

LFAR Reporting: Common Audit Observations

Shashank Patki
Chartered Accountant

(All images/ data in the presentation from the web/internet)
Disclaimer: All the statements made in presentation are author's views.

Bank Branch Audit – Pune- 22nd March 2026

Introduction to LFAR

- Bank audit Evolution:
 - Statutory Audit was – Balance-sheet Audit
 - Concurrent Audit was – Transaction Audit
- LFAR 2020 – defines coverage specifically
(similar to CARO in Companies Act!)
- Introduced in 1985 by RBI;
Revised in 2003 and now latest in 2020

Introduction to LFAR

- LFAR – Dynamic and pervasive
- RBI purview – Risk Control Mechanism;
Report on adherence to Internal Control Measures
- To be submitted by Concurrent Auditors' for
Branches below cut off point
- Transaction audit / Data analysis/ Understanding
Computer software – Finnacle etc.

Audit Planning

- Time Constraint
 - Delayed appointments
 - Less time : More Work; Quality of work

waqt kam aur kaam jyada- ye bahut nainsaffi hai !
- LFAR itself is Checklist for Audit Program
- Reports (?)
 - To be filled directly in the bank provided system
 - Fall down Menu gives options of loan comments
 - Concise English language

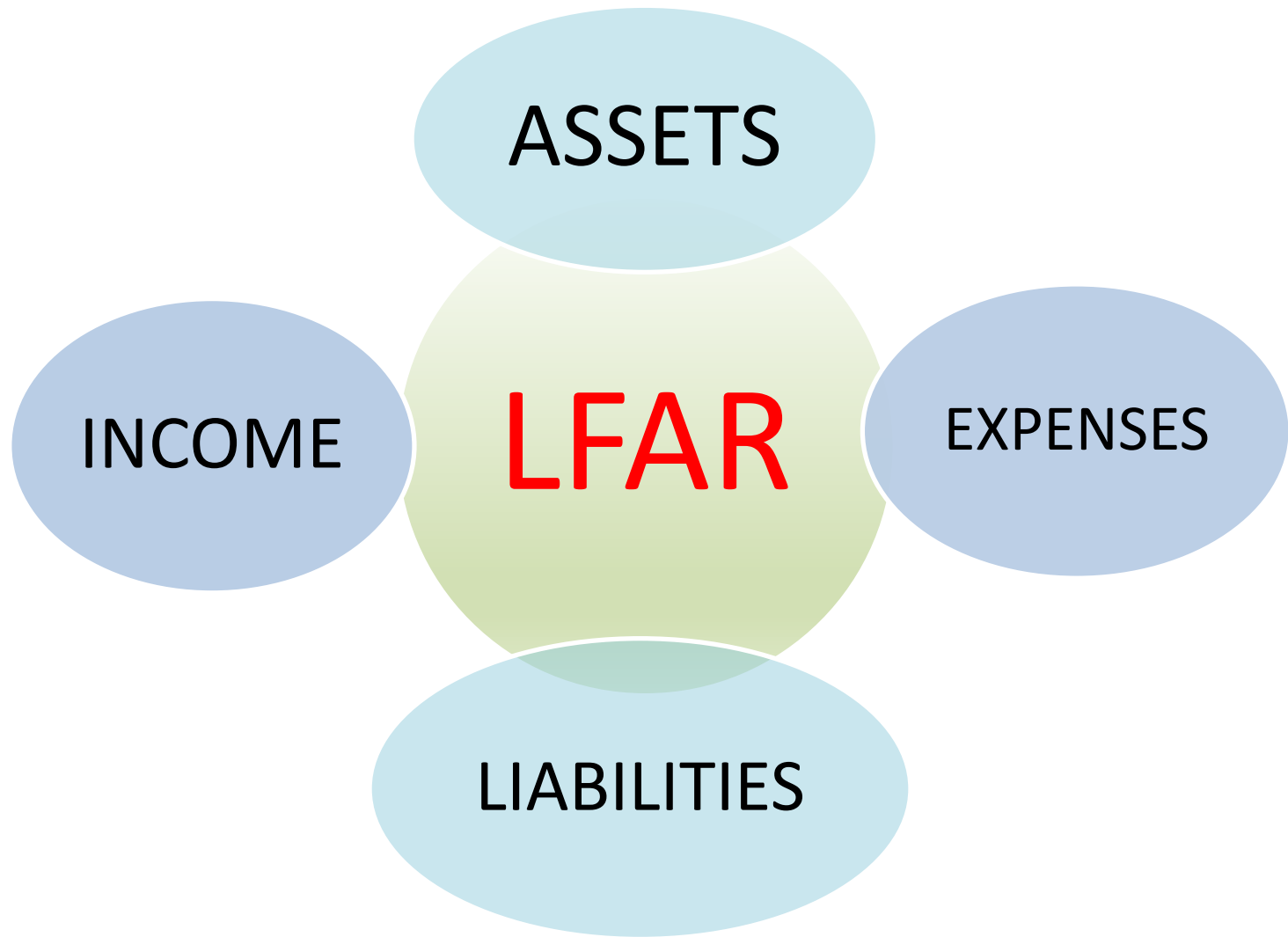


Annexure II: LFAR

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

Significant pointers

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



ASSETS

INCOME

LFAR

EXPENSES

LIABILITIES

LFAR: Assets other than Loans

- Cash Verification:
 - Bait money/ Decoy Notes
 - Excess Cash Retention & Insurance
 - Soiled Notes
 - Fake/ Counterfeit Notes: Calibration of machine
- Bank Reconciliation statements:
 - Check also the bank statements on a sample basis

LFAR: Loans and Advances

- Sampling ?????? Vs. Risk
- Old loans vs New loans
- Cash Credits – How many?
- Others – Rescheduled Loans
 - Restructured Loans
- Advances (Housing, Vehicle etc.)at **HUBS**

Loans and Advances

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

Loans and Advances

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

Loans and Advances

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

LFAR: Loans and Advances contd.

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



Documentation

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



Monitoring aspects

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

Monitoring and Review

- Branch identification and classification of advances through the computer system, without manual intervention.
- System of classifying the account into SMA-0, SMA-1, and SMA-2
- List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as Non-Performing
- NPA Upgradation
- System of restructured or rephased accounts during the year and quantitative details of restructured and rephased accounts
- Accounts wherein process under IBC is mandated but not initiated by branch and quantitative details of such accounts.: Age-wise analysis of decrees obtained and pending execution.

Monitoring and Review

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

Review



- Time Barring of Documents
- Accounts overdue for review/renewal
 - a) between 6 months and 1 one year and
 - b) over one year
- “Are the stock/book debt statements and other periodic operational data and financial statements etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases? “
- Stock Audit Reports
- DP Computations

LFAR: Liabilities

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

LFAR: Profit and Loss

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

LFAR: General



- Internal Office Accounts:
 - Sundries/ Nominal/ Other Assets & Other Liabilities
- Books and Records
 - Software not coordinated with CBS
 - Generation of Exception reports, audit trail,
 - System Audit & Action Taken Report
- Frauds
 - Not only reported but **Fraud Prone Areas**
- KYC/ AML guidelines
 - PMLA and Terrorist Funding

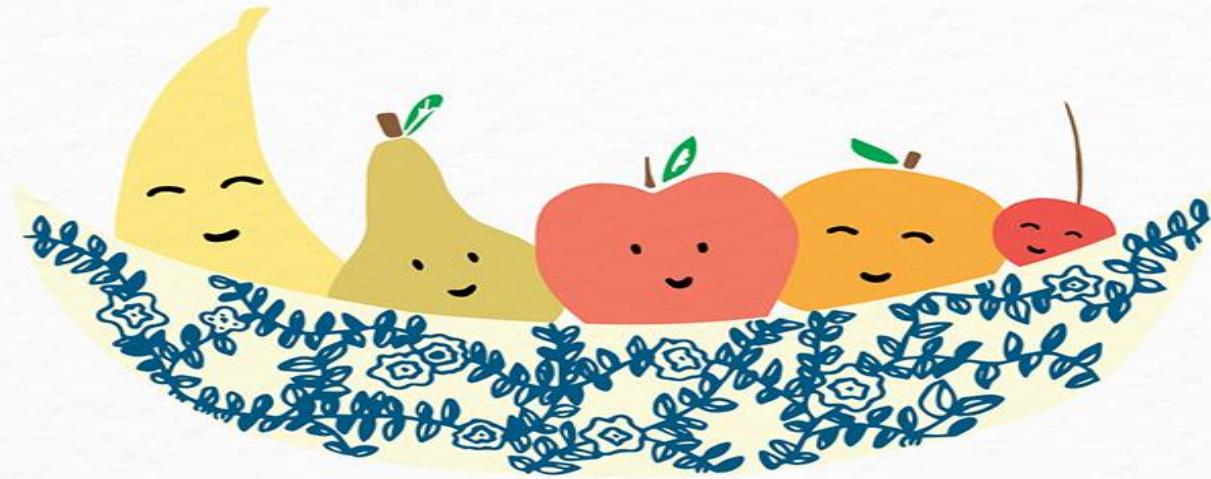
LFAR: General



- Management Information system- MIS
- Data Integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level.

whether feasible?

- Miscellaneous:
 - Various reports (RBI Inspection, Concurrent etc.)
 - Other comments:
Observations that could not be mentioned elsewhere in the report, Disclaimer related to Certification (Ghosh/ Jilani etc.)



T H A N K Y O U

For any queries, please contact me at
shashank.patki@rediffmail.com

7767810349