

ANNEXURE III

LONG FORM AUDIT REPORT (LFAR) IN CASE OF RRB BRANCHES

The following paragraphs list the matters which the Branch Auditors of RRBs are expected to look into and comment upon in their Long Form Audit Reports.

Where any of the comments made by the Branch Auditors in the LFAR is adverse, they should consider whether a qualification in the main report is necessary. It should now, however, be assumed that every adverse comment in 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 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.

1 ASSETS

a) Does the branch generally carry cash balances, which vary significantly from the limits fixed by the HO of the bank? Whether excess balances have been reported to the controlling office/HO of the bank?

b) Does the branch hold adequate insurance cover for cash-on-hand and cash-in-transit?

c) In case of single officer branch, comment on the arrangements for custody of cash and whether it is as per the guidelines of Head Office of the bank.

Also comment on the joint custody arrangements in bigger branches where cash is maintained by two officials.

d) Have the cash balances at the branch been checked at periodic intervals as per the procedure prescribed by the Head Office of the bank?

2 Balances with other banks

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.

b) Observations on the reconciliation statements may be reported in the following manner:

- (i) Cash transactions remaining unresponded (give details)
- (ii) Revenue items requiring adjustments/write-off (give details)
- (iii) Old outstanding balances remaining unexplained/unadjusted. Give details for

- Outstanding between six months and one year; and

- one year and above.

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

3 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 purpose, large advances are those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs. 5 lakhs whichever is less)

a) Credit Appraisal

Has the branch generally complied with the procedures/instructions of HO 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.

b) Sanctioning/Disbursement

(i) In the cases examined, any instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch were noticed? Are such cases promptly reported to higher authorities?

(ii) Any instances where advances have been disbursed without complying with the terms and conditions of the sanction were noticed? If so, give details of such cases.

c) Documentation

(i) In the cases examined, any instances of credit facilities released by the branch without execution of all the necessary documents were noticed? If so, give details of such cases.

(ii) In respect of advances examined, any instances of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees, etc., were noticed? If so, give details of such cases.

(iii) Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the HO of the bank?

d) Review/Monitoring/Supervision

(i) 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

(ii) Are the stock 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?

(iii) Where there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?

(iv) Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakh where the Branch has not obtained the accounts of borrowers, duly audited under the RBI guidelines with regard to compulsory audit or under any other statute.

(v) Has the inspection of physical verification of securities charged to the bank been carried out by the branch as per the procedure laid down by the HO of the bank?

(vi) Whether the branch has a system of updating periodically, the information relating to valuation of security charged to the bank?

(vii) Any instances/cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent/unauthorized overdrawn beyond limits, inadequate insurance coverage, etc., were noticed? If so, furnish details of such cases.

(viii) Has the branch identified and classified advances into standard/sub-standard/doubtful/loss assets in line with the norms prescribed by the RBI?

(ix) Where the auditor disagrees with the branch classification of advances into standard/sub-standard/doubtful/loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated/suggested in the Divergence statement.

(x) Any cases where the branch has not initiated action against advances where the HO/controlling office has authorised legal action for recovery of advances or recalling of advances? If so, give details of such cases.

(xi) Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Also, list the time-barred decrees, if any, and reasons therefor.

(xii) Whether the branch has referred any cases to be covered under SARFESAI Act? If so, details thereof may be given.

(xiii) Have all non-performing advances been promptly reported to the HO/controlling office of the bank? Also indicated the action suggested to the branch by HO/controlling office.

(xiv) Have appropriate claims for DICGC/Insurance and subsidies, if any, been duly lodged and settled? The status of pending claims giving year-wise break-up of number and amounts involved should be given in the following format.

<u>Particulars</u>	<u>No.</u>	<u>Amount (Rs.)</u>
Claims 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		

(xv) List the recoveries and their appropriation against the interest and the principal and the accounts settled/written off/closed during the year.

(xvi) 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?

(xvii) In the cases examined, has the branch complied with the Recovery Policy prescribed by the HO 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.1.00 lakh may be given.

(xviii) List the new borrower accounts transferred to the branch during the year. Have all relevant documents and with records relating to these borrower accounts been transferred to the branch? Has the branch obtained confirmation that all the accounts of the borrower (including non-fund based exposures and deposits pending adjustment/margin deposits) been transferred to the branch?

(xix) List the accounts (with outstandings in excess of Rs.5.00 lakh), which have either been downgraded or upgraded with regard to their classification as Non-Performing Asset or Standard Asset during the year and the reasons therefor.

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

e) Guarantees

(i) 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

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

(b) Guarantees invoked but not paid

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

6. Other Assets

(a) **Stationery and Stamps**

- (i) 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, Cheque Books, Traveller's Cheques, etc.)?
Whether the system is being followed by the branch?
- (ii) Any instances of missing/lost items of such stationery noticed? If so, give details.

(b) Suspense Accounts/Sundry Assets

- (i) 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 branch and the reasons for delay in adjusting the entries may be ascertained. Does the scrutiny of accounts under various sub-heads reveal balances, which are not recoverable and would require a provision/write-off? If so, give details in the following format.

Year	Amount (Rs.)	Remarks

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

II. LIABILITIES

1. Deposits

- (i) Have the HO of the bank laid down any guidelines with respect to conduct and operations of Inoperative Accounts?
- (ii) Comment on the adherence to the 'Know Your Customer' (KYC) norms by the branch.
- (iii) Also comment on as to whether the branch is promptly sending Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) details to the Principal Officer nominated by the bank's HO on a regular basis.
- (iv) Efforts made by the branch in implementing Financial Inclusion scheme as per the policy guidelines of the bank.

- (v) Comment on the branch performance in achieving the deposit targets fixed by the bank's HO and also any special efforts made by the branch in mobilising low cost deposits.
- (vi) 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.
- (vii) Are there any overdue/matured term deposits at the end of the year? If so, amounts thereof should be indicated.

2. Other Liabilities

Bills Payable, Sundry Deposits, etc.

- (i) 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:

Year	No. of items	Amount (Rs.)	Remarks

- (ii) 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.

3. Contingent Liabilities

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

III. Profit and Loss Account

- 1. 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 HO of the bank? Has the test checking of interest revealed excess/short credit of a material amount? If so, give details thereof.
- 2. Has the branch complied with the Income Recognition norms prescribed by RBI? (The Auditor may refer to the instructions of the

Head Office of the bank regarding charging of interest on non-performing assets).

3. 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 HO of the bank? Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.
4. Does the branch has a system of estimating and providing interest accrued on overdue/matured term deposits?
5. Are there any divergent trends in major items of income and expenditure, which are not 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 manager explaining the divergent trends in major items of income and expenditure.

I V G E N E R A L

1. Books and Records

- a) 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?
- b) In respect of computerised branches:
 - ♦ Whether hard copies of accounts are printed regularly?
 - ♦ Indicate the extent of computerization 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 HO?
 - ♦ Whether adequate contingency and disaster recovery plans are in place for loss/encryption of data?
 - ♦ When was the last Information Technology/System of the branch was conducted and what were the major observations? Whether the branch rectified the deficiencies pointed out?
 - ♦ What are the suggestions of the Auditor for improving the system with regard to computerized operations of the branch?

2. 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 (Rs.)	Subsidiary Balance (Rs.)	Last date on which balanced

3. Inter Branch Accounts

- (i) Does the branch forward on a daily basis to a designated cell/HO, a statement of debit/credit transactions in relation to other branches?
- (ii) Does a check of the balance in the HO Account as shown in the said statement during and as at the year-end reveal that the same is in agreement with the HO Account in the general ledger?
- (iii) Are there any outstanding debits in the HO Account in respect of inter-branch transactions?
- (iv) Does the branch expeditiously comply with/respond to the communications from the designated cell/HO as regards unmatched transactions? As at the year-end are there any unresponded/uncomplained queries or communications? If so, give details?
- (v) Have you come across items of double responses in the HO Account? If so, give details.
- (vi) Are there any old/large outstanding transaction/entries at debits as at year-end which remain unexplained in the accounts relatable to inter-branch adjustments?

4. Audits/Inspections

- (i) Is the branch covered by concurrent audit or any other audit/inspection during the year?
- (ii) 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 NABARD? State the

various adverse features persisting in the branch, though brought out in these audit/inspection reports.

5. Frauds

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

6. Miscellaneous

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

ANNEXURE TO THE LONG FORM AUDIT REPORT

(FOR LARGE/IRREGULAR/CRITICAL ADVANCE ACCOUNTS)

(to be obtained from the branch management by the Branch Auditors of branches dealing in large advances)

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
Fund Based (Rs. in lakh)
Non-Fund Based (Rs. in lakh)
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 NABARD 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 (Rs. in Lakhs)	Prime security	Collateral Security	Margin %	Balance outstanding at the year-end

						Current year	Previous year
Provision made: Rs. _____ lakhs							

14. Has the Branch classified the advance under the Credit Rating norms in accordance with the guidelines of HO of the bank

15. (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 Rs. _____ lakh (expiring on _____)			

16. (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 Rs. _____ lakh (expiring on _____)			

17. Give details of the Guarantee in respect of the advance.

(a) Bank Guarantee or Financial Institution Guarantee

(b) Other Guarantee

Provide the data and value of the Guarantee in respect of the above.

18. Adverse observations in other audit reports/Inspection Reports/ Concurrent Auditor's Report/Internal Audit Report or NABARD Inspection with regard to

(i) Documentation;

- (ii) Operations;
- (iii) Security/Guarantee; and
- (iv) Others

- 19. Branch Manager's overdue of the account and its operation.
- 20.
 - (a) In case the borrower has been identified/classified as Non-Performing Asset during the year, whether any unrealised income including income 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
Incharge

Long Form Audit Report (LFAR) to the Management by the Statutory Auditors of RRBs

The following paragraphs list the important matters with regard to advances, liquidity and funds management, internal checks and control system, Assets-Liability Management, adherence to KYC norms and AML Standards, Compliance Function, computerisation, Financial Inclusion, providing agency services and profitability besides certain general matters, which the statutory central 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 the branches. In dealing with such matters, the statutory auditors conducting audit of HO of RRBs are expected to make their observations on the basis of review of branch auditors' LFARs.

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 based on the facts and circumstances of each case. Where the auditors 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.

1. Advances

1. Loan Policy

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

2. 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 applicant, and adherence thereto.

3. Sanctioning/Disbursement

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

4. Documentation

System of ensuring that documents are executed as per the terms and conditions of sanction.

Nature of documentation defects observed during audit and suggestions to avoid such defects.

System of documentation in respect of high value advances.

Renewal of documents - Position regarding time-barred documents in various bank's branches.

5. 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 Rs. 2 lakh.

System of scrutiny of the above information and follow-up by the bank.

System of periodic physical verification or inspection of stocks, equipment and machinery and other securities. Inspection reports and their follow-up

Norms and awarding of Credit Rating.

Review/renewal of advances including enhancement of limits.

Monitoring and follow-up of overdues.

Overall monitoring of advances through maturity/aging analyses; unit/party-wise and sector-wise exposures and adherence to the Loan Policy.

System of monitoring of Off-balance sheet exposures including periodic reviews of (a) guarantees and (b) claims against the bank not acknowledged as debts.

6. Application of Prudential Norms

The auditors should verify the adoption/application of Income Recognition and Assets Classification as also Provisioning norms by RRBs as prescribed in RBI's circular RPCD.No.RRB.BC.121/03.05.34/95-96 dated 22 March 1996 together with subsequent instructions issued from time to time by RBI/NABARD and comment on the same in the LFAR. The Auditors must also undertake to check the figures of income recognition, assets classification and provisioning norms and issue a certificate to the effect that the implementation thereof is satisfactory or otherwise and, the shortcomings, if any, should be duly listed out.

The Auditors should also make an attempt to prepare a Divergence Statement indicating the accounts in which wrong classification has been done by the bank and work out the short provisioning.

The Auditors are required to comment on the following specifically -

I. Income recognition

- (a) Whether the bank has recognized as per instructions in vogue.
- (b) The total amount of income derecognized as on 31.3.2009 (cumulative)
- (c) The amount of recognised income recovered during the year 2008-09.
- (d) The procedure followed by the bank for accounting derecognised income. Provisioning made by the bank **for net debit entries under Branch Adjustment Account** as on 31 March 2009.

Comment on the provisioning done towards pending fraud cases, other outside liabilities like Income Tax, Bonus, Gratuity, Provident Fund, Group Insurance, etc.

II. Asset Classification

Comment on the system of asset classification adopted by the branches as also provisioning done by them. Or whether the final asset classification is done by the HO by consolidating the figures obtained from branches and total provisioning is arrived at.

7. Recovery Policy in respect of Bad/Doubtful debts/NPAs

Existence of Recovery Policy; regular updation thereof; monitoring and adherence thereto; compliance with the RBI/NABARD guidelines.

Effectiveness of the system for compiling data relating to the bad and doubtful debts and the provisioning done thereagainst.

System for identification, quantification and adequacy of provision.

System for suspension of charging of interest and adherence thereto.

Ascertaining the realisable value of securities (including valuation of fixed assets) and the possible realisation from guarantors including DICGC.

Assessment of the efficacy of restructuring/rescheduling programme.

Method of appropriation of recoveries against principal, interest, etc.

System of Compromise settlements: Review of all such cases and cases of recovery of over Rs.5.00 lakh and also the cases wherein limits of sacrifice laid down in the Recovery Policy is exceeded. Compliance with the RBI/NABARD guidelines.

Provision/write-off under proper authority.

Recovery procedures including that relating to suit filed and decreed accounts.

System of identifying and reporting of wilful defaulters.

Recoveries made under SARFESAI Act against the total claims lodged.

Claims settled by the insurance companies, if any.

8. DIGCG Claims

The Auditors may examine the following:

(i) Whether RRB is continuing with DICGC?

(ii) If so:

- (a) Amount of claims preferred
 - (b) Amount of claims settled by DICGC
 - (c) Of (b) above, those pending adjustment at the bank level.
 - (d) Amount of claims pending with DICGC
- (iii) If RRB has opted out of DICGC Scheme:
- (a) The details of claims preferred prior to opting out
 - (b) Claims settled by DICGC
 - (c) Of (b) above, pending adjustment at the bank level
 - (d) Amount of claims pending with DICGC
 - (e) Details of risk fund, if any, created by the bank
 - (f) If so, the details of amount outstanding (balance as on 31.3.2009)

9. Large Advances

Comment on (i) adverse features in respect of large advances considered significant and which need management's attention, (ii) compliance with the exposure norms relating to advances.

II. Liquidity and Funds Management

1. Investments

Existence of Investment Policy, Investment Committee, Periodical review by the Board, Panel of Brokers, exposure limits on Non-SLR investments, broker-wise limits, trading policy, 'cut loss policy' stipulated, adherence to the various terms and conditions of Investment Policy, compliance with RBI/NABARD guidelines.

System of purchase and sale of investments, delegation of powers, reporting systems, segregation of front, back and mid office functions, etc.

Controls over investments, including periodic verification/reconciliation of investments with books/records.

Valuation, mode: changes in mode of valuation compared to previous year; shortfall and provision thereof. Auditors may follow the RBI's instructions vide Circular No.RPCD.RRB.BC.112/03.05.34/95-96 dated 22 March 1996 and subsequent instructions issued from time to time

including NABARD's Circular No.213/DoS.24/2002 dated 11 September 2002.

Investments held under SLR, their liquidity nature, collection of interest, etc. at periodical intervals.

Composition of Investment portfolio as per RBI guidelines and the depreciation of investments, if any, not provided for.

System relating to unquoted investments in the portfolio and the liquidity of such investments.

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.

2. SLR/CRR Requirement - System of ensuring compliance

System of compiling weekly DTL position from branches.

Records maintained for the above purpose.

3. 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.

4. Asset-Liability Management

Existence of ALM Policy and monitoring thereof; compliance with NABARD's guidelines.

Functioning of Asset Liability Management Committee (ALCO).

Structural Liquidity at periodical intervals.

5. Interest Rates

Carry out the test check of application of interest rates on various advances/borrowings as also on deposits and comment thereupon if any revenue loss/leakage of income has been incurred by RRB by inappropriate application of prescribed interest rates.

6. Deposits

a) Inoperative accounts

Statutory Auditors to examine and comment upon whether bank has laid down norms/guidelines with respect to conduct and operations of inoperative accounts with instances.

- b) Statutory Auditors to comment on whether there were any unusual large movements in aggregated deposits held by HO/Branch at the year end.
- c) Auditors to comment upon the adherence to the 'Know Your Customer' (KYC) norms and Prevention of Money Laundering Act, 2002 (PMLA) issued by the bank through its branches as also steps taken by the bank in combating Terrorism financing as per the guidelines of Financial Intelligence Unit-India (FIU-IND). Also comment on the appointment of Principal Officer as per the above norms, monitoring mechanism put in place and position for timely submission of Cash Transactions Report (CTR) involving Rs.50,000 and more as also Suspicious Transaction Report (STR) by the branches to HO and HO to FIU-IND.
- d) Bank's efforts towards implementing 'No Frills' accounts under Financial Inclusion and also steps taken to cover hitherto uncovered depositors in its area of operation. Also comment on the monitoring by HO in this regard.

III. INTERNAL CONTROL

- 1. Written guidelines/instructions/Manual for accounting, banking and lending and branch operations aspects.**
- 2. Balancing 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 - Balancing of drafts payable, DD paid without Advice, Bills Payable, Periodical physical verification of security forms (Cheque Books, FDRs, DD, Pay Orders, etc.)

3. Inter-branch Reconciliation

Comments on the system/procedure and records maintained.
Procedure followed for remittance of funds, TT discounting, etc. Test check for any unusual entries put through inter-branch/HO accounts.

Position of outstanding entries; system for locating long outstanding items of high value.

Steps taken/proposed to be taken for bringing the reconciliation upto date.

Compliance with the RBI guidelines with respect to provisioning for old outstanding entries and unprovided for liabilities.

4. Branch Inspections

System of branch inspections, frequency, scope/coverage of inspection/ internal audit, concurrent audit or revenue/income leakage audit, reporting.

System of follow-up of these reports, position of compliance.

5. Frauds and Vigilance

Setting up of Vigilance Cell in the bank - No. of vigilance cases handled, vigilance reporting done to CBI/Gol/Sponsor Bank, etc.

No. of fraud cases in the bank, age-wise break-up of fraud cases, fresh cases detected during the year, specific fraud-prone areas in the bank's area of operation, segment-wise reporting of frauds (like deposit, credit, staff-related and others), periodical review by the bank's Board about pendency of fraud cases, recoveries effected during the year - whether recoveries by way of cash or write-off, total provisioning required to be made and actually made, shortfall in provisioning against pending fraud cases.

Whether any fraud cases have been reported to CBI by the bank directly during the year?

6. Suspense Accounts, Sundry Deposits, etc.

System for clearance of items, debited/credited to these accounts.
Test check for unusual entries under these heads.

IV. Capital Adequacy/Disclosure Norms

Give a certificate that the bank has followed the Disclosure Norms guidelines issued recently by NABARD/RBI.

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/Information Technology/EDP Audit of bank's branches, coverage of such audit.

Existence of systems and procedures, monitoring and regular updation of technology, method of review and audit of procedures.

Suggestions, if any, with regard to computerisation and automation.

VI. Profitability

Analysis of variation in major items of income and expenditure compared to previous year, with important ratios.

Policy relating to general provisions/reserves.

Unprovided for liabilities like Income Tax, Gratuity, Bonus/Ex-gratia Payable, PF, etc. and provisions made thereagainst.

Adequacy of provisions made under statutory liabilities.

Adequacy of provisions made for Off-balance sheet exposures and other claims against the banks.

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.

Transfer Price Mechanism adopted by the bank.

Steps taken by the bank to improve the working of continuously loss making branches.

VII. Systems and Controls

Existence of Management Information System (MIS); method of compilation and accuracy of information.

Reliability of regulatory/supervisory reporting under the Off-Site Surveillance system of NABARD.

VIII. Other Matters

Comment on accounting policies including comment on changes in the accounting policies for the year.

Policies and systems for monitoring activities like Banking Facilitators and Banking Correspondents, Agents for Insurance business, SHG bank linkage, etc.

Any other matter which the auditor considers should be brought to the notice of the management.

IX. Recapitalisation Assistance

Indicate the amount of recapitalisation assistance received/to be received from GoI and other stakeholders and its impact on the financial position of the bank.

X. Amalgamated RRBs

Completion of processes involved in amalgamation of the erstwhile RRBs.

Transfer of assets and liabilities, drawing up of balance sheet of the amalgamated RRB, Scheduling status, issues arising out of amalgamation which need to be sorted out, HRD processes, etc.

XI. Preparation/Implementation of Development Action Plan and the Memorandum of Understanding with the Sponsor Banks.

Performance under the Plan, monitoring of the achievements, etc.