LFAR

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Yes – No era is over

- Large advances – 10 Crores – Format - Transaction audit
- Adverse features in top 5 standard accounts
- Classification as SMA 0/1/2
- Frauds
- Data integrity
- MIS - Exception reports
- Manual interventions & audit trails

Do V have time or V spend time

- Transaction testing + checking of processes
- Inputs to SCA on –
- Implementation of policy & regulations
- Efficacy of system & assurance on CAR
- Data integrity – data inputs – MIS
- Whether adverse comment in LFAR needs qualification in main report

Advances

- List of accounts examined for audit
- Credit appraisal – 6 sub questions
- Sanction – Disbursement – 3 questions
- Documentation – 3 questions / RMS -10 questions
- IRAC – 12 questions / NBF – 4 questions

Some Questions with sub questions –

10 pages on advances (23 pages)

Advances

- Examine transactions in all large advances –
- < 10 Crores or 10% of o/s Funded & NF limits – 24 points
- Process checks in rest
- Adverse features or Gaps to be stated
- List of such accounts audited with year end balances & its total as a % to Branch advances (F & NF to be stated separately)

Advances – Appraisal

- Credit appraisal – major shortcomings
- Details of quick mortality accounts
- Correct feeding of interest & periodical review
- Benchmarking to MCLR – EBLR
- Details of frequent STL rollovers
- Credit ratings & its feeding in the system

Sanctions / Disbursals

- Sanctions beyond delegated powers
- Disbursals without complying with sanction terms
- Loans provided for buy back of shares / securities

Documentation

Incompleteness of documents in facilities disbursed

Loan against FD sanctioned without marking of lien as per internal guidelines

Not stated but we need to check –

1) Validity
2) Storage
3) Scanning
4) Movement
5) External audits

Review, Monitoring, Supervision

- Adherence to internal process of RMS – delays if any
- Major monitoring shortcomings
- SS & DP computation – FS receipts & scrutiny
- Stock audits – not conducted or no action taken on adverse issues noted
- FS not obtained
- Due Diligence report in RBI format for Consortium accounts
- Deterioration of value of securities

RMS

- Frequent unauthorized over drawings
- Inadequate insurance
- RFA – deviation on bank policy on RFA
- Adverse features in top 5 standard accounts
- Lease financing activities – adherence to guidelines, accounting norms
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IRAC norms - Resolution of stressed assets

- Classification without manual intervention
- Classification as per RBI norms
- Adherence to IR – P norms
- Classification as SMA 0/1/2
- Disagreement with SMA classification
- Changes in MOC
- Upgrades – Downgrades in accounts > 10 Crores

Restructuring / Upgrades

- Accounts restructured & reporting to CA
- Adherence to RBI guidelines
- Compliance with internal policies, tracking , default reporting
- Upgrades in NPA as per RBI norms
- Reasons for disagreement with Upgrades to be stated

Recall

- Cases of accounts recalled but no action taken
- List of cases before IBC – adequacy of provisions thereon
- Claims to ECGC – claims rejected
- Adequacy of provisions considering rejections
- Valuation of assets of NPA accounts once in 3 years or shorter duration
- Write-offs, Waivers, Compromise, Settlements – policy adherence – list cases > 50 lakhs

Others

- Appropriation of recovery
- Stance where documents not stored at branch – ask & call for documents & test check – state exceptions
- Major deficiencies in RMS

Non fund based facilities

- List LCs devolved – Guarantees invoked
- List LCs & guarantees invoked but not paid with amounts
- Interchangeability between Funded * NF limits allowed after LC devolvement & guarantee invocation

Frauds - 6 sub questions

- Frauds reported – classified but no evidence of reporting to RBI
- Suspected cases reported to higher authorities - investigation status * details
- comments on potential risk areas –
- 1) Falsification of accounts
- 2) False representation by borrowers
- 3) Misappropriation of funds through RPT
- 4) Shell company transactions

Frauds- EWS to RFA process

- 5) forgery & fabrication of financial documents – invoices, debtor lists, stocks, creditors, shipping bills, work orders, turnover, exports, encumbrance certificates
- 6) use of consortium accounts (Trust * Retention a/cs) to divert funds
- 7) round tripping of funds
- 8) writing off related party debts
- 9) vendors not present at addresses
- 10) fly by night operators

NPA recovery Branches

- Details to be obtained from Branch for advances > 10 crores
- Accounts > 10 crores upgraded
- Periodical up-dation of information on valuation
- Age wise analysis of recovery suits
- List of recoveries & appropriation thereof
- Recoveries pending adjustment
- Promptness in adjustment of decrees – Time barred decrees

NPA recovery Branches

- Accounts transferred to the Branch including all documents for all facilities
- Exchange of confirmations
- Total 7 questions

Higher Expectations

- Clarity on what we need to check mandatorily
- Test check transactions - process checks
- Details / Representations to be obtained from the branch as a part of report & as a part of answering questionnaire
- Stating details in the format asked
- GN of LFAR / Bank audit - RBI circulars - Articles in CA Journal
- Challenges - obtaining data / getting responses / Frauds / time constraint

Key areas

- Restructuring
- NPA classification – system automation –manual intervention
- Window dressing
- Diversion of funds / Siphoning / Wilful defaults
- Watch dog - Biting Dog to Barking Dog
- Who will audit the auditor for soft skills – punctuality, professional approach
- Making it win - win