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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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A FRAMEWORK OF AUDIT REPORT IN BANK AUDIT: STUDY ON LFAR, GHOSH & JILANI AND BASEL COMMITTEE REPORT

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ABSTRACT

Audit of banking companies plays a very important role in India as it help to regulate it in right manner. As part of Statutory Audit of Banks, an auditor is required to submit Audit Report as per requirement of the Banking Regulation Act, 1949 which is a detailed questionnaire prepared by Reserve Bank of India (RBI). This report is generally known as "Long Form Audit Report (LFAR), Ghosh & Jilani Committee Report & Basel Committee Report". Thus, Audit report broadly gives true and fair view of the financial statement and internal control system of the bank. Hence, RBI advised Banks to obtain LFAR from auditor since 1985. Audit report which is mention as above is a separate report to be submitted to the management in the format, as prescribed by the RBI. The above Report is an excellent Audit Planning Tool, based on questionnaire form about the assets, liabilities, Profit and Loss, general records, internal control and Capital Adequacy. The paper mainly focuses to work out the facts regarding the framework & role of audit report in the bank audit.

KEYWORDS

bank audit, audit report.

INTRODUCTION

Audit report is one of the important parts in Bank Audit, which is required to be submitted by the auditor as per the requirement of the Banking Regulation Act 1949. The various reports like Statutory Branch Auditor's report (Form 3CA and 3CD), MOC, LFAR, Ghosh/Jilani Report and various certificates (ATM cash balance certificate, TDS certificate etc) signed by the bank manager, have to be submitted by the auditor. The study only focuses on the LFAR (Long Form Audit Report), Ghosh & Jilani Committee report & Basel Committee Report. These are a detailed questionnaire prepared by the RBI. This report is basically to examine or evaluate the efficiency and continuity of internal control system through management. RBI advised Public Sector Banks to obtain these reports from the auditor. These reports are not a substitute for the statutory report but it is to be submitted to the management. These reports have also revised with the consultation of ICAI and a few selected banks' representatives, which reflect the changes in regulatory/ supervisory framework of banks as also the expanded role of statutory auditors who are now required to include certain additional certification/ validations in their report.

Audit report is designed to focus on systematic issues in bank and tries to address them through the insight of the bank branch auditors. Report serves as an excellent audit planning tool. By studying the questionnaire in detail the auditor can plan the audit effectively and allocate time to each area accordingly. LFAR covers all the areas of the branch audit and is the end result of the auditor's efforts and would reflect on professional competence and therefore should not be treated as a mere questionnaire to be filled in a routine way.

FEATURES & FORMAT OF AUDIT REPORT

LFAR, Ghosh & Jilani Committee Report & Basel committee report are the type of questionnaire which includes the specific questions related with the internal control system, capital adequacy norms, Assets, Liabilities, P/L A/c and General records.

LFAR: Format of LFAR is decided by RBI and was introduced in 1985. This format has also been revised in 1992-93 and 2003. The present format of LFAR is effective from 31 March 2003. Thus the prescribed format of LFAR for bank and branch audit is summarized here:

The questions in LFAR for banks audit are divided into four major categories:-

- A. Assets: - Cash, Balances with RBI, SBI and other Banks, Money at call and short notice, Investment, Advances and Other Assets.
- B. Liabilities: - Deposits, Other Liabilities and contingent Liabilities.
- C. Profit and Loss Accounts.
- D. General: - Books and Records, reconciliation of control and subsidiary records, Inter Branch Accounts, Audit/Inspections and Miscellaneous.

In addition to above areas, it also gives questionnaire applicable to specialized branches which deal with: Foreign Exchange Transactions, Very large advances (in excess of Rs.100 crores), NPA such as Assets Recovery Management branches, Clearing house operation, normally referred to as service branches.

Ghosh Committee Recommendations Report: This is a high level committee report set up by the RBI under the chairman of Shri.A. Ghosh for the enquiry of various aspects of fraud and malpractice in bank. This is applicable to branches, controlling office, head office and treasury operations of banks. This report is divided into a Group A, B, C, D.

Group A: Recommendations which have to be implemented by the banks immediately.

Group B: Recommendations requiring RBI approval.

Group C: Recommendations requiring approval of Government of India.

Group D: Recommendations requiring further examination in consultation with IBA.

Jilani Committee Recommendation Report: This report was set up by the RBI in Feb 1995 under the chairman of Mr.Rashid Jilani to review the Internal Control an Inspection/ Audit system in Banks. The statutory auditor is responsible to verify and report on such recommendation. The recommendation is further categorized in three levels:

1. EDP environment in banks.
2. Inspection/Internal audit in the banks.
3. Miscellaneous aspects of functioning of banks.

Basel Committee Report: The Basel committee issued detailed documents on capital measurement and capital standards on 26th June 2004 known as Basel recommendations. It consists of three pillars: 1) Minimum Capital Requirements: which seek to refine the standardized rules. 2) Supervisory Review Process-

which make ensure that banks have adequate capital and to encourage them to adopt risk management techniques. 3) Market Discipline- with effective use of mandatory disclosure on risk management practices.

Thus the auditor's report is the final process/stage of the work of the auditor. It is a medium of communication regarding position of financial statements and internal control system of the bank between the various stakeholders and management. Above reports broadly gives a true and fair view of the financial statement of any entity.

RESEARCH METHODOLOGY

RELEVANCE OF THE STUDY

The banking sector is no doubt the backbone of any economy. Audit of Banks is the important to regulate the banking companies in a right manner. Thus the Auditing and Assurance Standards Board of ICAI, RBI as well as Banking Regulation Act 1949 developed and pronounced various statutory requirement, regulation and guidance relevant to the bank audit and the audit report. The LFAR, Ghosh & Jilani committee report and Basel committee report are one of the audit reports, which is now compulsory to the auditor to fill with the main report at the time of audit. These makes assure about the reliability of financial statements and effectiveness of internal control through management. Role of above reports are important as a part of internal control mechanism and it also act as an early whistle blower for the irregularities persisting in the bank & branch. Therefore, it covers all the area of the bank audit and it is the end result of the auditor's efforts.

OBJECTIVES OF THE STUDY

The study is the descriptive research type which is used to find facts – regarding this area. Thus, the following objectives which have to be determined and achieved:

- To find out the role of LFAR in the Bank and its Branch Audit.
- To obtain the recent information regarding forms and format of LFAR.
- To find out the statutory requirements and provisioning given by the Banking Regulation Act 1949 as well as RBI.
- To find out the recent guidelines given by the Institute of Chartered Accountants of India regarding bank audit.

HYPOTHESES

The various hypotheses have formulated are:

H0: Whether the Auditor follows all the norms and provisions during the audit process or not.

H1: Whether the format of LFAR to be updated at each financial year as per the RBI & Banking Regulation Act 1949 or not.

H2: There is difference between the format of LFAR at Bank and its branches.

H3: Whether the Institute of Chartered Accountants of India provides the guidance note for filling the LFAR of Banks audit & its branch audit at each financial year or not.

SCOPE OF THE STUDY

The study on "A framework of Audit report banks audit" mainly emphasizes on LFAR (Long Form Audit Report), Ghosh & Jilani Committee Report and Basel Committee Report. The paper covers all the aspects, relevant regulation and pronouncement, statutory requirements given by ICAI, RBI and Banking Regulation Act from time to time regarding the reports, required for audit of banks and branches. These are one of the important parts of Bank Audit Process. Thus, this paper mainly covers the LFAR, Ghosh Jilani Committee report and Basel committee report applicable only to the bank and branch audit.

RESEARCH DESIGN

A research design is purely and simply the framework of plan for the study which covers the collection and analysis of data. This study is intended to find out the objectives and testing the hypotheses. The study design is descriptive in nature. Descriptive study is a fact finding investigation with adequate interpretation. It is mainly designed to gather descriptive information and provides the relevant facts about the study.

SAMPLE DESIGN

Selection of study area: Varanasi zone, U.P.

Selection of sample size: No. of sample is 30 in which 20 samples are related to Banks (10 from Public Sector Banks and 10 from private sector banks) and 10 samples with Bank Auditors.

Sampling Methods: Convenience method of sampling will be used to collect the data from the respondent.

DATA COLLECTION

Primary data: Collected through structured questionnaire in the type of close-end.

Secondary Data: Earlier records from journals, magazines and other sources.

Tools for Analysis: Use of Table and percentage method for analysis of data. Diagrammatic presentation is used for presenting the result.

INTERPRETATION AND CALCULATION

TABLE NO. 1: RESPONDENTS ON EACH QUESTION

S.No	Particular	No. of Respondents
1	Consideration of Relevant circular by controlling authority.	30
2.	Follow up of Norms & Provision by RBI, ICAI and Banking Regulation Act 1949 in filling LFAR	30
3.	Accommodate the changes by ICAI in Bank audit framework.	30
4.	Revision of LFAR by RBI with consultation of ICAI and Selected bank representative	30
5.	LFAR Formats as per RBI and Banking Regulation Act 1949.	30
6	Revision of LFAR in each year.	30
7	Difference of LFAR in Bank and Branch Audit.	30
8.	LFAR necessary to all types of banks.	30
9.	Specialized functions are applicable either to all bank or some selected branches.	30
10	Collection of LFAR by each banks as separately or collectively.	30
11	Mode of answering of all questions as per Guidance of ICAI.	30
12	Additional certificate required for filling of LFAR.	30

TABLE NO. 2: INDIVIDUAL RESPONSES AND THEIR COMMENTS ON SUCH QUESTIONS

S.No	Number of Respondents					
	Private Bank Manager		Public Bank Manager		Auditor	
	Agree	Disagree	Agree	Disagree	Agree	Disagree
1.	10	0	10	0	10	0
2.	10	0	10	0	10	Comments*
3.	10	0	10	0	10	Comments*
4.	10	0	10	Comments**	10	Comments**
5.	10	0	10	0	10	0
6.	10	0	10	0	10	0
7.	0	10	0	10	0	10
8.	10	0	10	0	10	0
9.	10	0	10	0	10	0
10.	10	0	10	0	10	0
11.	10	0	10	Comments***	10	Comments***
12.	10	0	10	0	10	0

Respondents are coded as: Private Bank Manager: A, Public Bank Manager: B, Auditor: C

H0: Whether the Auditor follows all the norms and provision during the audit process or not.

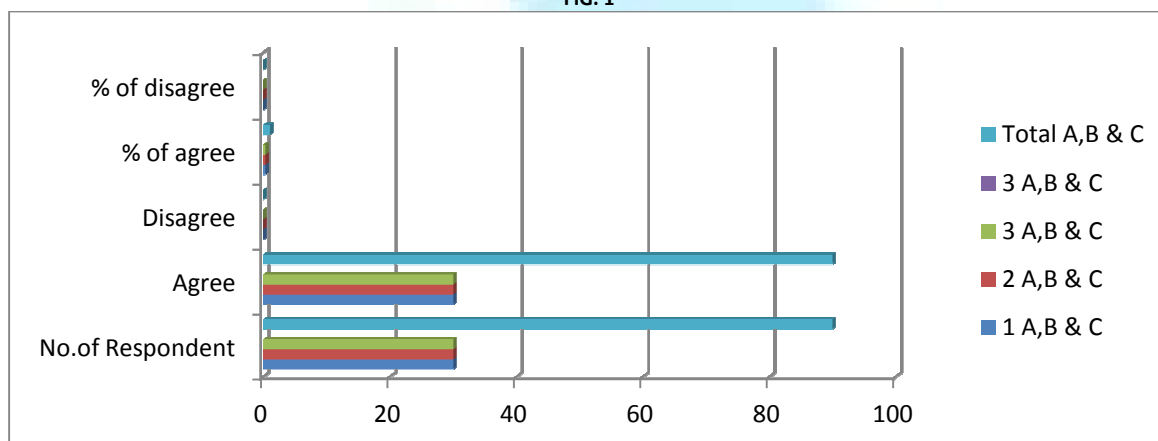
- Consideration of Relevant circular by controlling authority.
- Follow up of Norms & Provision by RBI, ICAI and Banking Regulation Act 1949 in filling LFAR.
- Accommodate the changes by ICAI in Bank audit framework.

TABLE 3

Ques.No.	Respondent	No. of Responses	Agree	Disagree	% of agree	% of disagree
1	A,B & C	30	30	0	33%	0%
2	A,B & C	30	30	0	33%	0%
3	A,B & C	30	30	0	33%	0%
Total	A,B & C	90	90	0	100%	0%

*Some of the respondents of "auditor" commented on the above questions that on paper all the norms and provision regarding the auditing practices and filling of LFAR are followed but in practically it is not possible to follow all the provision due to various factors, like: time constraints, test checking & involvement of judgments. An auditor not to check each & every items & aspects of financial statements and internal controls system. They follow observation techniques with materiality concept in audit process and filling of LFAR. Therefore they make a reasonable report not an accurate.

FIG. 1



On the basis of responses given on above questions, 100% of them are agreeing with the statement. It shows that all the norms and provision given by RBI, ICAI and Banking Regulation Act 1949 has to be considered and fulfilled by an auditor during the audit process. The above graph is also indicating that 33% responses of private, 33% of public sector banks manager and rest 33% of auditor out of total responses. The part of 33% responses, 100% are of agree with the statement. Thus this hypothesis is accepted on the basis of above conclusion and it is to be generalized that auditors follow all the norms and provision during the audit process. If there any changes given by the controlling authority, the also accommodate such changes in the Bank audit framework.

H1: Whether the format of LFAR to be updated at each financial year as per the RBI & Banking Regulation Act 1949 or not.

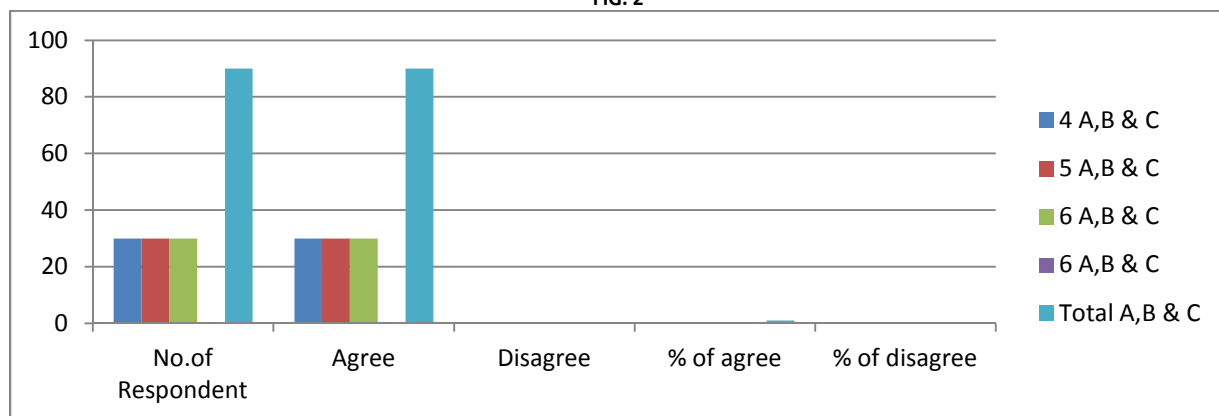
- Revision of LFAR by RBI with consultation of ICAI and Selected bank representative.
- LFAR Formats as per RBI and Banking Regulation Act 1949.
- Revision of LFAR in each year.

TABLE 4

Ques.No	Respondent	No. of Responses	Agree	Disagree	% of agree	% of disagree
4	A,B & C	30	30	0	33%	0%
5	A,B & C	30	30	0	33%	0%
6	A,B & C	30	30	0	33%	0%
Total	A,B & C	90	90	0	100%	0%

** Some auditor and public bank manager comments that RBI is not always revise the LFAR with the consultation of ICAI and selected banks representatives. Mainly in case of major changes regarding the format of LFAR, RBI has to be consulted with the ICAI and selected bank representatives. Like: Treatment of advances, Provisioning of NPA and their valuation reports etc.

FIG. 2



The above table and chart shows the total number of responses is 90 out of which 30th are from auditor, 30 from private bank manager and the rest 30 are from public bank manager. Out of total responses all of them are 100% agreeing with the statement. The individual percentage of agreeing responses are 33% of total responses. No one is disagreeing with the statement. On such basis it is to be said that RBI is to formulate the LFAR with the consultation of the ICAI and some selected bank representatives, Format of LFAR is also according to the RBI and Banking Regulation Act 1949. RBI is also revising it in each financial year. Therefore this hypothesis is strongly accepted.

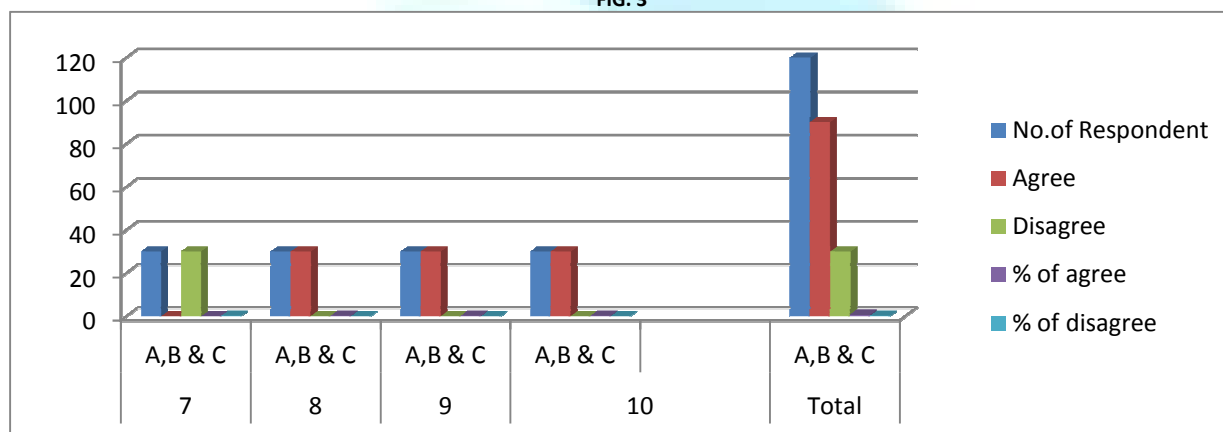
H2: There is difference between the format of LFAR at Bank and its branches.

- Difference of LFAR in Bank and Branch Audit.
- LFAR necessary to all types of banks.
- Specialised functions are applicable either to all bank or some selected branches.
- Collection of LFAR by each banks as separately or collectively.

TABLE 5

Ques.No.	Respondent	No.of Responses	Agree	Disagree	% of agree	% of disagree
7	A,B & C	30	0	30	0%	25%
8	A,B & C	30	30	0	25%	0%
9	A,B & C	30	30	0	25%	0%
10	A,B & C	30	30	0	25%	0%
Total	A,B & C	120	90	30	75%	25%

FIG. 3



The above questions are completely related with bank audit. The LFAR is one of the important reports of bank audit, which is necessary to all types of bank like Private, Public, Cooperative and Foreign Bank. For this verification, some questions is formulated and filled by the selected person on sample basis which are of 30th in a number. The number of each response is 30 in each question or of total responses. Out of which 100% answer is yes except the question no.7. In which all respondents are disagreeing with the statement about the differences in format of LFAR between banks and the branches. Thus it is generalized that there is no any difference in LFAR for bank and branch audit. However some specialized functions like foreign exchange transaction, Large Advance Assets recovery etc are not to be performed by all the banks and the branches. But it is necessary to all banks to obtain the LFAR either the branches or the head office from the auditor. On this basis this hypothesis is not accepted and alternate hypothesis is "There is no difference in format of LFAR between banks and branches" has been formulated and accepted.

H3: Whether the Institute of Chartered Accountants of India provides the guidance note for filling the LFAR of Banks audit & its branch audit at each financial year or not.

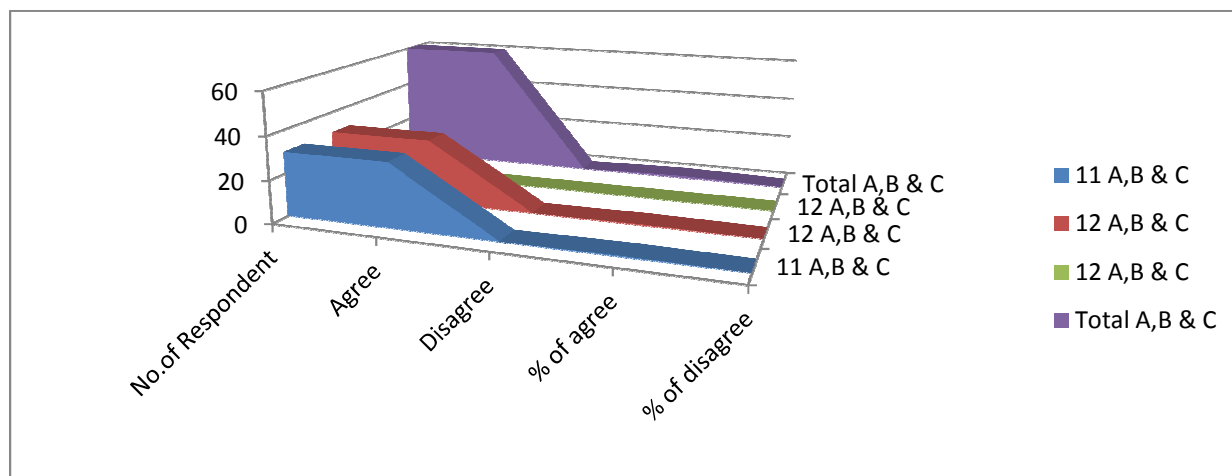
- Mode of answering of all questions as per Guidance of ICAI.
- Additional certificate required for filling of LFAR.

TABLE 6

Ques.No.	Respondent	No.of Responses	Agree	Disagree	% of agree	% of disagree
11	A,B & C	30	30	0	50%	0%
12	A,B & C	30	30	0	50%	0%
Total	A,B & C	60	60	0	100%	0%

*** Some bank manager and auditor comments whether the format of LFAR is decided by the RBI and banking Regulation Act 1949, but the manner of answering the questions and filling the LFAR is decided by ICAI with the object to make a correct representation. So that the stating the facts which has been verified during the course of audit.

FIG. 4



The 100% responses obtain from the respondent regarding the mode of answering of all questions as per guidance of ICAI and also requirement of additional certificates for the filling of LFAR. Thus the 50% response received on each questions. Out of which 100% are agreeing with it. The total agreeing against each response is 50%. It is generalized that ICAI issued the guidance note for auditing practices of banks and also for filling the LFAR for banks and branch during each financial year. They also update it as per relevant statutory requirement. Finally the last hypothesis is also accepted.

CONCLUSION

It is concluded that LFAR is one of the important audit reports or techniques for measuring the lacunae, shortcoming and failure the system of internal control adopted by the management of bank. It is prepared by RBI and filled by an auditor during the course of audit. The filling of LFAR, Ghosh/Jilani Committee report and Basel Committee Report are the important process of auditing practices in Banks which have to be filled by the auditor during the audit process. There are various statutory requirement and relevant norms & provision given by the RBI and Banking Regulation Act 1949. The ICAI has also accommodated such provision and norms in the guidance note of bank audit for the auditor. So that it should be universally acceptable by all banks. It is only to be applicable in type of statutory audit but not to other types of audit. LFAR, Ghosh & Jilani Committee report and Basel Committee report are use as the questionnaire in an Audit Planning tool. Thus an auditor must complete & submit main audit report as well as above reports simultaneously. These are not a substitution of the main statutory report but actually a management report. These reports are vast areas and are to be done along with the normal course of Bank Audit. Lastly we can say that the good quality audit serving as the backbone of the strong banking system. It is only to be possible by the auditors who have a complete knowledge of Banking Industry, Risk Assessment and Internal Control, Items of Bank's Financial Statements and Auditing Aspects, Long Form Audit Reports and Special Aspects.

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