

LONG FORM AUDIT REPORT

In the case of branches, the auditors are required to answer a detailed questionnaire formulated by the RBI. Such report is usually termed as Long Form Audit Report (LFAR)

The LFAR is not a substitute for the statutory audit report and not the deemed part of the said report. The operations and audits of a bank are mainly based on the effective internal controls and this report serves the purpose of bringing to the notice of the management. The lacunae, shortcomings and failures in respect of compliance or adherence to the internal control measures adopted by the Banks. The main report is to be submitted as per the requirements of Banking Regulation Act 1949. LFAR is a separate report to be submitted to the Management, the format of which is prescribed by the RBI. The latest format of LFAR was revised in the year 2003 and was made effective from 31st March 2003.

LFAR is a questionnaire, which asks specific questions for which replies should be specific. Auditor should give specific comments and should refrain from answering issues for which replies were never sought unless relevant. The replies so prepared would reveal some facts which may be required to be looked into by the Management for improving the working of the bank. Before finalizing the LFAR, the auditor should discuss the contents of LFAR with the branch head and should obtain his response.

Specific disclosure, such as in respect of extent of checking, limitations of documents verified, representations received, etc., should be made in LFAR.

In the preparation of LFAR, the auditor should call for and look into the previous reports to ascertain whether in respect of the accounts for the year under audit, there are any matters, which deserve the attention of the management, particularly as regards adverse comments of a material nature in which remedial action was warranted.

The main report is a self-contained document and should not make any reference to the LFAR. However, matter in the main report may be elaborated in the LFAR. Where any of the comments made by the auditor in the LFAR is adverse, he should consider whether a qualification in the main report is necessary.

While designing the audit programme the auditor should take into consideration the requirement of the LFAR questionnaire and should, accordingly plan his audit work so as to cover the areas mentioned in the LFAR simultaneously. This would enable auditor to appreciate and consider the effects of various matters to be reported in his LFAR and his main audit report.

Some of the matters dealt with in the LFAR need compilation of detailed information/ statements. It should be recognized that the responsibility for such compilation is that of the bank/ branch concerned.

The auditor may also give disclaimer in LFAR with respect to any significant problem faced by him in the preparation of LFAR. Some of such problems are as follows:

- (a) Lack of availability of necessary information.
- (b) Lack of availability of computer systems to conduct audit.
- (c) Instructions of Controlling Authorities not recorded or not shown to the auditors.
- (d) Reliance placed on the computer system in operation should be stated if a system audit has not been done.
- (e) Reliance placed, if any, on the previous year's LFAR/ concurrent and other audit reports.

List of data which is to be collected by the Auditor from the Branch for the purpose of compiling LFAR

1. Branch closing instructions
2. Instructions of Controlling Authorities on various issues.
3. Authorization level and powers of branch officials.
4. Previous years audit report / LFAR/ Tax audit report , inspection report of the branch, concurrent audit report and compliance thereon.
5. Cash Retention Limit.
6. Bank Confirmations/ Bank Reconciliations.
7. Insurance for Cash/ Cash-in-transit.
8. List of NPA's and provisioning thereon.
9. In case of advances more than Rs. 2 Crores sanctioned limit and outstanding balance (both funded and non-funded)
10. List of overdues/ overdrawings.
11. Stock audit reports / unit inspection reports.
12. Valuation reports of NPA accounts where outstanding balance in more than Rs.1 Crore and valuation has been done prior to three years.
13. List of frauds and follow-up action.
14. Break-up of Suspense accounts.
15. List of provisions/ prepaid expenses.
16. List of security items as at 31st March.
17. List of all advances part wise and limit wise.
18. List of Contingent liabilities.
19. List of Fixed Assets.
20. Status of claim lodged with ECGC/DICGC/CGST.
21. Case of overdue proposals for review/ renewals.
22. Cases of sanctions not disbursed.
23. Yearly break of matured deposits.
24. Schedule of charges (for booking of income)
25. System audit report.
26. List of sundry deposits/ Bills payables.

27. List of Non-Corporate entities enjoying limits more than Rs.10 Lacs.
28. Report in desired format of Advances of more than Rs.2 Crores.
29. Stock register/ insurance register/ Stationer draw power register/ Cheque book issue register/ Cash book/ Sanction register/ Custody register/ DD issued register/ Document register.
30. Head Office/ Inter branch reconciliation.
31. List of MIS reports / Returns submitted to various authorities.
32. Overdue locker rents/ vacant lockers.
33. Cash withdrawals / deposit of more than Rs.10 Lacs.
34. Status of PC virus upgraded.
35. Number of inoperative accounts
36. List of expired guarantees.
37. Details of Customers complaints.
38. System generated statement for documents time barred by limitation.
39. System generated list of accounts which were due for review and not reviewed/ renewed.

Before commencement of audit, the auditor should demand a Management Representation Letter from the branch, such letter may include matters as enumerated below:

- a. Use of fixed assets.
- b. Effective operation of the internal control system throughout the year.
- c. Maintenance of effective joint custody of cash at all times during the year.
- d. Proper recording of all customers complaints.
- e. Notice and reporting of frauds during the year.
- f. Adherence to branch timings.
- g. Non- sharing of passwords.
- h. Nil window dressing of accounts.
- i. Genuineness of credits , if any, in NPA accounts at the year end.

Various clauses in LFAR are as follows:

1. Assets
 - a. Cash.
 - b. Balance with RBI, SBI and other Banks.
 - c. Money at call and short notice.
 - d. Investments.
 - e. Advances.
 - f. Other Assets.

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2. Liabilities
 - a. Deposits
 - b. Other Liabilities.
3. Contingent Liabilities
4. Profit and Loss Accounts
5. General
 - a. Books and Records
 - b. Reconciliation of Control and Subsidiary records
 - c. Inter-branch Accounts
 - d. Audit/ Inspections
 - e. Frauds
 - f. Miscellaneous.