DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Letter No.VI (4) 35/2015 4657 / Audit-2 Dated. 31/7/19

To

The Assistant Auditor General of Cooperative Societies,
Cuttack-II/ Puri/ Balasore/ Berhampur/ Jeypore/
Sundargarh/ Khordha.

Sub: Revision in the format of Long Form: Audit Report (LFAR) of UCBs in the State-Inclusion of observation on the compliance status of submission of Depositor Education and Awareness (DEA) Fund forms and returns in the bank's LFAR.

Sir/Madam,

Enclosed, please find herewith a revised format of long Form Audit Report (LFAR) for inclusion of observation on the compliance status of submission of Depositor Education and Awareness (DEA) Fund forms and returns in the bank's LFAR as re-prescribed by RBI for its adoption for statutory audit report of UCBs in the state from the year 2018-19 and on-wards.

So, you are requested to circulate among the auditors, conducting statutory audit and branch audit of UCBs under your jurisdiction for the year 2018-19 to submit audit reports in new format.

Yours faithfully
31/7/2019
Joint Auditor General of
Cooperative Societies, Odisha.

Memo No. 4658 / Dated. 31/7/19 /

Copy alongwith revised format to the CEOs/ Secretaries of Urban Cooperative Bank Ltd; Cuttack/ Kendrapada UCB Ltd./ Puri UCBL/ Balasore UCBL/ Berhampur UCBL/ Jeypore CUBL/ CUBL Paralakhemundi/ UCBL, Rourkela/ The Utkal Cooperative Bank Ltd, Bhubaneswar for information and guidance.

31/7/2019
Joint Auditor General of
Cooperative Societies, Odisha.

Memo No. 4659 / Dated. 31/7/19 /

Copy to the General Manager, DCBS, RBI, Bhubaneswar for information and necessary action.

31/7/2019
Joint Auditor General of
Cooperative Societies, Odisha.

P.T.O

Memo No. 4660 / Dated. 31/7/19 /

Copy submitted to the Registrar of Cooperative Societies, Odisha, Bhubaneswar for kind information and necessary action.

31/7/2019

Joint Auditor General of
Cooperative Societies, Odisha.

Memo No. 4661 / Dated. 31/7/19 /

Copy to the Deputy Secretary to Government of Odisha, Cooperation Department, Odisha, Bhubaneswar for information and necessary action.

31/7/2019

Joint Auditor General of
Cooperative Societies, Odisha.

AKS.

Revised LFAR f/a Branch Statutory Auditor

Long Form Audit Reports in respect of Bank Branch[2]

The following paragraphs list the matters which the branch auditors of banks are expected to comment upon in their long form audit reports. The Annexure to this LFAR contains questions which are relevant to branches dealing in large/irregular/critical advance accounts.

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 judgement in the facts and circumstances of each case. Where the auditors have any reservations or adverse remarks with regard to any of the matters to be dealt with in their Long Form Audit reports, they may give the reasons for the same. Also where relevant, instances of situations giving rise to their reservations or adverse remarks may also be given.

I. ASSETS

(i) Cash

- Does the branch generally carry cash balances which vary significantly from the limits fixed by the controlling authorities of the bank?
- Does the branch hold adequate insurance cover for cash-on-hand and cash-in-transit
- Is cash maintained in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?
- Have the cash balances at the branch been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?

(ii) Balances with RBI, SBI and other banks

- 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.
- Your observations on the reconciliation statements may be reported in the following manner:
    - i) Cash transactions remaining unresponded (give details)
    - ii) Revenue items requiring adjustment/write-off (give details)
    - iii) Old outstanding balances remaining unexplained/unadjusted. Give details for:

[2] **(This Long Form Audit Report should be addressed by the branch auditors to the Chairman of the bank, concerned with a copy thereof to the Statutory Auditors)**

- Outstanding between six months and one year; and
- One year and above

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

(iii) Money at Call and Short Notice

➢ Has the Branch kept money-at call and short notice during the year? If so, whether instructions/guidelines, if any, laid down by the Controlling Authorities of the bank have been complied with?

(iv) Investments

For branches

➢ Are there any investments held by branches on behalf of Head Office / other offices of the bank? If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?

➢ Whether any amounts received as income on such investments have been reported to the Head Office.?

➢ In respect of investments held by branches on behalf of Head Office/other offices of the bank whether any income is accrued / received and recognized as income of the branch contrary to the instructions of the controlling authorities of the bank?

➢ Whether there are any matured or overdue investments which have not been encashed? If so, give details?

➢ Whether the Guidelines of the Reserve Bank of India regarding Transactions in securities have been complied with.

➢ Whether the Guidelines of the Reserve Bank of India regarding valuation of investments have been complied with.

(v) Advances

(The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. In respect of large advances, all cases of major adverse features, deficiencies, etc. should be reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks. For this purposes of the above, large advances are those in respect of which the outstanding are in excess of 5% of the aggregate advances of the branch or ₹ 2 crore, whichever is less.)

- **Credit appraisal**
  - In your opinion, has the branch complied with the procedures/instructions of Head Office regarding preparation of proposals for grant/renewal of advances, enhancement of limits etc., including adequate documentation in respect thereof.
- **Sanctioning/ Disbursement**
  - 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?
  - Are such cases promptly reported to higher authorities?
  - In the cases examined by you have you come across instances where advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.
- **Documentation**
  - 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.
  - In respect of advances examined by you, have you come across instances of deficiencies in documentation, non-registration of charge, non-obtaining of guarantees etc. If so, give details of such cases.
  - Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the controlling authorities of the bank.
- **Review/Monitoring/Supervision**
  - 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
    - between 6 months and 1 year, and
    - over 1 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?
  - Indicate the cases of advances to non-corporate entities with limits beyond ₹ 10 lakhs where the branch has not obtained the accounts of borrowers, duly audited under RBI guidelines with regard to compulsory audit or under any other statute.

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- Has the inspection or 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?
- In respect of advances examined by you, have you come across cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent / unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?
- 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?
- Are credit card dues recovered promptly?
- Has the branch identified and classified advances into Standard/Sub-standard/Doubtful/ Loss Assets in line with the norms prescribed by Reserve Bank of India? (The auditor may refer to the relevant H.O. instructions for identifications of NPAs and classification of advances).
- Where the auditor disagrees with the branch classification of advances into standard / substandard / doubtful / loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated / suggested in the Memorandum of Changes.
- Have you come across cases where the relevant Controlling Authority has authorised 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.
- Have all non-performing advances been promptly reported to the relevant controlling authority of the bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.
- Have appropriate claims for DICGC and Export Credit Guarantee/Insurance and subsidies, if any, been duly lodged and settled? If not, indicate the number of cases and the amounts involved should be given in the following format.

Particulars		**Number**	**Amount (₹)**
Claims as at the beginning of the year (Give year-wise details)			
Further claims lodged during the year			
Total A			
Amounts representing:			
(a)	Claims accepted / settled (give year-wise details)		
(b)	Claims rejected (give year-wise details)		

Total B		
Balance as at the year-end (give year-wise details)		
A-B		

- In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the fixed assets charged to the bank, once in three years, unless the circumstances warrant a shorter duration?
- 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 ₹ 50.00 lakhs may be given.
- List the major deficiencies in credit review, monitoring and supervision.

➢ **Guarantees and Letters of Credit**

- Details of outstanding amounts of guarantees invoked and funded by the Branch at the end of the year may be obtained from the management and reported in the following format:

a) Guarantees invoked, paid but not adjusted:

Sr.No.	Date of invocation	Name of the party	Name of beneficiary	Amount	Date of recovery	Remarks

b) Guarantees invoked but not paid:

Sr.No.	Date of invocation	Name of the party	Name of beneficiary	Amount	Date of recovery	Remarks

- Details of the outstanding amounts of letters of credit and co-acceptances funded by the Branch at the end of the year may be obtained from the management and reported in the following format:

Sr.No.	Date of funding	Name of the party	Name of (LC/co-acceptance, etc.)	Amount	Date of recovery	Remarks

(vi) Other Assets

➢ **Stationery and stamps**

- Does the system of the bank ensure adequate internal control over issue and custody of stationery comprising security items (Term Deposit Receipts, Drafts, Pay Orders,

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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 of such stationery?

➢ **Suspense Accounts/ Sundry Assets**

- Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries may be obtained from the management and the reasons for delay in adjusting the entries be ascertained. Does the 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 in the following format:

Year	Amount (₹)	Remarks

- Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.

II. LIABILITIES

(i) Deposits

➢ Have the controlling authorities of the bank laid down any guidelines with respect to conduct and operations of Inoperative 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.

➢ 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 management and give your comments thereon.

➢ Are there any overdue / matured term deposits at the end of the year? If so, amount thereof should be indicated.

(ii) Other Liabilities

➢ **Bill Payable, Sundry Deposits, etc.**

- The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained from the Branch and reported under appropriate heads.
- Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details in the following format thereof.

Year	No. of items	Amount (₹)	Remarks

- Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, report their nature and the amounts involved.

(iii) Contingent Liabilities

- List of major items of the contingent liabilities (other than constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc.) not acknowledged by the Branch?

III. PROFIT AND LOSS ACCOUNT

- Whether the branch has a system to compute discrepancies in interest / discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the controlling authorities of the bank? Has the test checking of interest revealed excess/short credit of material amount? If so, give details thereof.
- Has the branch complied with the Income Recognition norms prescribed by RBI? (The auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets)
- Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid down in this regard by the controlling authorities of the bank? Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.
- Does the bank have a system of estimating and providing interest accrued on overdue / matured term deposits?
- Are there any divergent trends in major items of income and expenditure which are non-satisfactorily explained by the branch? If so, the same may be reported upon. For this purpose, an appropriate statement may be obtained from the branch management explaining the divergent trends in major items of income and expenditure.

IV. GENERAL

(i) Books and Records

- In case any books of account are maintained manually, does general scrutiny thereof indicates whether they have been properly maintained, with balances duly inked out and authenticated by the authorised signatories?
- In respect of computerised branches:
  - Whether hard copies of accounts are printed regularly?
  - Indicate the extent of computerisation and the areas of operation covered.
  - Are the access and data security measures and other internal controls adequate?

- Whether regular back-ups of accounts and off-site storage are maintained as per the guidelines of the controlling authorities of the bank?
- Whether adequate contingency and disaster recovery plans are in place for loss/encryption of data?
- Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch?

(ii) Reconciliation of Control and Subsidiary Records

- Have the figures, as at the year end, in the control and subsidiary records been reconciled? If not, the last date upto which such figures have been reconciled should be given under the respective heads, preferably in the following format:

Account	Date	General Ledger Balance (₹)	Subsidiary Balance (₹)	Last Date on which balanced

(iii) Inter Branch Accounts

- Does the branch forward on a daily basis to a designated cell/Head Office, a statement of debit/credit transactions in relation to other branches?
- Does a check of the balance in the Head Office Account as shown in the said statement during and as at the year-end reveal that the same is in agreement with the Head Office Account in the general ledger?
- Are there any outstanding debits in the Head Office Account in respect of inter-branch transactions?
- 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 unresponded / uncomplied queries or communications? If so, give details?
- Have you come across items of double responses in the Head Office Account? If so, give details.
- Are there any old/large outstanding transactions/entries at debits as at year-end which remain unexplained in the accounts relatable to inter-branch adjustments?

(iv) Audits/Inspections

- Is the branch covered by concurrent audit or any other audit / inspection during the year?
- In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors or internal auditors, or in the special audit report or in the inspection report of the Reserve Bank of India? State the various adverse features persisting in the branch, though brought out in these audit/inspection reports.

(v) Frauds

- Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimise their occurrence.

(vi) Miscellaneous

- Does the examination of the accounts indicate possible window dressing?
- Does the branch maintain records of all the fixed assets required and held by it irrespective of whether the values thereof or depreciation thereon have been centralised? Whether documents of title in relation to branch or other branches are available at the branch, whether the same have been verified.
- Are there any other matters, which you as a branch auditor would like to bring to the notice of the management or the Statutory Auditors.

for Branch Concurrent Auditor

<u>Annexure to LFAR for furnishing details of Large/Irregular/Critical Advance Account[3]</u>

1. Name of the Borrower

2. Address

3. Constitution

4. Nature of business/activity

5. Other units in the same group

6. Total exposure of the branch to the Group
   a) Fund Based (₹ in lakhs)
   b) Non-Fund Based (₹ in lakhs)

7. Name of Proprietor/ Partners/ Directors

8. Name of the Chief Executive, if any

9. Asset Classification by the Branch
   a) as on the date of current audit
   b) as on the date of previous Balance Sheet

10. Asset Classification by the Branch Auditor
    a) as on the date of current audit
    b) as on the date of previous Balance Sheet

11. Are there any adverse features pointed out in relation to asset classification by the Reserve Bank of India Inspection or any other audit?

12. Date on which the asset was first classified as NPA (where applicable)

13. Facilities sanctioned:

Date of Sanction	Nature of facilities	Limit (₹ in Lakhs)	Primary Security	Collateral Security	Margin %	Balance outstanding at the year-end	
						Current Year	Previous Year
Provision Made : ₹ ____________ lakhs							

[3] (to be obtained from the branch management by the Branch Auditors of branches dealing in large advances/asset recovery branches)

14. Whether the advance is a consortium advance or an advance made on multiple-bank basis

15. If Consortium,
    a) names of participating banks with their respective shares
    b) name of the Lead Bank in Consortium

16. If on multiple banking basis, names of other banks and evidence thereof

17. Has the Branch classified the advance under the Credit Rating norms in accordance with the guidelines of the controlling authorities of the Bank

18. a) Details of verification of primary security and evidence thereof;
    b) Details of valuation and evidence thereof

Date Verified	Nature of Security	Value	Valued by
Insured for ₹ _____________ lakhs (expiring on _______)			

19. a) Details of verification of collateral security and evidence thereof
    b) Details of valuation and evidence thereof

Date Verified	Nature of Security	Value	Valued by
Insured for ₹ _____________ lakhs (expiring on _______)			

20. Give details of the Guarantee in respect of the advance
    a) Central Government Guarantee;
    b) State Government Guarantee;
    c) Bank Guarantee or Financial Institution Guarantee;
    d) Other Guarantee

(Provide the date and value of the Guarantee in respect of the above)

21. Compliance with the terms and conditions of the sanction

Terms and Conditions			Compliance
i)	**Primary Security**		
	a)	Charge on primary security	
	b)	Mortgage of fixed assets	

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	c)	Registration of charges with Registrar of Companies	
	d)	Insurance with date of validity of Policy	
ii)	Collateral Security		
	a)	Charge on collateral security	
	b)	Mortgage of fixed assets	
	c)	Registration of charges with Registrar of Companies	
	d)	Insurance with date of validity of Policy	
iii)	Guarantees - Existence and execution of valid guarantees		
iv)	Asset coverage to the branch based upon the arrangement (i.e., consortium or multiple-bank basis)		
v)	Others		
	a)	Submission of Stock Statements/ Quarterly Information Statements and other Information Statements	
	b)	Last inspection of the unit by the Branch officials: Give the date and details of errors/omissions noticed	
	c)	In case of consortium advances, whether copies of documents executed by the company favouring the consortium are available	
	d)	Any other area of non-compliance with the terms and conditions of sanction	

22. Key financial indicators for the last two years and projections for the current year

Indicators	Audited year ended 31st March	Audited year ended 31st March	Audited year ended 31st March
Turnover			
Increase in turnover % over previous year			
Profit before depreciation, interest and tax			
Less: Interest			
Net Cash Profit before tax			
Less: Depreciation			
Less: Tax			
Net Profit after Depreciation and Tax			
Net Profit to Turnover Ratio			
Capital (Paid-up)			
Reserves			
Net Worth			
Turnover to Capital Employed Ratio (The term capital employed means			

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the sum of Net Worth and Long Term Liabilities)			
Current Ratio			
Stock Turnover Ratio			
Total Outstanding Liabilities/ total Net Worth Ratio			
In case of listed companies, Market Value of Share?			
(a) High; (b) Low; and (c) Closing			
Earnings Per Share			
Whether the accounts were audited? If yes, upto what date; and are there any audit qualifications			

23. Observations on the operations in the account:

Indicators	Excess over drawing power	Excess over limit
1. No of occasions on which the balance exceeded the drawing power/sanctioned limit (give details)		
Reasons for excess drawings, if any		
Whether excess drawing were reported to the Controlling Authority and approved		
	Debit Summation (₹ in Lakhs)	**Credit Summation (₹ in Lakhs)**
2. Total summation in the account during the year Less: Interest Balance		

24. Adverse observations in other audit reports/Inspection Reports/Concurrent Auditor's Report/Stock Audit Report/Special Audit Report or Reserve Bank of India Inspection with regard to:

i. Documentation;

ii. Operations;

iii. Security/Guarantee; and

iv. Others

25. Branch Manager's overview of the account and its operations.

26. a) In case the borrower has been identified/classified as Non-performing Asset during the year, whether any unrealised income including income accrued in the previous year has been accounted as income, contrary to the Income recognition Norms.

b) Whether any action has been initiated towards recovery in respect of accounts identified/classified as Non-performing Assets.

Date: Signature and Seal of Branch In-Charge

Signature of Auditor

Long Form Audit Report (LFAR) for Bank[1]

Background

Additional information to be given by statutory auditor of the bank, while dealing respective chapter

The following paragraphs list the important matters with regard to advances, liquidity and funds management, internal control, automation and computerisation, and profitability, besides certain general matters, which the statutory auditors of banks are expected to comment upon in their long form audit reports. It may be mentioned that this list is illustrative and not exhaustive. Therefore, if it is felt that certain other important matters deserve to be included in the long form audit report, the statutory auditors may do so.

Many of the matters to be dealt with by the statutory auditors in their LFARs will be based on the LFARs received from branches. In dealing with such matters, the statutory auditors are expected to make their observations on the basis of a review of branch auditors' LFARs.

Where any of the comments be 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 judgement based on facts and circumstances of each case. Where the auditor have any reservation or adverse remarks with regard to any of the matters to be dealt with in their Long Form Audit Reports, they may give the reasons for the same. Also where relevant, instances of situations giving rise to their reservations or adverse remarks may also be given.

I. ADVANCES

(i) Loan Policy

- Existence of Loan Policy - specifying the prudential exposure norms, industry-wise exposures, regular updation of the policy, system of monitoring and adherence thereto.

(ii) Credit Appraisal

- Existence of a well laid-down system of appraisal of loan/credit proposals, including adequacy of information for appraising the credit worthiness of the applicant, and adherence thereto.

(iii) Sanctioning/disbursement

[1] (The Statutory Auditor should address the LFAR to the Chairman of the bank and a copy thereof should be forwarded to the CRCS/RCS of the respective states)

- Delegation of powers/authority at various levels; adherence to authorised limits; whether limits are disbursed after complying with terms and conditions of sanction.

(iv) Documentation

- System of ensuring that documents are executed as per the terms of sanction.
- Nature of documentation defects observed during audit and suggestions to avoid such defects.
- System of documentation in respect of joint/consortium advances.
- Renewal of documents.

(v) Review/monitoring/supervision

- Periodic balance confirmation/acknowledgement of debts.
- Receiving regular information, Stock/Book Debt statements, Balance-Sheet etc.
- Receiving audited accounts in the case of borrowers with limits beyond ₹ 10 lakhs.
- System of Scrutiny of the above information and follow-up by the bank.
- System of periodical physical verification or inspection of stocks, equipment and machineries and other securities.
- System and periodicity of stock audits.
- Inspection reports and their follow-up.
- Norms and awarding of Credit Rating.
- Review of advances including enhancement of limits.
- Monitoring and follow up of over dues arising out of other businesses such as leasing, hire purchase, credit cards etc.
- Overall monitoring of advances through maturity/ageing/industry wise exposures and adherence to loan policy.

(vi) Recovery Policy in respect of Bad/Doubtful debts/NPAs

- Existence of recovery policy, regular updation thereof, monitoring and adherence thereto, compliance with RBI guidelines.
- System of monitoring of recovery from credit card dues in respect of credit card issued.
- Effectiveness of the system for compiling data relating to the bad and doubtful advances and the provision in respect thereof.
- System for identification, quantification and adequacy of provision.
- System for suspension of charging of interest and adherence thereto.
- Ascertaining the realizable value of securities (including the valuation of fixed assets) and the possible realisation from guarantors including DICGC/ECGC.
- Assessment of the efficacy of rehabilitation programmes.
- Method of appropriation of recoveries against principal, interest etc.

- System of compromise settlements: Review of all such cases of recovery of over ₹ 1 crore and also cases where limits of sacrifice aid down in the recovery policy is exceeded. Compliance with RBI guidelines.
- Provisions/write-offs under proper authority.
- Recovery procedure, including that relating to suit-filed and decreed accounts.
- System of identifying and reporting of wilful defaulters.

(vii) Large Advances

- Comments on adverse features considered significant and which need management's attention.

II. LIQUIDITY AND FUNDS MANAGEMENT

(i) Investments

- Existence of investment policy and adherence thereto; compliance with RBI guidelines.
- System of purchase and sale of investments, delegation of powers, reporting systems, segregation of back office functions etc.
- Controls over investments, including periodic verification/reconciliation of investments with book records.
- Valuation: Mode, changes in mode of valuation compared to previous year; shortfall and provision therefor.
- Composition of investment portfolio as per RBI guidelines and the depreciation on investments, if any, not provided for.
- System relating to unquoted investments in the portfolio and the liquidity of such investments.
- System relating to SGL/BRs; control over SGL/BRs outstanding at the year-end and their subsequent clearance.
- System and periodicity of concurrent and internal audit/inspection of investment activities; follow up of such reports.
- System of recording and accounting of income from investments.
- System of monitoring of income accrued and due but not received.
- System of monitoring matured investments and their timely encashment.
- Average yield on investments.
- System relating to Repos.

(ii) SLR / CRR Requirements – System on ensuring compliance

- System of compiling weekly DTL position from branches.
- Records maintained for the above purpose.

(iii) Cash

- System of monitoring of cash at branches; and management of cash through currency chest operations.
- Insurance cover (including insurance for cash in transit).
- System and procedure for physical custody of cash.

(iv) Call money operations

- System relating to inter-bank call money operations.

(v) Asset Liability Management

- Existence of policy on Asset – Liability Management and monitoring thereof; compliance with the RBI guidelines.
- Functioning of Asset Liability Management Committee.
- Structural Liquidity at periodical intervals.

III. <u>INTERNAL CONTROL</u>

(i) Written guidelines/instructions/manual for accounting aspects

(ii) Balance of Books/Reconciliation of control and subsidiary records

- System of monitoring the position of balancing of books/reconciliation of control and subsidiary records.
- Follow up action.

(iii) Inter-Branch Reconciliation

- Comments on the system/procedure and records maintained.
- Test check for any unusual entries put through inter-branch/head office accounts.
- Position of outstanding entries and system for locating long outstanding items of high value.
- Steps taken or proposed to be taken for bringing the reconciliation up-to-date.
- Compliance with the RBI guidelines with respect to provisioning for old outstanding entries.

(iv) Branch Inspections

- System of branch inspections; Frequency; scope/coverage of inspection/internal audit, concurrent audit or revenue audit; reporting.
- System of follow-up of these reports; position of compliance.

(v) Frauds/Vigilance

- Observations on major frauds discovered during the year under audit.
- System of follow-up on vigilance reports.

(vi) Suspense Accounts, Sundry Deposits etc.

- System for clearance of items debited/credited to these accounts.

IV. **CAPITAL ADEQUACY**

- Enclose a copy of the capital adequacy certificate.

V. **AUTOMATION AND COMPUTERISATION**

- Existence of Computerisation and Automation Policy; progress made during the year under review.
- Critical areas of operations not covered by automation.
- Number of branches covered by computerisation and the extent of computerisation.
- Procedures for back-ups, off-site storage, contingency and disaster recovery and adherence thereto.
- Existence of Systems / EDP audit; coverage of such audit.
- Electronic Banking; existence of systems and procedures; monitoring; regular updation of technology; method of review and audit of procedures.
- Suggestions, if any, with regard to computerisation and automation.

VI. **PROFITABILITY**

- Analysis of variations in major items of income and expenditure compared to previous year. Important ratios such as RoA, RoE, etc.
- Policy relating to general provisions/reserves.

VII. **SYSTEM AND CONTROLS**

- Existence of systems and procedures for concurrent and internal audits, inspections, EDP audit of computer systems / software etc., monitoring and follow-up of such reports.
- Existence of Management Information System: method of compilation and accuracy of information.
- Reliability of regulatory reporting under the offsite surveillance system of the RBI.

VIII. **OTHER MATTERS**

- Comments on accounting policies including comments on changes in accounting policies made during the period.
- Policies and systems for monitoring activities such as underwriting, derivatives, etc.
- Adequacy of provisions made for statutory liabilities such as Income Tax, Interest Tax, Gratuity, Pension, Provident Fund, etc.
- Adequacy of provisions made for off-balance sheet exposures and other claims against the bank.

- Any major observations on branch returns and process of their consolidation in final statement of accounts.
- Balances with other banks – observations on outstanding items in reconciliation statements.
- Procedure for revaluation of NOSTRO accounts and outstanding forward exchange contracts.

IX. OBSERVATIONS ON THE WORKING OF SUBSIDIARIES OF THE BANK, IF ANY:

- Reporting system to the holding bank and
- Major losses of the subsidiary, if any.

X. COMPLIANCE TO DEA, FUND SCHEME, 2014

- Transfer of all unclaimed deposits to DEA Fund since inception.
- Submission of various forms and returns.
- Submission of Reconciliation Certificate.
- System of addressing customer complaints.
- Refund of deposits to customers/claimants.
- Audit of the records maintained by the banks.

XI. MANAGEMENT

- Functioning of elected board, composition, committees, composition of committees, their oversight, corporate governance, professionalization of management, regularity in conduct of meetings, issues discussed in the meetings, defaulting directors, if any, violations of bye-laws by the directors, disqualification of directors, etc. In case, Administrator is in-charge of the bank, comments may be made on the performance of the administrator.
- Whether the CEO has been appointed as per the fit and proper criteria prescribed. Competence of CEO in managing the bank and in implementation of policies in conformity with the guidelines issued by GoI / RBI.
- Competence of second line management, specific job card, recruitment policy, training and HRD plans, rotation of staff, accountability, etc.

Please examine and put up.
JRCS (credit)

Urgent put up

PK - S A

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

25 APR 2019

मुख्य महाप्रबंधक
Chief General Manager

DO.DCBR.CO.BPD.No.3079/09.06.000/2018-19 April 09, 2019

Dear Dr. Pradhan

Revision in the format of Long Form Audit Report (LFAR) – Inclusion of observation on the compliance status of submission of Depositor Education and Awareness (DEA) Fund forms and returns in the bank's LFAR

As you are aware, we had vide our letter UBD.No.PoT.27/09.06.00/93-94 dated August 17, 1993, forwarded inter-alia the LFAR intended for audit of commercial banks and their branches to you with a request to adopt the same with suitable modifications for the audit of Primary (Urban) Co-operative Banks under your jurisdiction. However, keeping in view the changes in regulatory / supervisory framework of banks since then, the LFAR format has been revisited. Further, in order to monitor the returns/forms/ certificates relating to DEA fund it has been decided to suitably incorporate in the bank's revised LFAR, observations on the compliance status of (a) procedure for crediting the unclaimed amounts to DEA fund and (b) submission of DEA fund returns/forms/ certificates.

26A of BR Act 1949

2. The revised LFAR format comprising the following documents as enclosed in Annex may be utilized from year ending March 31, 2019 onwards:

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26.4.19

(i) Questionnaire in connection with LFAR in respect of a branch.
(ii) LFAR by Statutory Auditors of the bank.
(iii) Annexure to LFAR for furnishing details of large/irregular/critical accounts.

सहकारी बैंक विनियमन विभाग, केंद्रीय कार्यालय, सी-7, पहली मंजिल, बांद्रा-कुर्ला संकुल, बांद्रा (पूर्व), मुंबई - 400 051. भारत
फोन: 022-022-2657 1112 फैक्स: 022-2657 1117 ई-मेल: cgmdcbrco@rbi.org.in
Department of Cooperative Bank Regulation, Central Office, C-7, 1st Floor, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051, INDIA
Tel: 022-2657 1112 Fax: 022-2657 1117 E-mail: cgmdcbrco@rbi.org.in

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3. May I request you to bring the above to the notice of the Statutory Auditors undertaking audit of Primary (Urban) Co-operative Banks under your jurisdiction for necessary compliance. Similar request is being made to the Central Registrar of Co-operative Societies and the other State Governments also.

With regards

Yours sincerely,

(Neeraj Nigam)

Encls: As above

Dr. Tribikram Pradhan, IAS
Registrar of Co-operative Societies
Government of Odisha
Heads of the Directorate Building
7th and 8th floor, Keshari Nagar
Bhubaneswar – 751001