

LONG FORM AUDIT REPORT

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PRELIMINARY POINTS

Importance of basic comparisons between reports

- BS with Balancing Report
- GL Reports Vs MIS

Identification of Entry Points and Potential Loopholes

- Physical sanction Vs CBS masters
- Manual Intervention

Analysis of Data and Cross- Reference

- Interlinkages between Income & Asset, Expense & Liability etc.

Substance Over Form

- Physical situation vs what is portrayed in documents

Importance of Variance Analysis

- Upsurge in last quarter, sudden increase in deposits and advances, potential misclassification etc.

Sampling

- Consider impact of low balance o/s but higher limit, limit appearing as zero, total exposure customer-wise, FITL Vs existing loans, restructuring etc.

RBI NOTIFICATION

- https://rbidocs.rbi.org.in/rdocs/content/pdfs/NT3305092020_A2.pdf

OBJECTIVE OF LFAR FOR BRANCH AUDITS

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

SAMPLING

- ii. The threshold fixed for different purposes for comments in the LFAR will decide that above the threshold, the transaction detailing needs to be seen and commented upon. However, below the threshold, the system and processes should be checked and commented upon.

EXTENT OF VERIFICATION OF CONTROLS

- iii. Verification of data integrity and data related control systems and processes should be carried out and commented upon, with the special thrust on those data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes.

LFAR VS AUDIT REPORT

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

LFAR ANNEXURE 2

LONG FORM AUDIT REPORT FOR BRANCH AUDITORS

I. ASSETS – CASH

1.(a)

Does the system ensure that cash maintained is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?

- Policy
- Adherence
- Records

I. ASSETS – CASH

1.(b)

Have the cash balances at the branch/ATMs been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?

- Policy
- Documentation

I. ASSETS – CASH

1.(c)(i)

Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?

- Daily Balance
- Significant definition

I. ASSETS – CASH

1.(c)(ii)

Does 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 end scrolls generated by the ATMs? If there is any difference, same should be reported.

- Year end
- Roll back

I. ASSETS – CASH

1.(d)

Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit?

- Centralised
- Policy

I. ASSETS - BALANCES WITH RBI/SBI

2.(a)

Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.

- Documentation
- Reconciliation

I. ASSETS - BALANCES WITH RBI/SBI

2.(b)(ii)

Revenue items requiring adjustments / write-off
(give details)

I. ASSETS - BALANCES WITH RBI/SBI

2.(b)(i)

Observations on reconciliation statements: Cash transactions remaining un-responded (give details).

I. ASSETS - BALANCES WITH RBI/SBI

2.(b)(iii)

Other credit and debit entries originated in the statements provided by RBI/other banks, remaining un-responded for more than 15 days

- Ageing

I. ASSETS - BALANCES WITH RBI/SBI

2.(b)(iv)

Where the branch maintains an account with RBI, the following additional matter may be reported: Entries originated prior to, but communicated / recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest attached to such branches
(Give details)

- Only for branches with Currency Chest attached

I. ASSETS - BALANCES WITH RBI/SBI

2.(c)

In case, any matter deserves special attention of the management, the same may be reported.

I. ASSETS - MONEY AT CALL

3.(a)

Has the branch kept money-at-call and short notice during the year?

I. ASSETS - MONEY AT CALL

3.(b)

Has the year-end balance been duly confirmed and reconciled?

I. ASSETS - MONEY AT CALL AND SHORT NOTICE

3.(c)

Has interest accrued up to the year-end been properly recorded?

I. ASSETS - MONEY AT CALL AND SHORT NOTICE

3.(d)

Whether instructions/guidelines, if any, laid down by the controlling authorities of the bank have been complied with?

I. ASSETS - INVESTMENTS

4.(a)

In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions/guidelines in this behalf issued by controlling authorities of the bank?

I. ASSETS – INVESTMENTS

4.(b)

Have the investments held by the branch whether on its own account or on behalf of the Head Office/other branches been made available for physical verification? Where the investments are not in the possession of the branch, whether evidences with regard to their physical verification have been produced?

I. ASSETS – INVESTMENTS

4.(c)

Is the mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located whichever are more stringent?

I. ASSETS – INVESTMENTS

4(d)

Whether there are any matured or overdue investments which have not been encashed and / or has not been serviced? If so, give the details?

ADVANCES

ADVANCES - General Instructions

- (i) The answers to the following questions may be based on the auditor's examination of all large advances. For this purpose, large advances are those in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less.

ADVANCES - General Instructions

- Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.

I. ASSETS – ADVANCES

5.(A)

List of accounts examined for audit

Account No.	Account Name	Funded Balance (A)	Non-funded Balance (B)	Total (C=A+B)	% of Total
{ACCT-001}	{Enter Account Name}	{Amount}	{Amount}	{Total}	{Percentage}
{ACCT-002}	{Enter Account Name}	{Amount}	{Amount}	{Total}	{Percentage}
{ACCT-003}	{Enter Account Name}	{Amount}	{Amount}	{Total}	{Percentage}
{ACCT-004}	{Enter Account Name}	{Amount}	{Amount}	{Total}	{Percentage}
{ACCT-005}	{Enter Account Name}	{Amount}	{Amount}	{Total}	{Percentage}
TOTAL EXAMINED		{Total A}	{Total B}	{Grand Total}	{Total %}
TOTAL OUTSTANDING OF BRANCH		{Branch Total A}	{Branch Total B}	{Branch Grand Total}	100%

- Mandatory Sample
- Discretionary Sample

I. ASSETS - ADVANCES - CREDIT APPRAISAL

5.(b)(i)

In your opinion, has the branch **generally complied** with the procedures / instructions of the 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. What, in your opinion, are the major shortcomings in credit appraisal, etc.

- Fresh Sanctions
- Indicate Shortcomings
- Peruse Concurrent audit reports
- Pre-sanction procedures

I. ASSETS - CREDIT APPRAISAL

5.(b)(ii)

Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction?

- Balancing Report analysis
- EWS

I. ASSETS - ADVANCES - CREDIT APPRAISAL

5.(b)(iii)

Whether in borrowal accounts the applicable interest rate is correctly fed into the system?

- Physical Vs CBS
- RBI Notifications

I. ASSETS - ADVANCES - CREDIT APPRAISAL

5.(b)(iv)

Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR (External Benchmark Lending Rate)?

- Guidelines

I. ASSETS - ADVANCES - CREDIT APPRAISAL

5.(b)(vi)

Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.

- Balancing Report Analysis
- Opened and Closed Accounts
- Customer-wise Account Analysis

I. ASSETS - ADVANCES - CREDIT APPRAISAL

5.(c)(i)(a)

Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?

- Policy
- Instructions

I. ASSETS - ADVANCES - SANCTIONING/ DISBURSEMENT

5.(c)(i)(b)

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?

- Sanction Delegation

**I. ASSETS -
ADVANCES -
SANCTIONING/D
ISBURSEMENT**

5.(c)(ii)

Are such cases promptly reported to higher authorities?

I. ASSETS - ADVANCES - SANCTIONING/ DISBURSEMENT

5.(c)(iii)

Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.

- Physical Sanction

**I. ASSETS -
ADVANCES -
SANCTIONING/
DISBURSEMENT**

5.(d)(i)

Did the bank provide loans to companies for buy-back of shares/securities?

I. ASSETS - ADVANCES DOCUMENTATION

5.(d)(ii)

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.

- Documentation Checklist
- File Analysis

I. ASSETS - ADVANCES – DOCUMENTATION

5.(d)(iii)

Deficiencies in documentation, including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.

- Masterdata for companies
- Registration Certificate

I. ASSETS - ADVANCES – DOCUMENTATION

5.(e)(i)

Advances against lien of deposits have been granted without marking a lien on the bank's deposit receipts and the related accounts in accordance with the guidelines of the controlling authorities of the bank.

- Original Deposit Receipts
- Guidelines

I. ASSETS – ADVANCES

5(e)(ii)(a)

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. What, in your opinion, are major shortcomings in monitoring, etc.

a) between 3 to 6 months

b) over 6 months

- CBS/MIS Reports
- Instructions
- Analysis, not just ageing
- Blank Forms signed

I. ASSETS - REVIEW/ MONITORING

5.(e)(ii)(b)

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?

- Sanction Compliance
- Penal Charges
- GIGO – Impact on IRAC

**I. ASSETS -
ADVANCES -
REVIEW/
MONITORING/
SUPERVISION**

5.(e)(ii)(c)

Is the DP properly computed?

- Sanction Compliance
- Substance over Form

**I. ASSETS -
ADVANCES -
REVIEW/
MONITORING/
SUPERVISION**

5.(e)(ii)(c)

Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?

**I. ASSETS -
ADVANCES -
REVIEW/
MONITORING/
SUPERVISION**

5.(e)(iii)(a)

Whether there exists a system of obtaining reports on stock audits periodically?

**I. ASSETS -
ADVANCES -
REVIEW/
MONITORING**

5.(e)(iii)(b)

If so, whether the branch has complied with such system?

I. ASSETS - ADVANCES - REVIEW/ MONITORING/ SUPERVISION

5.(e)(iii)(c)

Details of cases where stock audit was required but was not conducted; where stock audit was conducted but no action was taken on adverse features

- Stock Audit Reports

I. ASSETS – ADVANCES

5.(e)(iv)

Indicate the cases of advances to non-corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.

- Policy

I. ASSETS - ADVANCES - REVIEW/ MONITORING/ SUPERVISION

5.(e)(v)

Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate/report is not obtained or not available on record.

I. ASSETS - ADVANCES - REVIEW/ MONITORING

5.(e)(vi)

Has the inspection o 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? Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?

- Policy
- Define Substantial

I. ASSETS - REVIEW/ MONITORING

5.(e)(vii)

In respect of advances examined by you, have you come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?

- Unit visits
- Insurance Policy
- Exception Reports

I. ASSETS - ADVANCES - REVIEW/ MONITORING/ SUPERVISION

5.(e)(viii)

Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flag Accounts?

- RBI, Bank Policies

I. ASSETS - ADVANCES - REVIEW/ MONITORING/ SUPERVISION

5.(e)(ix)

Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.

I. ASSETS - ADVANCES - REVIEW/ MONITORING

5.(e)(x)

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?

I. ASSETS - ASSET CLASSIFICATION

5.(f)(i)(a)

Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?

- RBI Directions
- Exception Reports
- Circular no. RBI/2020-21/37 Ref.No. DoS.CO.PPG./SEC.03/11.01.005/2020-21 dated September 14, 2020

I. ASSETS - ADVANCES - ASSET CLASSIFICATION, PROVISIONING

5.(f)(i)(b)

Is this identification & classification in line with the norms prescribed by the Reserve Bank of India

Substance over Form

I. ASSETS - ADVANCES - ASSET CLASSIFICATION, PROVISIONING

5.(f)(i)(c)

Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA-1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.

- CBS/MIS Reports
- Test Check

I. ASSETS - ADVANCES - ASSET CLASSIFICATION, PROVISIONING

5.(f)(i)(d)

Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes.

I. ASSETS - ADVANCES - ASSET CLASSIFICATION

5.(f)(i)(e)

List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as Non-Performing Asset or Standard Asset during the year and the reason thereof.

- NPA Movement Analysis

I. ASSETS – ASSET CLASSIFICATION

5.(f)(i)(f)

Whether RBI guidelines on income recognition and provisioning have been followed.

- IRACP

I. ASSETS - ADVANCES - ASSET CLASSIFICATION, PROVISIONING

5(f)(ii)(a)

Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?

- Reports
- Guidelines

I. ASSETS – ASSET CLASSIFICATION

5.(f) (ii) (b)

Whether the RBI Guidelines for restructuring on all such cases have been followed.

I. ASSETS - ADVANCES - ASSET CLASSIFICATION, PROVISIONING

5.(f)(ii)(c)

Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?

I. ASSETS – ASSET CLASSIFICATION, PROVISIONING

5.(f)(iii)(a)

Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India

I. ASSETS – ASSET CLASSIFICATION

5.(iii)(b)

Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.

I. ASSETS – ADVANCES

5.(f)(iv)

Have you come across cases where the relevant Controlling Authority of the bank has authorized legal action for recovery of advances or recalling of advances, but no such action was taken by the branch? If so, give details of such cases.

- Inaction

I. ASSETS - ADVANCES - ASSET CLASSIFICATION

5(f)(v)

Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch? Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?

I. ASSETS – ASSET CLASSIFICATION

5.(f)(vi)(a)

Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled?

I. ASSETS – ASSET CLASSIFICATION

5.(vi)(b)

Give details of claims rejected? (As per the given Claims at beginning of year, claims lodged, claims accepted/settled, claims rejected, and balance at year end. Ensure amounts match records)

I. ASSETS – ASSET CLASSIFICATION, PROVISIONING

5.(f)(vi)(c)

Whether the rejection is appropriately considered while determining the provisioning requirements

I. ASSETS – ASSET CLASSIFICATION

5.(f)(vii)

In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?

- Erosion, Loss Asset

I. ASSETS – ASSET CLASSIFICATION, PROVISIONING

5.(f)(viii)

In the cases examined by you, has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/settlement and write-off cases? Details of the cases of compromise/settlement and write-off cases involving write-offs/waivers in excess of Rs. 50.00 lakhs may be given

I. ASSETS – ADVANCES

5.(f)(ix)

Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.

- Balancing Report Analysis
- Decree timelines

I. ASSETS – ASSET CLASSIFICATION, PROVISIONING

5.(f)(x)

Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?

- Policy

I. ASSETS – ASSET CLASSIFICATION

5.(f)(xi)

In cases where documents are held at centralized processing centres / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any

- Credit Hubs

I. ASSETS – ASSET CLASSIFICATION, PROVISIONING

5.(f)(xii)

List the major deficiencies in credit review, monitoring and supervision.

I. ASSETS - NON-FUND BASED

5.(g)(i)

List of borrowers with details of LCs devolved or guarantees invoked during the year.

I. ASSETS - NON-FUND BASED

5.(g)(ii)

List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.

I. ASSETS - NON-FUND BASED

5.(g)(iii)

List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.

I. ASSETS – OTHER ASSETS - SUSPENSE ACCOUNTS

6.(a)(i)

Does the system of the bank ensure expeditious clearance of items debited to Suspense Account?

Details of outstanding entries in excess of 90 days 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.

- CBS/MIS Reports
- FS Analysis

I. ASSETS – OTHER ASSETS

6.(a)(ii)

Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved. Are there any intangible items under this head e.g. losses not provided / pending investigation?

- Evergreening
- Fictitious entries
- Variance Analysis

II. LIABILITIES – DEPOSITS

1.(a)

Does the bank have a system of identification of dormant/ inoperative accounts and internal controls with regard to operations in such 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 thereof.

- Guidelines

II. LIABILITIES – DEPOSITS

1.(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 branch and give your comments thereon.

- Variance Analysis

II. LIABILITIES – DEPOSITS

1.(c)

Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.

- CBS Configuration
- Guidelines

II. LIABILITIES – DEPOSITS

1.(d)

Is the branch complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts?

- Regulations
- Test Check

II. LIABILITIES - OTHER LIABILITIES

2.(a)

The number of items and the aggregate amount of old outstanding items pending for one year or more be obtained from the branch and reported under appropriate heads. Give details thereof.

- CBS/MIS/Exception Reports
- Variance Analysis

II. LIABILITIES - OTHER LIABILITIES (BILLS PAYABLE, SUNDRY DEPOSITS)

2.(b)

Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, give details thereof.

II. LIABILITIES – CONTINGENT

3

List of major items of the contingent liabilities (other than constituent's liabilities such as guarantees, letter of credit, acceptances, endorsements, etc.) not acknowledged by the branch?

III. PROFIT AND LOSS ACCOUNT

3.(1)(a)

Has the test checking of interest/discount/ commission/ fees etc. revealed excess/short credit of a material amount? If so, give details thereof.

- Interest Product
- Theoretical Balance

III. PROFIT AND LOSS ACCOUNT

3(1)(b)

Has the branch complied with the Income Recognition norms prescribed by R.B.I.? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets).

- IRACP

III. PROFIT AND LOSS ACCOUNT

3.(1)(c)

Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.

III. PROFIT AND LOSS ACCOUNT

3.(1)(d)

Does the bank have a system of estimating and providing interest accrued on overdue/matured/unpaid/ unclaimed term deposits including in respect of deceased depositors?

- FS Analysis

III. PROFIT AND LOSS ACCOUNT

3.(i)(e)

Are there any divergent trends in major items of income and expenditure, in comparison with corresponding previous year, which are not satisfactorily explained by the branch? If so, the same may be reported.

- Unsatisfactory Explanations

IV. GENERAL - GOLD/BULLION

1.(a)

Does the system ensure that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?

IV. GENERAL - GOLD/BULLION

1.(b)

Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?

IV. GENERAL - SECURITY ITEMS

1.(c)

Does the system of the Bank ensure adequate internal control over issue and custody 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? Have you come across cases of missing/lost items?

- Internal Controls

IV. GENERAL - BOOKS AND RECORDS

2.(a)

Whether there are any software systems (manual or otherwise) used at the branch which are not integrated with the CBS? If yes, give details thereof.

IV. GENERAL - BOOKS AND RECORDS

2.(b)(i)

In case the branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts and are pending compliance? If yes give details.

IV. GENERAL - BOOKS AND RECORDS

2.(b)(ii)

Whether branch is generating, and verifying exception reports at the periodicity as prescribed by the bank

IV. GENERAL - BOOKS AND RECORDS

2.(b)(iii)

Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end.

IV. GENERAL - BOOKS AND RECORDS

2.(b)(iv)

Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.

IV. GENERAL - BOOKS AND RECORDS

2.(b)(v)

Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level.

IV. GENERAL - INTER-BRANCH ACCOUNTS

3

Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards unmatched transactions? As at the year-end are there any un-responded/un-complied queries or communications beyond 7 days? If so, give details?

- Documentation

IV. GENERAL – FRAUDS

4.(i)

Frauds detected/classified but confirmation of reporting to RBI not available on record at branch.

IV. GENERAL – FRAUDS

4.(ii)

Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation.

IV. GENERAL – FRAUDS

4.(iii)

In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud...

DOCUMENT FABRICATION

Falsification of accounts, invoices, stock statements, shipping bills, or encumbrance certificates to avail credit.

FUND DIVERSION

Misappropriation through related party/shell companies, round tripping, or using current accounts outside consortium.

RECEIVABLES FRAUD

Fabricated debtor lists, receivables not followed up, or writing off debt of related parties.

OPERATIONAL RISKS

Fly by night operations, vendors/units not available at registered addresses, fake export/shipping bills.

IV. GENERAL – FRAUDS

4.(iv)

Whether the system of Early Warning Framework is working effectively and, as required, the early warning signals form the basis for classifying an account as RFA.

- EWS

EARLY WARNING SIGNALS (EWS)

List of Early Warning Signals (EWS)

- Default in undisputed payment to the statutory bodies as declared in the Annual report.
- Bouncing of high-value cheques.
- Frequent change in the scope of the project to be undertaken by the borrower.
- Delay observed in payment of outstanding dues.
- Frequent invocation of BGs and devolvement of LCs.
- Underinsured or overinsured inventory.
- Invoices devoid of TAN and other details.
- Dispute on the title of collateral securities.
- Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.

List of Early Warning Signals (EWS) Contd.

- Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
- Funding of the interest by sanctioning additional facilities.
- Exclusive collateral charged to several lenders without NOC of existing charge holders.
- Concealment of certain vital documents like master agreement, insurance coverage.
- Floating front/associate companies by investing borrowed money.
- Critical issues highlighted in the stock audit report.
- Liabilities appearing in ROC search report, not reported by the borrower in its annual report.
- Frequent request for general-purpose loans.

List of Early Warning Signals (EWS) Contd.

- Frequent ad hoc sanctions.
- Non-routing of sales proceeds through consortium/member bank/lenders to the company.
- LCs issued for local trade/related party transactions without underlying trade transaction.
- High-value RTGS payment to unrelated parties.
- Heavy cash withdrawal in loan accounts.
- Non-production of original bills for verification upon request.
- Significant movements in inventory, disproportionately differing vis-a-vis change in turnover.
- Significant movements in receivables, disproportionately differing vis-a-vis change in turnover and/or increase in aging of the receivables.

List of Early Warning Signals (EWS) Contd.

- Disproportionate change in other current assets.
- Significant increase in working capital borrowing as a percentage of turnover.
- Increase in Fixed Assets, without corresponding increase in long-term sources (when project is implemented).
- Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
- Frequent change in accounting period and/or accounting policies.
- Costing of the project which is in wide variance with the standard cost of installation of the project.
- Claims not acknowledged as debt high.
- Substantial increase in unbilled revenue year after year.

List of Early Warning Signals (EWS) Contd.

- Large number of transactions with interconnected companies and large outstanding from such companies.
- Substantial related party transactions.
- Material discrepancies in the annual report.
- Significant inconsistencies within the annual report (between various sections).
- Poor disclosure of materially adverse information and no qualification by the statutory auditors.
- Raid by Income tax/sales tax/central excise duty officials.
- Significant reduction in the stake of promoter/director or increase in the encumbered shares of promoter/director.
- Resignation of the key personnel and frequent changes in the management.

IV. GENERAL - KYC/AML

5.(i)

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

IV. GENERAL - KYC/AML

5.(ii)

Whether the branch followed the KYC/AML guidelines based on the test check carried out by the branch auditors

IV. GENERAL – MIS

6.(a)

Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes.

- GIGO

IV. GENERAL – MIS

6.(b)

Have you come across any instances where data integrity was compromised?

- Audit Reports
- Logs

IV. GENERAL - MISCELLANEOUS

7.(a)(i)

In framing your audit report/LFAR, have you considered the major adverse comments arising out of the latest reports such as: Previous year's Branch Audit Report / LFAR?

IV. GENERAL - MISCELLANEOUS

7.(a)(ii)

In framing your audit report/LFAR, have you considered the major adverse comments arising out of... Internal audit/ Snap Audit/ concurrent audit report(s)?

IV. GENERAL - MISCELLANEOUS

7.(a)(iii)

In framing your audit report/LFAR, have you considered the major adverse comments arising out of the latest Credit Audit Report?

APPENDIX - FOREIGN EXCHANGE

1.(a)

Are there any material adverse features 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/ FCNR-B/ EEFC/ RFC and other similar deposits accounts. If so, furnish the particulars of such adverse features.

APPENDIX - FOREIGN EXCHANGE

1.(b)

Whether the branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to advances.

APPENDIX - NOSTRO ACCOUNTS

3.(c)

Are there any dormant/closed NOSTRO accounts in respect of which balances continue to exist in the books of the branch, at year end?

APPENDIX - GOVERNMENT BUSINESS

II

Whether the branch has acted within the delegated authority in relation to Government Business?

APPENDIX - AGRICULTURAL FINANCE

III(a)

Does the branch follow the norms for identification of bad and doubtful debts in respect of agricultural advances as prescribed by the Reserve Bank of India?

APPENDIX - AGRICULTURAL FINANCE

III(b)

Whether the branch has followed the guidelines of the controlling authorities of the bank with regard to appraisal, sanction and documentation of agricultural advances?

APPENDIX - PRIORITY SECTOR

IV

Whether the branch has reported the advances under priority sector correctly to the Controlling Authority?

Sl. No.	Sector / Category	Old Limit (2020)	New Limit (2025-2026)
1	Education Loans	Up to ₹20 lakh	Up to ₹25 lakh
2	Housing Loan — Maximum Eligible Loan	Metro: ₹35 lakh Other: ₹25 lakh	≥50 lakh population: ₹50 lakh 10–50 lakh: ₹45 lakh <10 lakh: ₹35 lakh
3	Housing — Cost Ceiling	Metro: ₹45 lakh Other: ₹30 lakh	₹63 lakh / ₹57 lakh / ₹44 lakh (population-based)
4	Export Credit (Incremental)	Up to ₹40 crore per borrower	Up to ₹50 crore per borrower

APPENDIX PRIORITY SECTOR IV

RESERVE BANK OF INDIA- (PRIORITY SECTOR – TARGETS AND CLASSIFICATION) DIRECTIONS 2025

APPENDIX - SSI FINANCE

V

Has the branch complied with the guidelines of the Reserve Bank of India / Controlling Authorities of the bank regarding financing to the Small Scale Industries (SSI)? If not, state the deviations.

APPENDIX - MERCHANT BANKING

VI

Whether the branch has performed the functions related to merchant banking in accordance with the guidelines of the controlling authorities of the bank?

Important Master Directions

- Master Direction – RBI (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025: Published on 28 November 2025 and updated as of 01 January 2026.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=13146
- Master Direction – RBI (Commercial Banks – Financial Statements: Presentation and Disclosures) Directions, 2025: Issued 28 November 2025.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=13143
- Master Direction – RBI (Commercial Banks – Classification, Valuation and Operation of Investment Portfolio) Directions, 2025: Issued 28 November 2025.
- https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=13148

Important Master Directions

- Master Direction – RBI (Commercial Banks – Governance) Directions, 2025: Issued 28 November 2025.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=1316
1
- Master Direction – RBI (Commercial Banks – Know Your Customer) Directions, 2025: Updated as of 29 December 2025.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=1314
1
- Master Directions - Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=1279
9
- Master Direction – RBI (Commercial Banks – Managing Risks in Outsourcing) Directions, 2025: Issued 28 November 2025.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=1313
9

Important Master Directions

- Master Direction – RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025: Updated as of 10 March 2026.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=13159
- Master Direction – Reserve Bank of India (Interest Rate on Deposits) Directions, 2025, effective 01 April 2025, and the Banking Laws (Amendment) Act, 2025.
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=13149
- RBI has issued Master Directions on Lending to Micro, Small and Medium Enterprises (MSME) sector vide Master Directions no. FIDD.MSME and NFS.12/06.02.31/2017-18 dated July 24, 2017 (Updated as on July 29, 2022), in which definition of MSME and common guidelines/instructions for lending to MSME Section are given
https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11060

QUESTIONS

Thank You

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