Revised Long Format Audit Report

Why in news?

The Reserve Bank of India (RBI) has asked banks to implement the revised Long Format Audit Report (LFAR) from 2020-21.

What is the current version?

- The current version of the LFAR was devised way back in 2002.
- It should be submitted by the bank auditors to the bank management and the RBI.
- Those were relatively innocent times, with banking transactions and record keeping done manually to a large extent.
- Risk management was not as big a focus area as it is now.
- But, over the past two decades, banking has undergone a sea-change with digital banking, core banking systems and risk management.

What the revised LFAR has sought to do?

- The revised LFAR has sought to keep up with the times and address the requirements of technology-driven banking systems.
- It has done away with some questions that are no longer relevant.
- The revision also seems to have been accelerated by the seemingly unending crises in the banking system over the past few years.
- The revised LFAR has increased focus on a spectrum of risk management at banks, specific queries on credit assessment, information systems, compliance with regulations, etc.
- It wants the auditors to comment on adverse features considered significant in the top 50 standard large advances and which need the management's attention.
- Queries on capital adequacy, resolution of stressed accounts, initiation of IBC process, KYC, anti-money laundering, countering of financing of terrorism and cyber security are welcome.
- Also, there is more coverage of potential fraud areas.

What is the significance?

- A specific time-window of 60 days to submit the LFAR to the RBI should pave the way for more seriousness about the report.

- There is a focus on red-flagged accounts and early warning signals.
- This, along with other provisions, should translate into robust LFARs by both statutory central auditors and branch auditors.
- It should help identify frauds and NPAs in a timely manner.

What are the problems?

- The revised LFAR could mean longer processes and increased responsibilities for auditors.
- There could be limitations on conducting 'going concern' assessments, especially in these Covid-troubled times.
- Besides, the ongoing problem of limited time to branch auditors could continue to pose challenges to the effectiveness of the LFAR.

What could be done?

- The questions on areas such as new-age banking security could have been more focussed.
- For the revised LFAR to work, all stakeholders including the RBI's nominees on bank boards must play their part effectively.

Source: Business Line

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