



Andheri Branch of WIRC of ICAI

Long Form Audit Report

Based on Presentation By

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Certain Definitions...

GAAP	The difference between Accounting theory & practice
CPA	Can't Produce Anything
FCPA	Finally Caught Pinching Assets
EBIDTA	Earnings Before I Tricked the Dumb Auditor
EBIT	Earnings Before Irregularities & Tampering
CEO	Chief Embezzlement Officer
CFO	Chief Fraud Officer
NAV	Net Andersen Valuation
EPS	Eventual Prison Sentence
LFAR	Letting Fellow Accountants Rejoice



Background

LFAR is a detailed questionnaire prepared by RBI.

LFAR has been in use since 1992-93.

To be submitted by the Auditors of Public sector banks, Private sector banks and foreign banks (including their branches).

Current format is applicable from the year ending 31.3.2003.



General...

Study LFAR Questionnaire thoroughly

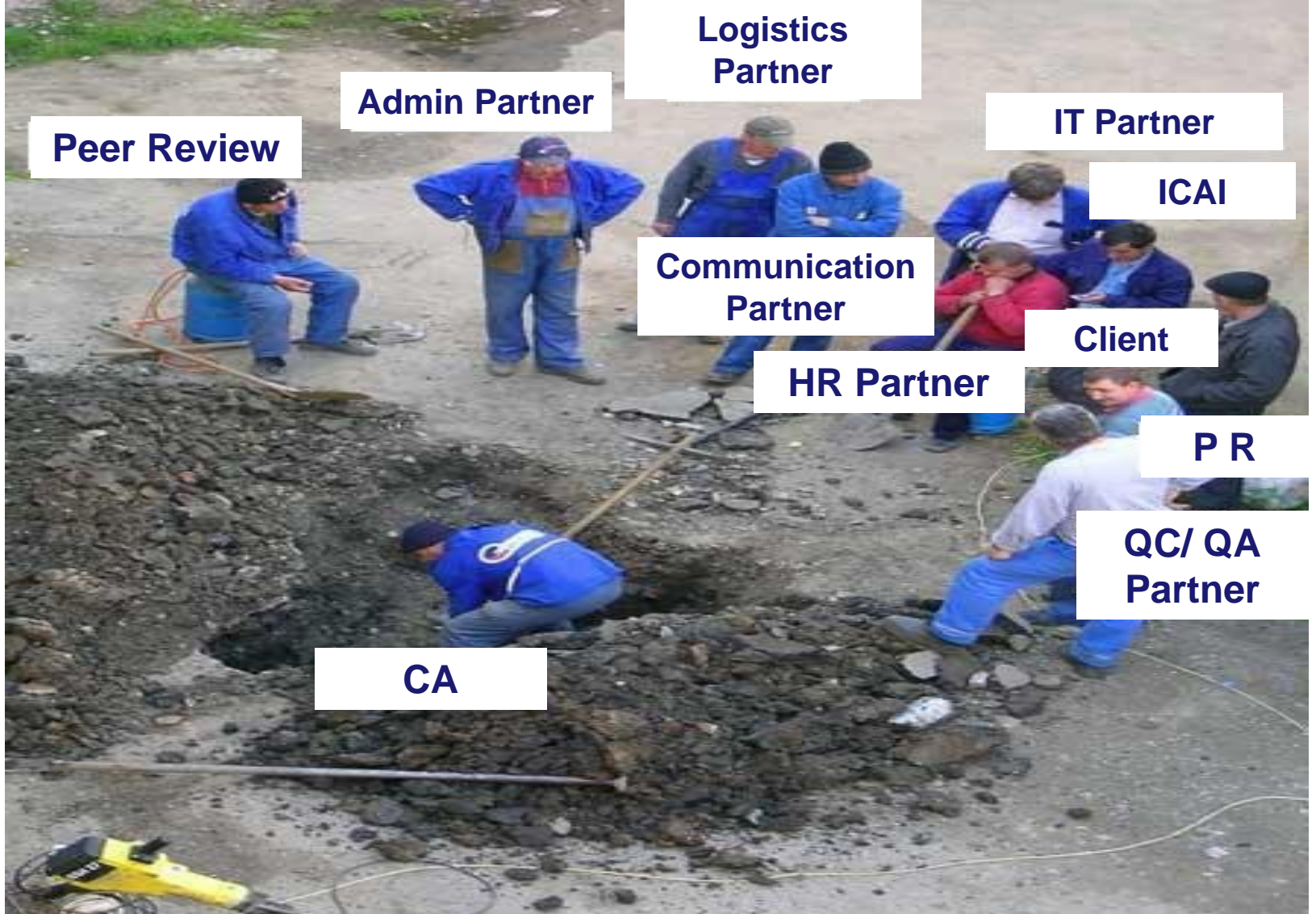
Plan the LFAR along with statutory audit right from day one

Use the Questionnaire as an Audit Planning Tool

Complete & submit Main Audit Report as well as LFAR simultaneously



Teamwork





General...

Be *specific* while replying LFAR
No vague/ general comments

Give instances of shortcomings/ weaknesses

Do not make current year's
LFAR a *replica* of previous year

Branch LFAR should be addressed
to Bank's Chairman and a copy thereof sent to CSAs



General...

Main Audit Report and LFAR are two separate reports. Comments in LFAR should not be *qualificatory* in nature

Include Audit Qualifications in Main Audit Report and not in LFAR



General

Main Audit Report should be a self contained document

LFAR should be sufficiently *detailed* and *quantified* for expeditious consolidation and rectification by Bank



Perspective Alert

LFAR is not a substitution of the statutory report, neither a part of the said report.

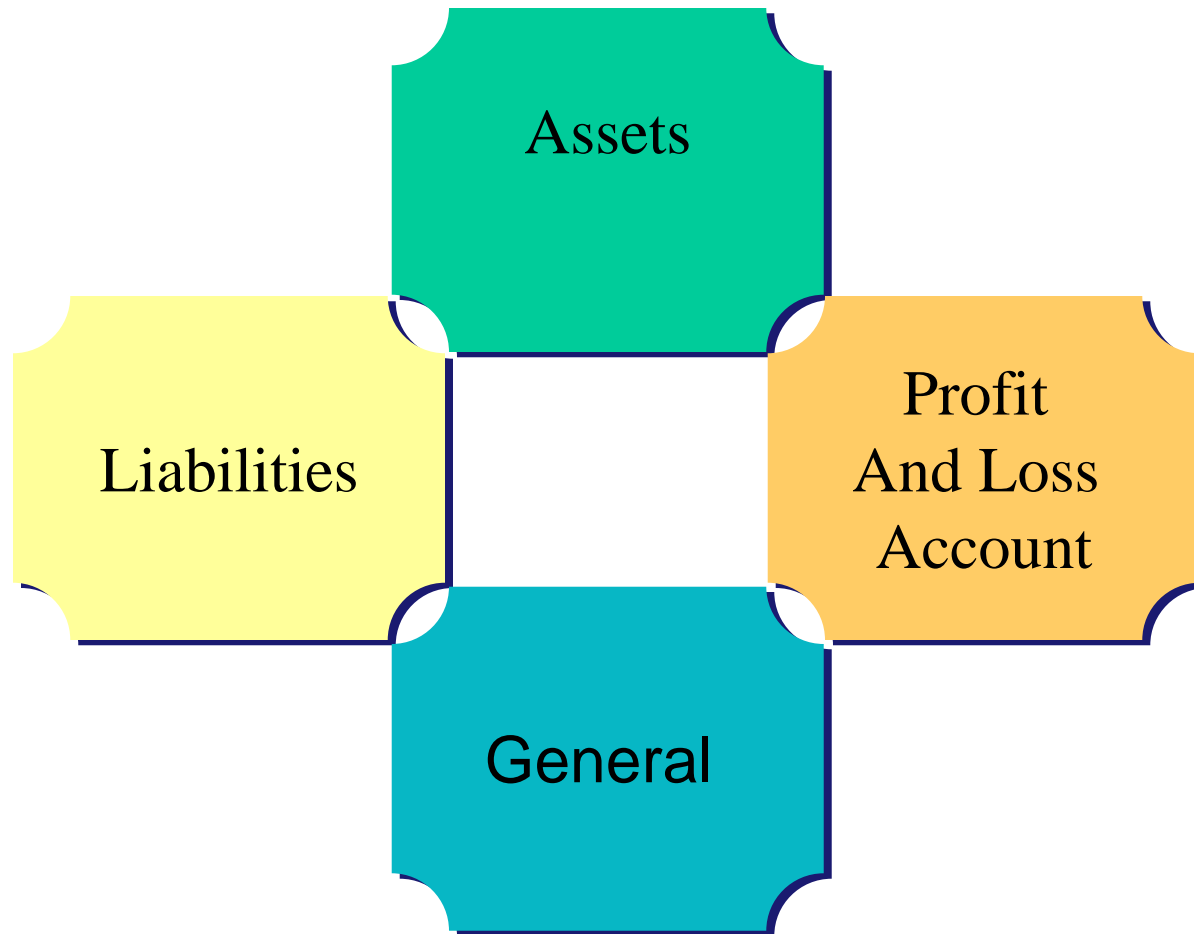
LFAR is actually a management Report.

Every adverse comment **would not result in** qualification in main audit report

Complete LFAR before main report.



Major Categories in LFAR





Assets

- » **Cash**
- » **Balance with RBI ,SBI and other banks**
- » **Money at call and short notice**
- » **Investments**
- » **Advances**
- » **Other Assets**



Cash

Branches carry cash depending upon the limit fixed by controlling authority

Adequate insurance cover of the cash in hand and cash in transit

Effective Joint Custody

Some small branches maintain cash in custody of a single official

Cash balance checked at proper intervals



Cash – Sample Response

As mentioned in management letter dated _____ Head office /regional office vide letter dated _____ has fixed cash retention limit of Rs. 10 lakhs . Xerox of letter is not produced to us. On 105 occasions carrying cash is more than retention limit. On 54 occasions it has exceeded 40lakhs. Excess carrying cash is not reported to controlling authorities.



Balances with RBI, SBI & Other Banks

Whether balance confirmation certificates obtained & reconciled

Cash transactions remaining unresponded

Revenue items requiring adjustments/ write-off

Item deserves special attention

Old outstanding balances remaining unexplained/ unadjusted



Investments

**Investments portfolio
is managed at H O**

**Kept for safe custody
at some branches**



**Physically verify
Investments – Certificate**

**Dividend/ interest received/
credited to H O account**



Investments-2

Income on investments kept at Branch for safe custody reported to Head office

Matured or overdue investments should have been encashed

RBI guidelines regarding valuation of Investments complied with



Advances...

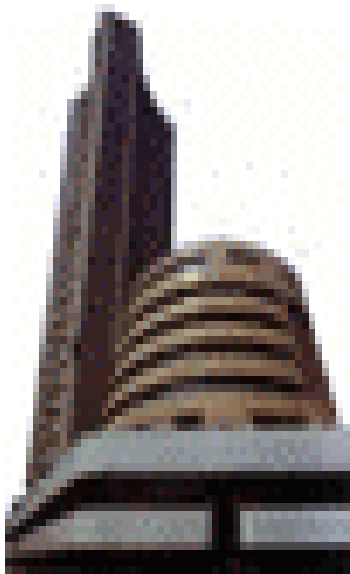
Outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs.2 crore whichever is less are LARGE ADVANCES

Fresh Loans: Whether appraised properly?
Whether adverse remarks of field officer are over ruled by seniors?

Sensitive Areas identified by RBI: Real Estate/ Securities/ Commodities

Housing Loans

Advances given to a specific group during the year?





Advances...

Loans approved by an authority just prior to his/ her retirement

Stipulated installments/interests are being paid regularly

Terms and conditions of the loan complied

Credit facilities sanctioned beyond delegated authority or limit fixed by Bank



Advances

Review/monitoring/supervision

Assess procedures for Periodic balance confirmation/
acknowledgement of debts.

Analysis of accounts overdue for review/renewal between 6
months & 1 year and over 1 year

Stock/debts statements and other periodic operational data
and financial statements etc received regularly from
borrowers and duly scrutinized

Physical verification of securities charged to banks



Advances (contd)

Review/monitoring/supervision

Frequent/ unauthorized overdrawing beyond limits

Guidelines of security creation, asset inspection, insurance etc in case of leasing finance activities

Branch identified and classified advances into standard/sub-standard/doubtful assets as per RBI

Physical verification of securities charged to banks



Guarantees and LCs

Critically Scrutinise

Sanctioning

Devolvements/ Invocations

Sanctioning huge non-fund based limits without proper margins

Over-exposure of such facilities to certain parties

Whether opening of such documents are for genuine trade transactions – LCs, Financial guarantees



Stationery and Stamps



Internal control over issue and custody of security items like TDRs, Drafts, Pay Orders, Cheque Books, Gift Cheques)

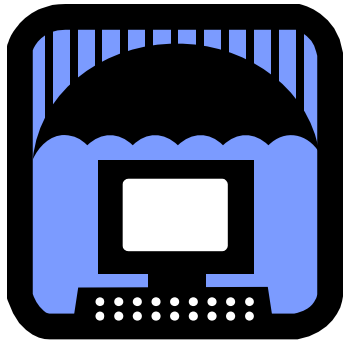


Cases of missing/ lost items of such stationery



Suspense Accounts/ Sundry Assets

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



Expeditious clearance of items debited

Reasons for delay in adjusting entries

Irrecoverable balances – provisioning?

Unusual items in these accounts?



Liabilities

- » **Deposits**
- » **Other Liabilities**
- » **Contingent liabilities**



Deposits...

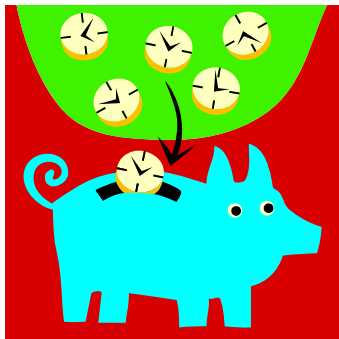
New Accounts opened

& soon closed

KYC forms

Anti Money Laundering Act
Heavy transactions during a period

Only clearing entries appear in the account:
– No actual deposit or withdrawal
– Trace entries to see final deposit or withdrawal in which account and report



Accounts of different parties proposed
by a single person/ Group

Overdue/matured term deposits at the
year end



Deposits...

Conduct and operations of Inoperative Accounts

Movement in
inoperative
accounts

Followed
prescribed
Guidelines?

Report where
guidelines are
not followed

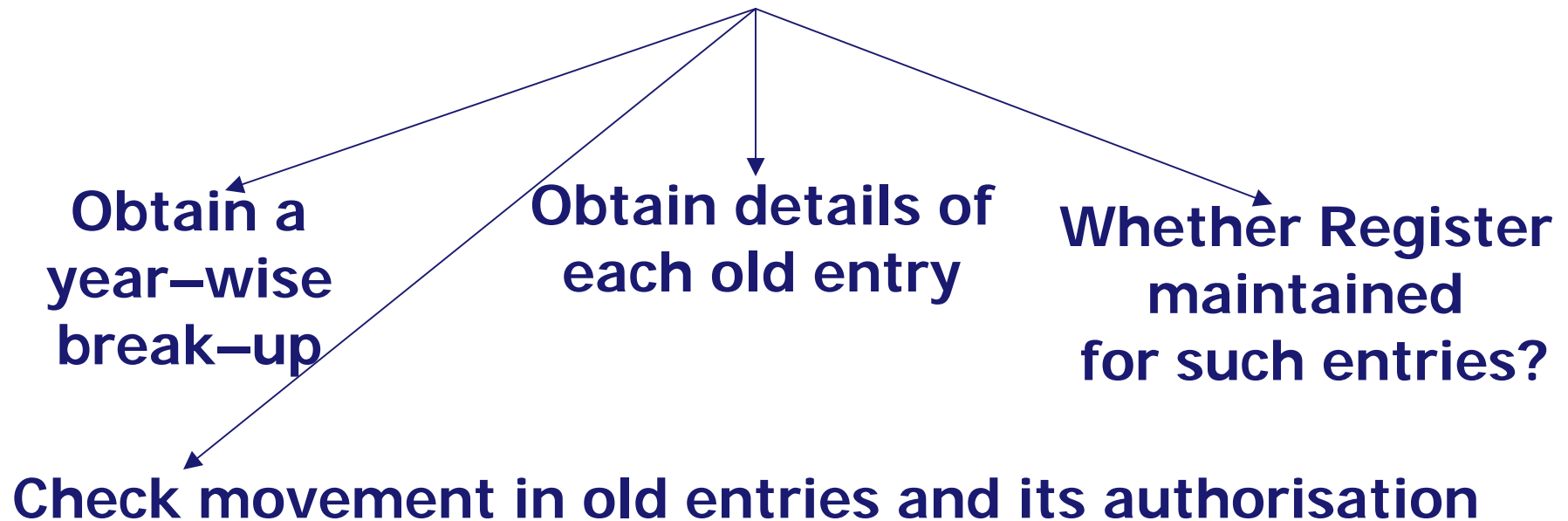
Transfer of such
Accounts from
operative
accounts ledger

Unusual large movements in aggregate deposits held at the year-end after the balance sheet date?



Sundry Deposits/ Bills Payable

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





Contingent Liabilities

Ensure that all contingent liabilities are identified and disclosed – Rent?



Impact on Capital Adequacy



- » **Discrepancies in interest/ discount**
- » **Income recognition norms**
- » **System of estimating and providing interest accrued on overdue/matured term deposit**
- » **Divergent trends in major item of income and expenditure**



Profit & Loss Account...

Interest on Advances



Interest on Deposits

Do not rely on software
Manually check and compare
results with software generated
results – change of interest rates

If errors observed, whom does it
benefit – a few borrowers/ group?

Test check if errors benefit a
few depositors/ group

Effect of changes in accounting
policies on items of income and expenditure



Profit & Loss Account...

Commission Income

**Check sudden spurt in Commission income:
From Guarantees/ LCs?
Whether rates of commission are normal?**

**Check sanctions, invocations, devolvments
Whether income is from few parties?**



Profit & Loss Account

Variance analysis

Interest to weighted average deposits/ advances compare current year with previous year

Check System to detect discrepancies in interest/ discount and for timely adjustment thereof

If discrepancies exist in many cases, consider its impact and ascertain qualification in auditors report?



General

- » **Books and records**
- » **Reconciliation of Control and subsidiary records**
- » **Inter branch accounts**
- » **Audits/ Inspections**
- » **Frauds**
- » **Miscellaneous**



Inter-Branch accounts

Branch forwards on a daily basis to a designated cell / Head office, a statement of debit/credit transactions in relation to other branches

**Fraud
Prone Area**

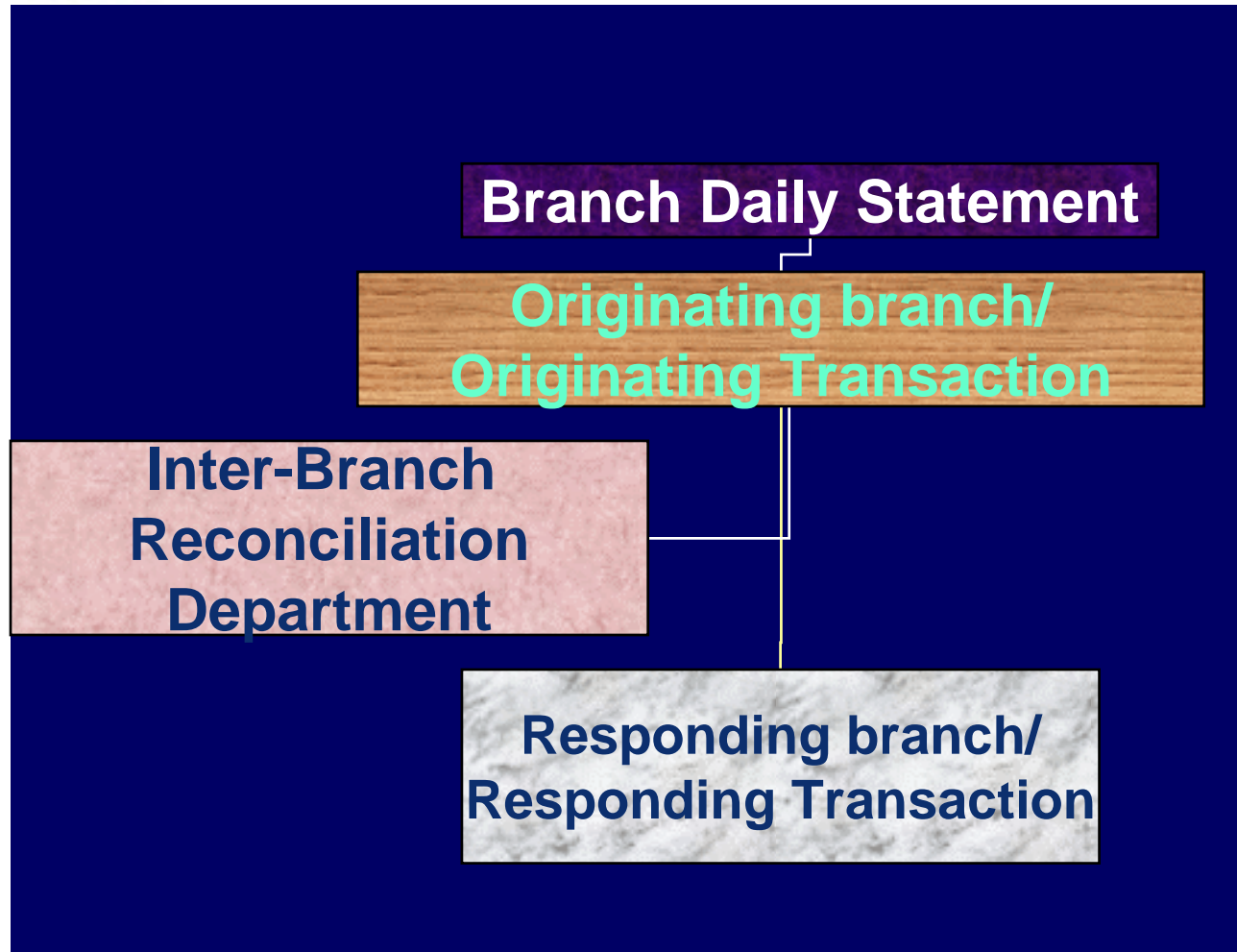
Outstanding debts in the head office account in respect of inter-branch transactions

Isolate old/large outstanding transaction/entries as at the year end which remained unexplained

Major adverse comments rising out of the latest reports of the previous auditors ,concurrent auditors ,stock auditors or internal auditors or RBI inspectors.



Inter-Branch Accounts...



Check effectiveness of system of identifying errors

Check adequacy of system of receipt and monitoring of data



Inter-Branch Accounts...

Whether the branch responds promptly to error advices received from H.O.

Whether the branch is vigilant about expeditious clearance of high-value entries?

Whether IBR st. are regularly received from HO & promptly attended?

Whether branch has written details on IBR st. for pending entries?

Test-check IBR St. to ascertain existence of high-value items

Whether originating debit entries/ cash transactions are liquidated within a reasonable period of time?



Inter-Branch Accounts

Entries over Two Years

Year	No. of o/s entries (in Lacs)	Amount o/s (Rs. Crores)	Average entry size (Rs.)
1996	22.58	50,706	2,24,561
2000	14.74	3,824	25,943
2004	33.73	2,622	7,775



Frauds

Particulars of frauds discovered during the year together with recommendations to minimize recurrence

Obtain register of frauds

Recommend ways and means to minimise occurrence of frauds



Miscellaneous

Does the accounts indicate possible window dressing?

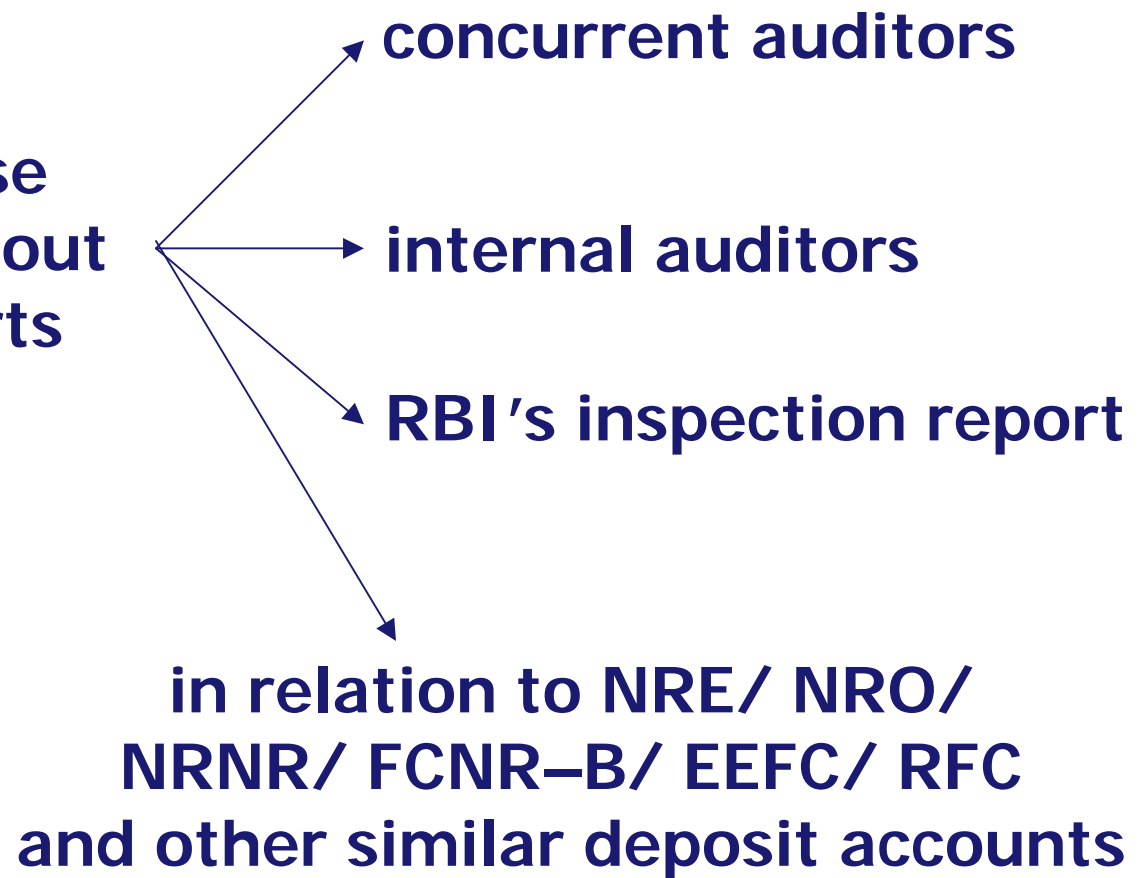
Other matters for consideration of management/ CSA's



Foreign Exchange Transactions..

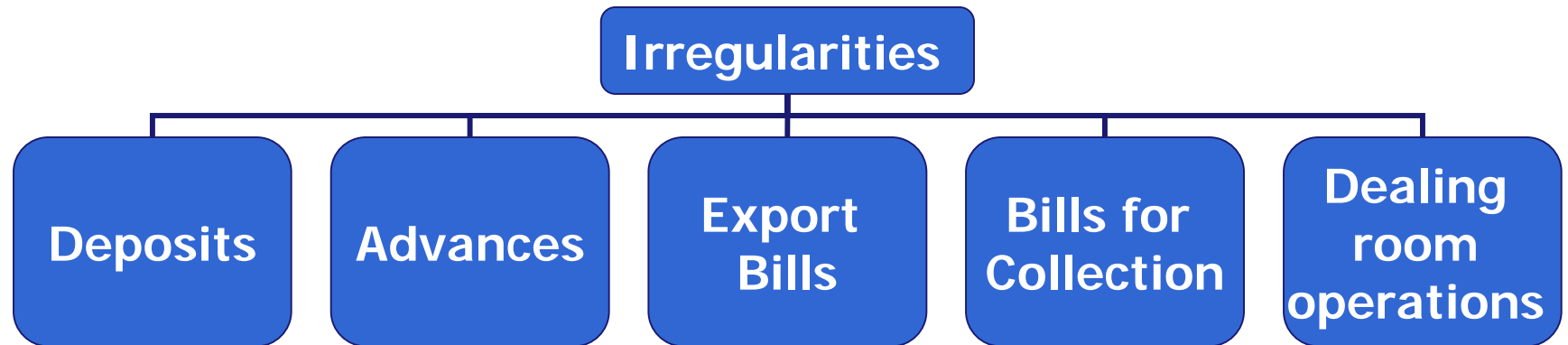


Material adverse features pointed out in various reports

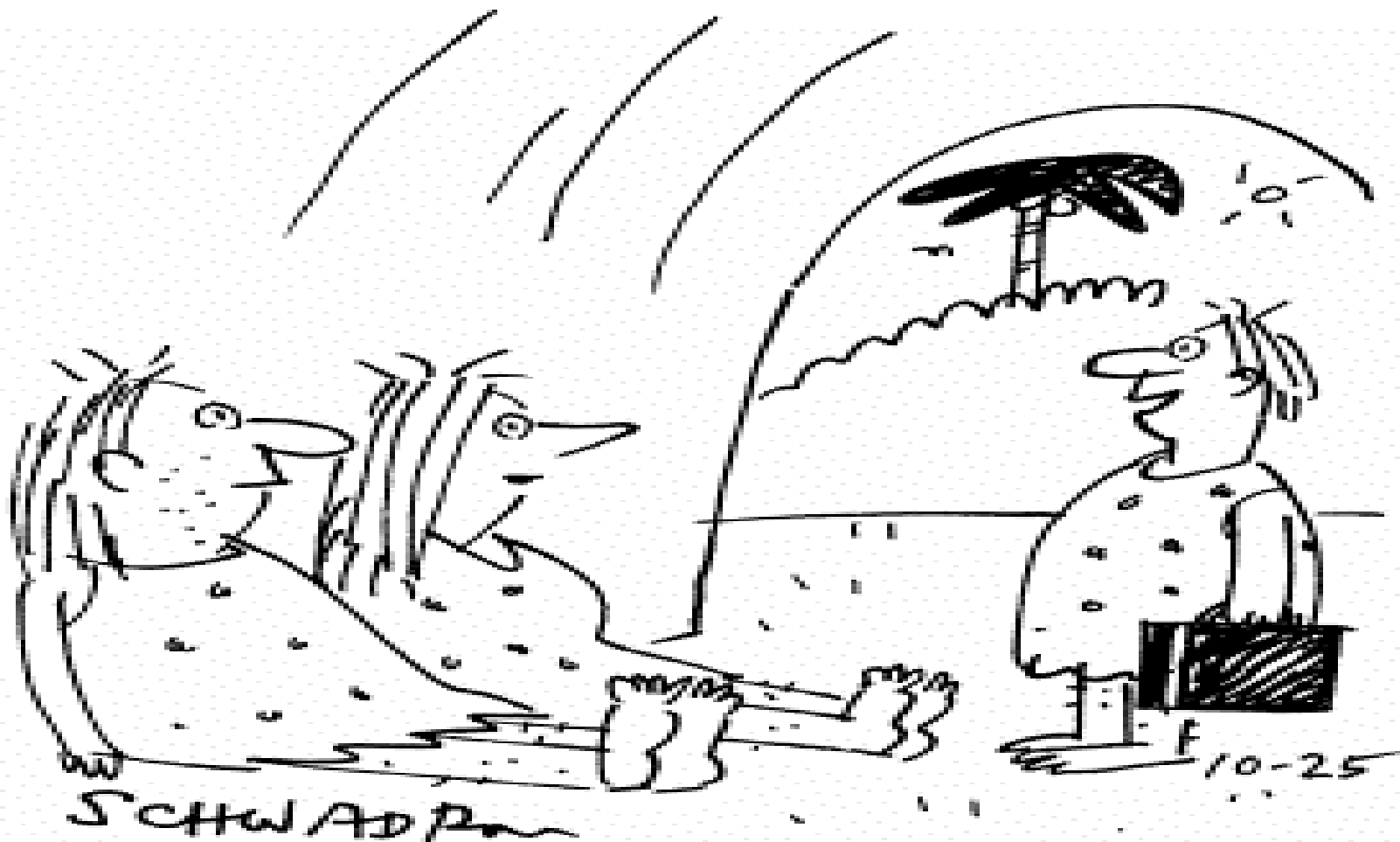




Foreign Exchange Transactions...



Effectively, a Consultants' job!



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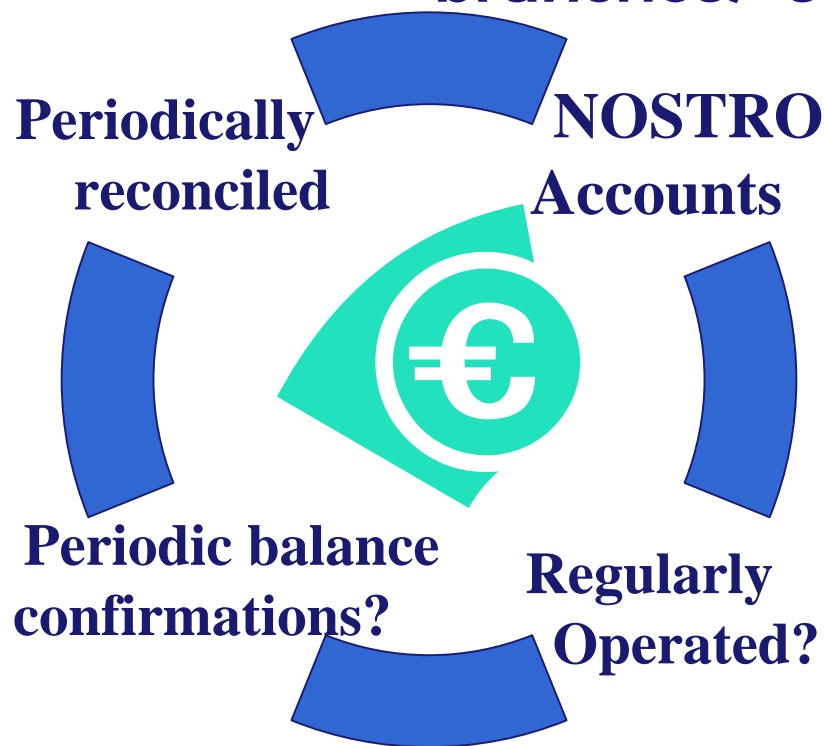
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"Mom, Dad, hunting and gathering don't interest me. I've decided to become a consultant."



Foreign Exchange Transactions

Foreign currency bank accounts kept with overseas branches/ other banks abroad



Year	No. of Entries (Lacs)	Amount (Rs.' crs.)	Average (Rs.)
1996	14.68	2,24,539	15,30,000
2000	8.60	83,491	9,71,000
2004	73,568	3,793	5,15,562



Vostro Accounts

**Accounts kept in Indian Branches
by Overseas branches/ foreign banks**





Asset Recovery Branches

Accounts upgraded from
Non Performing to Standard during
the year and reasons therefore

**Ensure that accounts are upgraded
only after proper and adequate
recovery in the account**



Fixed Assets

**Inter-branch transfer:
Whether accounted properly? Assets in employees
residences, shifted alongwith transferred
employees**

Depreciation

With Depreciation, we talk of Growth!



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“We replaced the carpeting with soil and seeds. We were desperate to see some kind of growth around here!”



**Don't let the
situation
confuse you...**





Q & A?

