creditors figures being submitted in monthly statement and audited accounts. If there is material variation between both the figures, particularly at balance sheet date of the borrower without any justification, same should be commented.
		vii) In respect of leasing finance activities, has the branch complied with the guidelines issued by the controlling authorities of the Bank relating to security creation, asset inspection, insurance, etc? Has the branch complied with the accounting norms prescribed by the controlling authorities of the Bank relating to such leasing activities?		Auditor should verify prescribed guidelines on noted issues and comment if there is any deviation.

		viii) Are credit card dues recovered promptly?		• Verify the system prevailing for recovery of credit card dues. Verify whether credit cards dues are being recovered promptly and in case, dues are not recovered, branch has done follow up for recovery. • Auditor should verify, whether credit card facility will become NPA as per guidelines issued by RBI in its circular Prudential Norms on – Credit Card Accounts RBI/2013-14/414 DBOD.No.BP.BC.78/ 21.04.048/ 2013-14 December 20, 2013 • In case, account is NPA as per above guidelines, account should either be declared by branch as NPA or auditor should recommend same in MOC.
		ix) Has the branch identified and classified advances into standard/ substandard/ doubtful/ loss assets in line with the norms prescribed by the Reserve Bank of India (The auditor may refer to the relevant HO instructions for identification of NPAs and classification of advances).		Auditor should verify that branch has identified and classified advances as per following RBI circulars • Master circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances bearing no RBI/2013-14/62, DBOD.No.BP.BC. 1/21.04.048/2013-14 dated July 1, 2013. • Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Credit Card Accounts bearing no RBI/2013-14/414 DBOD.No.BP.BC.78/ 21.04.048/ 2013-14 December 20, 2013 • Non-Agriculture Loans against Gold Ornaments and Jewellery bearing no RBI/2013-14/419 DBOD.No.BP.79/21.04.048/2013-14 December 30, 2013 Auditor should verify the deposit account having debit balances due to charging of service charges/interest time to time and pending for recovery since long. Verify whether, prudential norms on Income Recognition, Asset Classification and Provisioning have been followed. If there is any deviation to RBI circular and HO instructions same should be commented and MOC should be given if required.
				<u>Master data in computer for NPA norms verification</u> Some times, master data of loans accounts are wrongly updated in computer, particularly details relating to period of loan, due date of first installment and installment amount. Due to these errors, statement of overdue accounts will not be generated correctly by computer. Hence due to incorrect overdue statement, there is possibility that some accounts will not be declared NPA. So, Auditor should take care of this aspect while verifying the compliance of NPA norms Similarly auditor should compare the date of NPA of loans accounts mentioned in current year statement with previous year statements. Normally there should not be change of date of NPA unless it is suggested by previous auditor in MOC. Otherwise, If there is change in date of NPA find out reason for the same. Few Instances are given below:

				<u>Terms loans with moratorium period (Like housing loans etc)</u>. **Example-** Loan is sanctioned with the conditions that interest debited during moratorium period will be paid only after end of moratorium period along with EMI. In such cases, interest will not be paid during moratorium period and EMI shall be fixed by adding the interest accrued during moratorium period to the principal amount. Auditor should verify, whether EMI amount is correctly calculated by computer as mentioned above. In case, EMI is calculated only for principal amount, account can become NPA due to non-servicing of interest debited during moratorium period. Auditor should take care of this aspect while verifying the compliance of NPA norms in such type of cases.
				Example- Loan is sanctioned with the conditions that interest due during moratorium period will be paid as and when due. In such cases, interest will be served during moratorium period and EMI shall be calculated only for principal amount. Some times, overdue statement generated by computer, does not show the unserved interest due for payment during moratorium, hence correct position of NPA cannot be assessed for such accounts on the basis of system generated overdue statement. Auditor should take care of this aspect while verifying the compliance of NPA norms.
		x) Where the auditor disagrees with the branch classification of advances into standard/ substandard/ doubtful/ loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated/ suggested in the Memorandum of Changes.		If auditor does not agree with classification given by branch, he should give details along with reasons for the same. Auditor should also indicate whether suitable changes have been incorporated in Memorandum of changes also.
		xi) Have you come across cases where the relevant Controlling Authority of the Bank has authorised legal action for recovery of advances or recalling of advances but no such action was taken by the branch? If so give details of such cases.		Auditor should ask for the list of cases from the management, where approval for legal action for recovery of advances has been obtained from controlling authority of bank. Auditor should verify these cases and comment where branch has not taken any legal action so far or taken with delay.

		xii) Have all non performing advances been promptly reported to the relevant Controlling Authority of the bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken and if so, the status of such programme.		Auditor should examine that all NPA are being promptly reported to controlling authority of the bank. Auditor should verify the cases, where process of rehabilitation has been initiated and give the present status of such cases.
		xiii) Have appropriate claims for DICGC and ECGC/ Insurance and subsidies, if any, been duly lodged and settled? The status of pending claims giving year-wise breakup of Numbers and amounts involved should be given in the prescribed format.		• Auditor should verify that there is process of identifying the cases, where claims are required to be lodged with DICGC, ECGC and any other department. Verify, whether in required case, branch has taken step for lodging the claims and same have been lodged. • Auditor should obtain the numbers of accounts with outstanding balance relating to DICGC, ECGC and any other claims. He should furnish year-wise breakup of number of account with amount in prescribed format for claims as at beginning of the year, claims lodged, accepted /settled/ rejected during the year and balance at year end. • However most of the banks have opted out of DICGC
		xiv) In respect of non-performing asset, has the branch obtained valuation reports from approved valuers for the fixed assets charged to the Bank once in three years, unless the circumstances warrant a shorter duration.		• Auditor should verify whether, in case of NPA accounts, branch has obtained approved valuer report for fixed assets charged to bank once in three years or shorter duration as prescribed by the bank. If there is any deviation same should be commented upon. • Auditor should also verify compliance of Notes given at the end of clause 5.3 of prudential norms master circular dated July 1, 2013 for stock audit and valuation of collaterals by external agencies in case of NPAs with balance of Rs. 5 crore and above.
		xv) 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 cases of compromise/ settlement and write off cases involving write offs/waivers in excess of Rs. 50 lacs is to be furnished.		• Auditor should verify the cases of compromise/settlement and write off during the year. Auditor should verify that prescribed policy of the bank for compromise/settlement and write off is followed by the branch. Approval from designated authority has been obtained as per policy in all cases. • Auditor should obtain the details of all cases of compromise/ settlement and write off cases involving write off/waiver in excess of Rs. 50 lacs and submit along with report.

		xvi) List the major deficiencies in credit review, monitoring and supervision.		• In the cases verified by auditor, if he comes across any major deficiencies in credit review, monitoring and supervision, he should comment. In case, he finds any deviation of RBI guidelines same should also be commented upon. Apart from circulars already mentioned some important RBI Master circulars dated July 1, 2013 are given below: • RBI Master Circular- Loans and Advances-Statutory and Other Restrictions • Master Circular - Guarantees and Co-acceptances • Master Circular - Interest Rates on Advances • Master Circular on Wilful Defaulters
e)		**Guarantees and Letters of Credit**	-	
		i) Details of outstanding amounts of guarantees invoked and funded by the branch at the end of the year may be obtained from the management and reported in the following format : a) Guarantees Invoked , paid but not adjusted : Sl.No Date of invocation Name of the party Name of beneficiary Amount Date of recovery Remarks		• Auditor should obtain a list of guarantees invoked and funded by branch but not adjusted and kept in separate account. All the details should be furnished in prescribed format. • While reporting these cases in LFAR, auditor should also verify simultaneously that whether after considering above funds as part of principal operating account, the facility is becoming NPA, if yes, same should be reported in MOC also for income recognition, asset classification and provisioning. • For above issue, auditor can refer to clause 4.2.7 (ii) of the RBI Master circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances bearing no RBI/2013-14/62, DBOD.No.BP.BC. 1/21.04.048/2013-14 dated July 1, 2013
		b) Guarantees Invoked , paid not paid : Sl.No Date of invocation Name of the party Name of beneficiary Amount Date of recovery Remarks		• Auditor should obtain relevant data from branch and furnish the details in the prescribed format. • In case, branch informs that there is no such case, where guarantee is invoked but not paid, auditor should obtain a certificate from the branch that no guarantee is pending for payment which has been invoked up to 31.3.2014

		ii) Details of the outstanding amounts of letter of credit and Co- acceptances funded by the branch at the end of the year may be obtained from the management and reported in the following format: Sl.No Date of funding Name of the party Nature (LC/acceptance etc) Amount Date of recovery Remarks		• Auditor should obtain a list of LC/acceptances funded by branch and outstanding as on 31.3.2014. All the details should be furnished in prescribed format. • Auditor should refer to clause 4.2.7 (ii) of RBI Master circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances dated July 1,2013 for considering the funding of LC as a part of principal operative account for income recognition, asset classification and provisioning. This issue has already been commented in detail under item- Guarantees Invoked, paid but not adjusted.
6		**Other Assets**		
a)		**Stationery and Stamps:**		
		i) Does the system of the Bank ensure adequate internal control over issue and custody of stationery comprising of Security Items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, **etc**.)? Whether the system is being followed by the branch?		• Auditor should obtain the prescribed guidelines from the bank with regard to internal control over issue and custody of security items. Auditor should select sample of few dates and comment in case, prescribed guidelines are not being followed by branch. **Example- Internal Control for issue of stationery** **Issue of cheque Books**- Verify, whether prescribed processes have been followed by branch i.e. receipt of requisition slips/requests letters, approval for issuance of cheque books, signature verification on requisition slip or request letter, obtaining signature of customer at the time of handing over the cheque book. **DD/PO/Term deposits-** Verify, DD/PO and term deposits receipts have been handed over to applicant/account holder only after verifying the signature of recipient.

				Issuance of security items to person other than account holder If, security items were issued to third person (other than account holder), verify, whether prescribed process for obtaining authority letter with attested signature of recipient from account holder is followed, if not comment. • Auditor should verify controls with regard to security items at following points a) Stock in joint custody (bulk stock). b) Stock in individual custody. **c)** Control over inventory not supported by computer **d)** Verify branch is having system of periodical verification and reconciliation of inventory of security items. If system is not in place comment in report.
				Other Security Items • ATM cards/Debit cards/PINs/Retained cards etc. are also security items. Auditor should ask for prescribed system in branches for issuance, custody and stock records of these security items like other security items as discussed earlier. If any deviation is observed in processes, same should be commented. • Most important control generally applicable in all the banks -- ATM cards and PINS should be kept in different custodies because, if one person is custodian of both the items, there is chance of misappropriation. • Verify the control mechanism for welcome kits being issued by banks for opening of new accounts
		ii) Have you come across cases of missing/lost items of such stationery?		• If auditor comes across any case of missing/lost security item during audit or reported in concurrent audit report, Internal audit report, same should be commented in LFAR. • Further, if no missing/lost security items found in bank records reviewed by auditor, obtain a letter from Branch Manager also that there is no missing/lost item at branch.
b)		**Suspense Accounts/Sundry Assets**		-
		i) Does the system of the Bank ensure expeditious clearance of items debited to Suspense Accounts? Details of old outstanding entries may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained. Does your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/write off? If so, give details in the format.		**Expeditious clearance** Verify the old outstanding entries pending for adjustment, auditor should obtain the reasons of delay in adjusting the entries. In case, auditor finds that procedure of clearance of items in suspense/sundry asset account is inadequate and entries are outstanding beyond prescribed time, comment accordingly. Review the steps taken for reversal of old entries. **Instances of window dressing for expeditious clearance** • Traveling advance is being given to staff and taken back without executing any traveling frequently. In this case, advance will always remain with staff.

				• Old debit entries in one asset account are reversed by transferring the amount to other asset account with new date. Ultimately, entry will not be reversed, it will always remain outstanding in one account or another. If auditor finds such cases, same should be reported.
				<u>Old outstanding entries</u> • Auditor should obtain list of all old entries debited to suspense or any other sub head of asset account along with reasons of delay. Details should be given in prescribed format in LFAR. • In case, auditor feels that old entries are not recoverable and same require provision/write off, comment in report. He can recommend for MOC if required. Instances of sub heads are given below:
				• **Entries debited in asset account to avoid declaring the operating accounts as NPA** - Debit entries received in inward clearing were debited in clearing difference account or other asset account as funds/limit/DP is not available in operating accounts, if same is debited in CC/SB/Current accounts, same will become NPA. • **Debit due to ATM entries**- In cases, customer of other branch (not connected with central server i.e CBS) has withdrawn the money from ATM at branch under audit. Amount is pending for realisation from other branch. • Old Clearing differences not recoverable and debited in asset accounts. • Fraudulent withdrawals debited to asset account pending for recovery. • Payments of Pensions pending for recovery from Government since long. • Shortage of cash debited in asset accounts pending recovery. • Drafts paid, but entry is pending for reversal for want of advice from branch issuing drafts.
		ii) Does your test check indicate any unusual items in these accounts? If so, report their nature and the amount involved.		If auditor finds any unusual item same should be reported along with its nature and amount involved.
II		**LIABILITIES**		
1		**Deposits**		
		-		

a)		Have the controlling authorities of the bank laid down any guidelines with respect to conduct and operations of in-operative accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details there of.		Auditor should ask for prescribed procedure with respect to conduct and operation in inoperative accounts in the bank. Generally in banks, operation in inoperative accounts is permitted after obtaining request letter duly signed by customer for activation along with reason for delay in operation in accounts. Signature of customer on letter should be verified by branch officials and approval from appropriate authority should be taken as prescribed. Auditor should verify entries in inoperative accounts on test check basis. If prescribed guidelines are not adhered to same should be commented.
b)		After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year end? If so, obtain the clarifications from the management and give your comments thereon.		Compare the figures of deposits after balance sheet date on visit to branch with deposit figure as on balance sheet and find out any unusual variation in various heads of deposits accounts. Auditor should obtain clarification from the branch for unusual large movements of deposits and comment thereon. <u>Other issues on Deposits</u> Verify that banks have a system of reckoning the effect of TDS on interest at the time credit/payment of Term deposits including upon renewal thereof
c)		Are there any overdue/matured term deposits at the end of the year? If so, amounts thereof should be indicated.		Give the figure of overdue deposits/matured deposits at the end of the year.
2		**Other liabilities**		
		Bills Payable, Sundry Deposits etc.		
a)		The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained from the branch and reported under appropriate heads. Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details in the format:		Auditor should obtain the list of all old items pending for three years or more under the heads bills payable, sundry deposits etc and details of number of items along with amount should be submitted in report for all sub heads in the format provided by bank.

b)		Does your test check indicate any unusual item or material withdrawals or debits in these accounts? If so, report their nature and the amounts involved.		Auditors should verify entries relating to material withdrawals or debits in these accounts. If any unusual transaction found same should be reported.
		Contingent Liabilities		
		List of major items of the contingent liabilities (other than Constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc.) not acknowledged by the branch?		Auditor should verify the branch records for contingent liabilities and find out if branch is having proper controls for recording all the contingent liabilities. Auditor should obtain following details from branch: • List of all the cases filed against branch by any person in consumer court or any other court. • List of any litigation cases pending against branch for claims made by any government department. • List of any demand raised by any office, pending for payment. Eg- Payment of stamp duty on lease deed. Payment of any municipal committee dues etc.
				• At the time of audit, branch keeps ready list of contingent liabilities. Auditor should verify that all the contingent liabilities cases are included in that list and same are correctly valued. • Auditor should obtain the representation from management that all contingent liabilities have been disclosed. In case of verification, if it appears to auditor that bank loss is clear, identified and not disputed, he should recommend for accounting of the liability for the same.
III		**PROFIT & LOSS ACCOUNT**		
a)		Whether the branch has a system to compute discrepancies in interest / discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the controlling authorities of the Bank? Has the test checking of interest revealed excess/ short credit of material amount? If so, give details thereof.		• Auditor should verify whether branch is having system of finding out the discrepancies in interest/discount and timely adjustment for the same are being done as per prescribed guidelines. If there is any deviation, auditor should comment. • Verify revenue audit report/ concurrent audit reports/ internal audit reports -- Ensure all errors reported in these reports relating to incomes (short/excess) have been corrected in accounts. If, corrections are pending, same should be commented and MOC should be recommended if required.

				Auditor can apply following test checks to find out material discrepancies in computation of interest/discount income: • Take computer print of some loan accounts from all segments of Advances and verify interest has been debited monthly/quarterly/half yearly as applicable without fail on all accounts by computer. Ensure, in no case, interest is skipped by system due to technical error. • In sample cases, verify the master data with regard to rate of interest and ensure same is correctly updated as per documents. Further, also verify the calculation of interest to ensure that computer is calculating the interest correctly. • In case of discount income, verify the computer master data and ensure that charges schedule has been correctly updated in master data as per circulars.
				• Verify on test check basis, in case of cash credit limit/OD accounts, whether DP is being correctly and regularly updated in computer on monthly basis as per DP register to ensure correct calculation of penal interest. • Verify on test check basis, interest on loan against FDR has been modified according to change in rate of FDR in case of maturity or renewal of FDR.
b)		Has the branch complied with the Income recognition norms prescribed by RBI? (The Auditor may refer to instructions of the controlling authorities of the Bank regarding charging of interest on non-performing assets).		• Auditor should refer to Master circular- Prudential norms on Income recognition issued by RBI and bank guidelines for income recognition. Auditor should also refer to instruction issued by the respective bank on charging and recognition of interest on NPA accounts. • In case, above guidelines have not been complied with by the branch, same should be commented by auditor in report. In case MOC is required same should be recommended.

c)		Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid down in this regard by the controlling authorities of the Bank? Has the test check of interest on deposits revealed any excess / short debit of material amount? If so, give details thereof.		• Auditor should verify whether branch is having system of finding out the discrepancies in interest on deposits and timely adjustment for the same are being done as per prescribed guidelines. If there is any deviation, auditor should comment. • Verify revenue audit report/ concurrent audit reports/ internal audit reports -- Ensure all errors reported in these reports relating to interest on deposits (excess/short debit) have been corrected in accounts. If corrections are pending same should be commented and MOC should be recommended if required.
				Auditor can apply following test checks to find out major discrepancies in computation of interest on deposits: • Verify, whether the accrued interest as on 31.3.2014 lying in the liability account is correctly provided as per bank guidelines. • Verify whether changes in rates of interest on deposits as per bank circular have been correctly updated in computers as and when, rate of interest on deposits were changed during the year. • Generally interest of FDR/deposits is being calculated and credited to accounts by computer itself. Auditor should obtain from branch, the details of cases, where interest on FDR of large amount has been calculated manually and entries have been passed by releasing transfer voucher. Auditor should verify these vouchers on test check basis for material amount and ensure interest is correctly calculated and paid to customers.
d)		Does the bank have a system of estimating and providing interest accrued on overdue / matured term deposits?		• Verify the bank accounting policy in this regard. In case, this activity is to be done at HO, comment accordingly. • In case, interest on overdue deposits is being accounted for at branch, verify the basis of making provision of interest on overdue/matured deposits. It should be as per bank prescribed policy. • As per RBI Master Circular on Interest Rates on Deposits bearing no RBI/2013-14/75 DBOD.No.Dir.BC. 10 /13.03.00/2013-14 July 1, 2013, If a Fixed Deposit Receipt matures and proceeds are unpaid, the amount left unclaimed with the bank will attract savings bank rate of interest. Auditors can refer this circular and ask for the bank guidelines in this regard.

e)		Are there any divergent trends in major items of Income and expenditure, which are not satisfactorily explained by the branch? If so, the same may be reported upon. For this purpose, an appropriate statement may be obtained from the branch management explaining the divergent trends in major items of Income and Expenditure.		• Auditor should do comparative study of all major income and expenditure accounts figures with the previous year figures. • Auditor should co-relate total interest paid to average deposits figures and total interest income to average loans figures. • After applying above test checks if any major divergent trend in figures is observed, auditor should obtain appropriate justification from branch explaining the divergent trends and same should be commented in report. • In case, branch does not provide the justification for major divergent trends or auditor is not satisfied with the justification given by the branch, same should be commented and auditors should give his justification also for divergent trend.
IV		**GENERAL**		
1		**Books and Records:**		
a)		In case any books of account are maintained manually, does general scrutiny thereof indicate whether they have been properly maintained, with balances duly inked out and authenticated by the authorised signatories?		Auditor should scrutinize the manual books maintained at branch and observe: • Whether manual records have been inked and authenticated. • Books should be written in legible manner. • Overwriting and cutting should have been properly authenticated.
b)		**In respect of computerised branches:**		
		• Whether hard copies of accounts are printed regularly?		• Auditor should obtain the list of daily reports like exceptional transactions, Cash Scroll, GL, Day Book, Sub-day Book, Dr. Balances, overdrawn etc. being printed at branch daily, weekly, fortnightly, monthly basis. • Ensure all the reports are being generated periodically and duly signed by senior officials of the branch as prescribed. Instances of exception reports are: a) Reports of transactions passed by staff beyond powers b) Passing transactions in inoperative accounts c) Overdue balances reports d) Temporary overdraft reports e) TOD allowed against cheque pending for clearing f) Report for changes in master data relating to advances

		• Indicate the extent of computerisation and the areas of operation covered.		Auditor should give the list of areas which are being handled by branch on computer. Key areas are-- Interest calculation of all advances and deposits, clearing operations, monitoring of overdue balances and temporary overdrafts, generation of all exception reports, NPA provisions, advances and deposits, books of accounts etc.
		• Are the access and data security measures and other internal controls adequate?		Auditor should verify that access & data security measures and other internal controls are adequate at branch. Instances are: • There should not be sharing of passwords/login id. • Password/login id of staff, who had left the branch has been deleted. • Access of important data/files restricted to certain passwords or login. • Entries in inoperative account permitted to staff as per DFP. • Option of time out is available on systems. • Facility of change of password is available. • Whether in system, delegation of financial powers is updated for staff along with login id. • Report the adverse features reported in computer audit report if pending for compliance.
		• Whether regular back-ups of accounts and offsite storage are maintained as per guidelines of the controlling authorities of the bank?		Obtain the bank prescribed guidelines on this issue and verify whether, same are being strictly followed by branch.
		• Whether adequate contingency and disaster recovery plans are in place for loss/encryption of data?		• Obtain the bank prescribed guidelines on this issue and verify whether, same are being strictly followed by branch. • Verify, there are sufficient fire extinguishers as approved and same are not expired. • Verify whether branch is provided with fire alarm facility.
		• Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch?		At the end of audit in case, auditor should give suggestion to bank with regard to computerisation of operations. At present in banks, operations are being done through computer only. Instances of suggestions are given below: • System should show, on screen PAN number of the account holder while accepting cash exceeding Rs 49999. • System should not allow credit in cash (Rupees) in NRE account. Because, cash credit (In rupee) in NRE account is not permissible.

				• System should generate summary of cash transactions for Rs.10 lacs and above being reported to higher authorities. • System should show exception for issuance of DD/PO in cash beyond permissible limit. • System should show exception for payment of FDR in cash beyond permissible limit. • In case of closure of FDR, system should show on screen that FDR is under lien.
2		**Reconciliation of Control and Subsidiary Records**		
		Have the figures, as at the year end, in the control and subsidiary records been reconciled? If not, the last date upto which such figures have been reconciled should be given under the respective heads, in the prescribed Performa.		• Auditor should verify that in case sub-GL is being maintained manually, branch has done balancing of all subsidiary GL at the year end, and total balance as per sub-GL balancing register should tally with GL balance. • If sub-GL is computerised, auditor should verify that account wise balancing report is available at year end (either hard or soft copy) and gross total in balancing report should tally with GL Balance. • In case, there is any difference between Sub-GL total and GL total, details should be given as under: Head of account: Balance as per sub-GL: Balance as per GL; Difference if any: Date of last reconciliation:

				<u>Checking of differences continuing since migration of manual data to computers or prior to migration</u> Prior to migration of data from manual records to computer, in some cases, branches were reconciling sub-GL and GL balance with common differences which were continuing since long. Hence post migration of data, auditor should ask for migration data verification report and find out if there was any such difference which was existed at the time of migration of data to computer. If, auditor finds any difference, then he should enquire from branch in which account such differences were parked and whether differences are still continuing. If these differences are still outstanding at year end same should be reported in LFAR. In case, no report with regard to migration of data is available and branch confirms data was migrated from manual records to computer without any differences, auditor should obtain management representation in this regard.
				Provisioning of differences to reconcile GL and Sub-GL balance
				Auditor can further enquire, whether total liability as per Sub-GL is more than the balance in GL, if yes, in that case bank has to pay more balance to customer than the same available in GL. Hence auditor can also recommend the provision for extra liability to be paid by bank. Example is give below:
				Head of A/c GL balance/Rs Sub-GL balance/Rs Difference
				FDR Cr 120000 Cr 140000 Cr 20000
				SB Cr 100000 Cr 110000 Cr 10000
				Total Cr 220000 Cr 250000 Cr 30000
				In above example, total liability as per sub GL is Rs. 250000 while in GL it is appearing as Rs.220000/-. In this case, if compensatory difference of Rs.30000/- is not available in any other account, auditor can recommend the provision for liability of Rs. 30000 in GL by debiting to profit & loss account.
3		**Inter-Branch Accounts:**		
a)		Does the branch forward on a daily basis to a designated cell / Head Office, a statement of debit / credit transactions in relation to other branches?		Branches send statements showing debit and credit transactions relating to other branches on daily basis to designated cell/Head office. During test check, If auditor finds that reports are not submitted, details for such dates should be given in report.

b)		Does a check of the balance in the Head Office Account as shown in the said statement during and as at the year end reveal that the same is in agreement with the Head Office account in the General Ledger.		Auditor should verify the balance of Head office account reported in daily statement with the balance of same account as per GL during and as at year end. If, any difference is found on sample dates verified by auditor, he should comment the balances as per daily statement and as per GL with reason of differences.
c)		Are there any outstanding debits in the head office account in respect of inter branch transactions?		• Auditor should ask the details of debit balance lying in Head office Account in respect of inter branch transactions from branch. Auditor should review these entries. Based on his review he should reach to conclusion about reversal of entries by debiting to charges account or any provisioning is required. • In CBS, every day branches get list of any transactions originated at other branches and pending for reversal by the branch under audit. Auditor should verify any entry originated at other branches prior to, but responded at branch after the year end (After the date of audit) or not responded and having impact on accounts. Give MOC if required
d)		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 unresponded/ uncomplied queries or communications? If so, give details.		Auditor should ask for the correspondence file with designated cell / Head office for unmatched transactions. If there is any unresponded/ uncomplied queries or communication, same should be commented along with details of transactions.
e)		Have you come across items of double responses in the head office account? If so, give details.		In case, auditor comes across any transaction for which double responses have been received by branch same should be commented with details of transactions.
f)		Are there any old / large outstanding transactions / entries at debits as at year end which remains un-explained in the accounts relatable to inter branch adjustments.		Auditor should verify and report any old/ large outstanding transactions/ entries at debits as at year end which remains unexplained.
4		**Audits / Inspections**		
a)		Is the branch covered by concurrent audit or any other audit / inspection during the year?		Ensure whether branch is covered by concurrent audit or any other audit/ inspection during the audit. If not covered comment accordingly.

b)		In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors or internal auditors or in the special audit report or in the inspection report of the Reserve Bank of India ?. State the various adverse features persisting in the branch though brought out in these audit / inspection reports.		Auditor should ask for all the following noted reports. He should find out major adverse remarks in these reports and incorporate in LFAR if still pending or continuing. Whether remedial actions have been taken by branch if not comment • Concurrent Audit report • Stock audit report • Internal audit/snap audit report • Previous statutory audit report • RBI audit report • Special audit report • Credit audit report • Revenue audit report • IT audit report .
5		**Frauds:**		
		-	-	
		Furnish particulars of frauds discovered during the year under audit at the Branch, together with your suggestions, if any, to minimise the possibilities of their occurrence.		Auditor should go through records/registers maintained at branch for frauds discovered during the year under audit to know the nature of frauds. Auditor should also obtain list of frauds duly signed by branch manager, which were discovered during the year under audit and give suggestions to minimise the possibilities of their occurrence. For frauds, Auditors can refer FrMC BC. No. 1/23.04.001/2013-14 dated July 01,2013. for classification and reporting on fraud.
6		**Miscellaneous**		
a)		Does the examination of the accounts indicate possible window dressing?		Verify whether large number of deposits accepted at year end and refunded immediately after the date of balance sheet. Deposits and advances from/to same borrower/ sister concern / group at year end. In case auditor is of opinion that there is possibility of window dressing same should be reported.
b)		Does the branch maintain records of all the fixed assets acquired and held by it irrespective of whether the values thereof or depreciation thereon have been centralised? Where documents of titles in relation to branch or other branches are available at the branch, whether the same have been verified.		• Ensure branch is maintaining fixed assets records at branch if not comment the same. • Verify title deeds with the records maintained at branch, whether all title deeds are available at branch. If any document is missing, same should be reported.

c)		Are there any other matter which you, as branch auditor, would like to bring to the notice of the management or the Central Statutory Auditors?		In case auditors want to bring any major issue to the notice of the management or Central Statutory Auditors. Same can be commented. **Example-** • Banks are selling gold. If there is difference in gold quantity same can be commented. • TDS on interest is not being correctly deducted in computers • Any other major lapse in system or any observation not covered in LFAR specifically, auditor should report in this clause. Instances are DEMAT operations, KYC, AML, Lockers, Security, Regulatory compliances etc
		Questionnaire Applicable to Specialized Branches		
A		**For Branches dealing in Foreign Exchange Transactions**		
1		Are there any material adverse feature pointed out in the reports of concurrent auditors, internal auditors and/or the Reserve Bank of India's inspection report which continue to persist in relation to NRE/NRO/NRNR/FCNR-B/EEFC/RFC and other similar deposits accounts. If so, furnish the particulars of such adverse features		Auditor should go through concurrent auditors, internal auditors and/or the Reserve Bank of India's inspection reports and furnish adverse features with respect to NRE/NRO/NRNR/FCNR-B/EEFC/RFC and other similar deposits accounts mentioned in these reports which are pending for resolution and still persist.
2		Whether the Branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to the following in relation to the foreign exchange, if not, state the irregularities.		Auditors should obtain the instruction and guidelines of the controlling authorities in relation to foreign exchange and verify whether same are being followed. If any deviation found same should be reported with details. Instances are given below:
		a) Deposits		• FCRA compliances- Credit in FCRA A/c are from permissible sources only as advised by Ministry of Home Affairs. Letter of MHA is available. • FCRA returns are being submitted. • Whether adequate record of credit to NRE account is being maintained at branch, i.e no amounts have been credited to NRE account from non permissible sources.

		b) Advances		• Verify, loans against NRE FDR have not been opened with NRE status, otherwise cheque book bearing word "NRE" will be issued for overdraft accounts against NRE FDR and loan amount will be repatriated which is not permissible. Such loan accounts should be opened only in NRO status. • Verify, proceeds of any demand loan against NRE FDR should not be credited to NRE SB account. Loan proceeds should only be credited to NRO account
		c) Export Bills		Comments on long outstanding overdue bills for collection. Comment in case, any export bill is written off whether prescribed procedure is followed by branch.
		d) Bills for collection		Any observation on process lapse in bills for collections should be given
		e) Dealing room operations (Where a branch has one)		Generally applicable to extra large branches or corporate office. Any deviation found in dealing room operation same should be commented.
		f) Any other area		<u>Instances are</u> <u>Documents for remittances</u> • Branch is obtaining documents for remittances relating to imports, remittances other than import and other trade transactions as prescribed • Compliance of Schedule-III of FEMA requirements <u>Submission of returns to RBI</u> • Submission of <u>returns to RBI-</u> Return, XOS return and BEF return. Obtention of A1- A2 certification from concurrent auditors.
3		Obtain a list of all Nostro Accounts maintained/operated by the Branch from the Branch Management.		Auditor should obtain a list of NOSTRO account from the branch.
		a) Are the Nostro Accounts regularly operated ?		Verify, whether account is being regularly operated if not give the list of NOSTRO accounts with balances and since when same are not being operated.
		b) Are periodic balance confirmations obtained from all concerned overseas branches/ correspondents ?		Verify whether balance confirmations have been obtained from all overseas branches/correspondents. Details of accounts where confirmations are not received should be given.

		c) Are these accounts duly reconciled periodically ? Your observations on the reconciliation may be reported.		Verify the reconciliation prepared by branch. If account is not reconciled report the same. Verify particularly debit entries pending for reversal in reconciliation. Effect of non reversal or delay in reversal of unreconciled entries are given below: • If any debit entry is pending for reconciliation and not debited to loan account on time, bank will loose interest for delayed period. • There is possibility that in loan accounts DP/funds are not available at the time of payment and if entry would have been debited on due date it might have made the account overdue, due to which account may turn to NPA. • There are chances of unauthorised payments from NOSTRO accounts.
4		Does the Branch follow the prescribed procedures in relation to maintenance of Vostro Accounts ?		Balance confirmation obtained and reconciled.
B		**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 crore**		
1		In respect of borrowers with outstanding of Rs.2.00 crores and above, the information in the enclosed format 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 /Central Statutory Auditors should be appended to the Long Form Audit Report.		• Auditor should obtain the details of such advances in prescribed format from Branch Manager duly signed by BM • Give details of any adverse features like, non operative for quiet a long time, renewed without adequate appraisal or disbursement without any appropriate approval. Any other issue which auditor feels is adverse and requires attention of CSA/Management should be commented.
2		What, in your opinion, are the major shortcomings in credit appraisal, monitoring, etc.?		Instances are shortcomings are: • Loan Application found missing or not on record • Appraisal form not filled properly. • Loan application is not in the format prescribed. • Basic documents like MOA/AOA not taken • Legal opinion not taken for property under EM • Level of book debts/creditors/inventory is not properly assessed • CR are not taken for borrower, guarantors • Security as per sanction not taken. • Charge as per sanction not created. • All other issues which have been discussed in LFAR earlier for advances.

3		List the accounts (with outstanding in excess of Rs.1.00 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 reasons therefore.		Obtain the list of cases reclassified as from NPA to standard or vice versa and give brief details and reasons of reclassification.
C		**For branches dealing in recovery of Non Performing Assets such as Asset Recovery Management Branches**		
1		In respect of every advance account in excess of Rs.2.00 crores, the information in the enclosed format 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/Central Statutory Auditors should be appended to the Long Form Audit Report.		• Auditor should obtain the details of such advances in prescribed format from Branch Manager duly signed by BM. • Give details of any adverse features like, non operative for quiet a long time, renewed without adequate appraisal or disbursement without any appropriate approval. Any other issue which auditor feels is adverse and requires attention of CSA/Management should be commented.
2		List the accounts (with outstanding in excess of Rs.2.00 crores), which have been upgraded from Non Performing to Standard Assets during the year and the reasons therefore.		Obtain the list of cases, where accounts have been upgraded from NPA to standard and give brief details and reason of reclassification.
3		Whether the Branch has a system of updating periodically, the information relating to the valuation of security charged to the Bank?		Auditor should verify and comment, whether there is system of periodical obtainment and updation of valuation of security charged to bank. Whether information so obtained have been updated in records.
4		Age-wise analysis of the recovery, suits-filed and pending may be furnished.		Age wise details of recovery, suit filed cases and pending cases should be furnished along with outstanding amounts and status of suit.
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 therefore.		Ensure in cases decree obtained, branches is prompt in execution for the decree. If not, same should be reported. List of cases, where decree is time barred same should be reported with reasons.
6		List the recoveries and their appropriation against the interest and the principal and the accounts settled/written off/closed during the year.		• Attach the list of all recoveries in NPA accounts for interest and principal. • List of accounts settled/closed should be provided. • Further in cases of recoveries, verify that accounting of revenue recognition has been done as per RBI guidelines and normal accounting principles consistently followed by bank.

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 borrowers (including non-fund based exposures and deposits pending adjustment/margin deposits) been transferred to the Branch?		• List of new accounts transferred to branch to be attached. • Ensure all documents relating to these accounts obtained from transferor branch. • Branch should obtain confirmation that all accounts of borrower transferred to branch. • Any adverse features have been observed on transfer of cases same should be reported.
D		**For branches dealing in clearing house operations, normally referred to as Service Branches**		
1		Does the branch have a system of periodic review of the outstanding entries in clearing adjustments accounts? In your view has the system generally been complied with?		• Verify, branch has system of periodic review of outstanding entries. Find out branch is doing follow up for old entries. • On test check basis, verify if the prescribed system of review and follow up is being adhered to.
2		Whether review of the clearing adjustments accounts (inwards/outwards) reveals any old/large/unusual outstanding entries, which remain unexplained? Give year-wise break-up of outstanding in number and value:		On review of clearing adjustment account (Inward/outward clearing) give the break up of old entries with number of entries and value outstanding since long.
3		Has the Branch strictly followed the guidelines of the controlling authority of the Bank with respect to operations related to clearing transaction? Comment on the systems and procedures followed by the Branch in this regard.		Auditor should verify, whether branch follows the guidelines of the controlling authority of bank with regard to operations relating to clearing transactions. In case, same has not been followed, auditor should report the deviation. In such case, auditor should also comment the systems and procedure being followed by the branch.