



LONG FORM AUDIT REPORT

Of

..... **LIMITED**

For the year ended Ashad 206...

(Corresponding toJuly 200...)

Auditor:

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M/s.....

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Annex: List of reviewed credit files

LONG FORM AUDIT REPORT

1. AUDIT APPROACH

1.1 Brief description of the Audit plan with focus on the following areas, at minimum:

- Declaration of Independence of Audit Firm and Members
- Standards followed
- Composition of the audit team
- Audit schedule

1.2 Brief description of the Audit process and procedures

- Audit areas' Risk Assessment
- Audit procedures adapted to mitigate identified Audit Risks
- Quality control mechanism

1.3 Brief description of the Sampling Procedure and sample size

- Sampling methodology
- Sample size
- Use of system based approaches

1.4 Remarks on the execution of audit plan

- Execution of audit and the audit plan
- Problems encountered during the audit, if any
- Limitations of scope of Audit, if any.

2. RISK MANAGEMENT SYSTEMS

Opinion on the following:

2.1 Credit Risk Management Systems

2.1.1 Brief description and comment on the adequacy of credit appraisal systems,

2.1.2 Brief description and comment on the adequacy of credit monitoring systems,

2.1.3 Brief description and comment on the adequacy of the credit recovery systems,

2.1.4 Adequacy of Policies and procedure for Write off of Loans,

2.1.5 Adequacy of Policies, guidelines and Controls over Off Balance Sheet Items.

2.1.6 Comment on the concentrations in the credit and investment portfolio,

2.1.7 Risk Management Committees and their effectiveness,

2.1.8 Overall audit opinion on Credit risk management.

2.2 Market Risk (Interest Rate, Liquidity and Foreign Exchange) Management Systems

2.2.1 Adequacy of policies, procedures and guidelines for the market risk management.

2.2.2 Adequacy of the system for measuring, monitoring and mitigation of Market risk.

2.2.3 Risk Management Committees and their effectiveness

2.2.4 Overall audit opinion on Market & liquidity risk management.

- 2.3 Operational Risk Management System
 - 2.3.1 Adequacy of policies, procedures and guidelines for the Operational risk management.
 - 2.3.2 Adequacy of the system for measuring, monitoring and mitigation of Operational Risk.
 - 2.3.3 Risk Management Committees and their effectiveness
 - 2.3.4 Overall audit opinion on Operational risk management.

3. INTERNAL CONTROL SYSTEMS

Opinion on the following areas:

- 3.1 Effectiveness of the Audit committee
- 3.2 Effectiveness of the Internal Audit Function
- 3.3 Rectification of the deficiencies identified in the previous internal and external audit reports
- 3.4 Adequacy of the controls in Credit operations
- 3.5 Adequacy of the controls in Treasury operations
- 3.6 Adequacy of the controls in Branch operations
- 3.7 Adequacy of control over Nostro Bank Operations
- 3.8 Adequacy of the controls in procedures related to expenditure
- 3.9 Adequacy of the control over fixed assets.
- 3.10 Adequacy of the Management Information System (MIS)
- 3.11 Adequacy of controls over e-banking and Card Operations
- 3.12 Adequacy of controls in Information Technology and related support functions.
- 3.13 Effectiveness of the Inter-branch and agency Reconciliation function
- 3.14 Adequacy of controls to prevent and/or minimize Fraud and forgeries
- 3.15 Instances of Fraud and Forgery in the review period
- 3.16 Other Control Issues, if any
- 3.17 Auditors overall assessment of the internal control system

4. COMPLIANCE WITH APPLICABLE RULES AND REGULATIONS

Prevailing Statute, Act, Directive and Regulation, at minimum, in the following areas

- 4.1 Nepal Rastra Bank Act 2058

State whether the conditions as stipulated in Section 86 of Nepal Rastra Bank Act 2058 prevails, if yes please specify.
- 4.2 Bank and Financial Institution Act 2063
 - 4.2.1 Whether fees and benefits of Chairman and board members are as specified in AOA/MOA
 - 4.2.2 Appointment, qualification and benefits of the chief executive
 - 4.2.3 Profit Appropriation to General Reserve
 - 4.2.4 Appropriation to Exchange Fluctuation Reserve
 - 4.2.5 Distribution of Dividend
 - 4.2.6 Whether the activities are within the scope as defined by BAFIA?
 - 4.2.7 Whether prohibited activities are being pursued?

- 4.2.8 Control & notification of dormant deposit accounts and unclaimed dividend

- 4.3 Foreign Exchange Rules and Regulations
 - 4.3.1 Whether payments of goods imported and invisible import are made as per circulars.
 - 4.3.2 Whether deposit accounts of foreign currency are opened and operated as per circulars.
 - 4.3.3 Whether card transactions are done as per circulars.
 - 4.3.4 Whether foreign exchange transactions are properly recorded and reported in a timely manner.
 - 4.3.5 Whether investment in foreign currency are made as per standard approved by the Board of Directors.
 - 4.3.6 Whether payments of exports are received and reported timely as per circulars.
 - 4.3.7 Whether transactions of Indian currency are made as per circulars.

- 4.4 Capital fund (Directive No. 1)
 - 4.4.1 Computation of Core Capital, Supplementary Capital and Capital Fund
 - 4.4.2 Computation of Risk Weighted Assets
 - 4.4.3 Comment on the Capital Plan
 - 4.4.4 Overall opinion on capital adequacy

- 4.5 Loan Classification and Loan Loss Provisioning (Directive No.2)
 - 4.5.1 Comment on the Assets Quality and Classification
 - 4.5.2 Adequacy of Loan Loss Provisions
 - 4.5.3 Whether the rescheduling/restructuring comply with the provisions of the directive
 - 4.5.4 Loan Loss Provisions in case of restructuring and rescheduling of loans
 - 4.5.5 Loan Classification and loan loss provision in respect of force loans
 - 4.5.6 Loan Classification and loan loss provision in respect of loan against personal/corporate guarantees
 - 4.5.7 Whether the adjustment and Write back of loan loss provision comply with the provisions of the directive
 - 4.5.8 Overall opinion on Loan classification & provisioning

- 4.6 Single Obligor Limit (Directive No.3)
 - 4.6.1 Bank's procedures to identify a group of borrowers
 - 4.6.2 Comment on the Facilities in excess of Single Obligor Limits, if any
 - 4.6.3 Loan Loss Provision in case of borrowers availing facilities in excess of the SOL
 - 4.6.4 Review and ratification mechanisms for excessive exposures in respect of sectoral credit.

- 4.7 Presentation and Disclosure in the Financial Statement (Directive No.4)
 - 4.7.1 Comment on the Consistency of the Accounting Policies and financial reporting framework.
 - 4.7.2 Recognition of interest income from loans and advances

- 4.7.3 Reconciliation of Interest Receivable and Interest Suspense
- 4.7.4 Recognition of other interest, fees and commission and expenses.
- 4.7.5 Publication of annual accounts and periodical highlights
- 4.7.6 Non-compliance/deviations in accounting policies followed as compared to prescribed accounting policies by NRB/Nepal Accounting Standard

- 4.8 Risk Minimization (Directive No 5)
 - 4.8.1 Mechanisms to minimize liquidity risk
 - 4.8.2 Use of GAP Analysis and other mechanisms to measure and manage interest rate risk
 - 4.8.3 Mechanisms to minimize foreign exchange risk

- 4.9 Corporate Governance (Directive No.6)
 - 4.9.1 Formulation and implementation of required plans, policies and guidelines
 - 4.9.2 Code of conduct of Directors, Chief Executive and Employees
 - 4.9.3 Cases of conflict of interest of Directors, Chief Executive and Employees
 - 4.9.4 Mechanism to identify related parties promoters, directors or senior management.
 - 4.9.5 Lending to directors, chief executive, employees (except as per employee rules) and their related parties, if any

- 4.10 Implementation of Supervisory Findings (Directive No.7)

Auditor's finding on the status of compliance of directions given by NRB based on its onsite and offsite supervision.

- 4.11 Investments in Shares and Debentures (Directive No.8)
 - 4.11.1 Investments in unlisted companies
 - 4.11.2 Investment in companies with financial interest
 - 4.11.3 Investment in shares of other bank/FIs
 - 4.11.4 Investments arising out of Underwriting Commitments
 - 4.11.5 Investment in shares and debentures exceeding the limits
 - 4.11.6 Review of the investment portfolio
 - 4.11.7 Adequacy of Provisioning requirements

- 4.12 Reporting Requirements (directive No.9)

Comment upon the reliability of mechanism used for NRB reporting and the accuracy of such returns

- 4.13 Sale or Transfer of Promoters Share (Directive No. 10)
 - 4.13.1 Sale or transfer against the statutory requirements
 - 4.13.2 Sale or pledge of promoter shares, during the lock-in period
 - 4.13.3 Where the promoter of the Bank is an entity, unauthorized transfer of ownership of such entity

- 4.14 Consortium Financing (Directive No.11)
 - 4.14.1 Formation and dissolution of consortium
 - 4.14.2 Fulfillment of the specified duties of lead bank/member bank, where applicable.
 - 4.14.3 Frequency of consortium meetings where it is lead bank/FI
 - 4.14.4 Adherence to the spirits of consortium

- 4.15 Credit Information and Blacklisting (Directive No.12)
 - 4.15.1 Periodic Submission of information to CIC
 - 4.15.2 Mechanism to obtain required information from borrowers
 - 4.15.3 Credit Information at the time of sanction/renewal/restructuring/rescheduling of facilities
 - 4.15.4 Recommending defaulted borrower to the CIC for blacklisting
 - 4.15.5 Lending to individual/firm/company included in the blacklist

- 4.16 Cash Reserve Requirement (Directive No. 13)

Comment on any exceptions on the maintenance of CRR as stipulated by the directive

- 4.17 Branch/Office Operation (Directive No. 14)
 - 4.17.1 Unauthorized branches/offices/extension counters/remittance counters
 - 4.17.2 Unauthorized transactions

- 4.18 Interest Rates (directive No. 15)
 - 4.18.1 Interest rate determination procedures
 - 4.18.2 Publication of interest rates

- 4.19 Mobilization of Financial Resources (Directive No. 16)
 - 4.19.1 Concentration of deposits
 - 4.19.2 Resource mobilization beyond the limit
 - 4.19.3 Issuance of debenture and other debt instruments

- 4.20 Deprived Sector Lending (Directive No.17)
 - 4.20.1 Comment on the exceptions observed in the deprived sector lending
 - 4.20.2 Whether the loans classified as deprived sector lending meet the stipulated pre-requisite conditions
 - 4.20.3 Monitoring mechanism for utilization of deprived sector lending on a half yearly basis

- 4.21 Compliance with internal rules, regulations and guidelines

Comment on the overall state of compliance with the internal rules, regulations and guidelines.

5. OTHERS

- 5.1 Whether guarantees and all other contingent liabilities are properly recorded and disclosed
- 5.2 Whether banks have entered into any contracts with related parties including the promoters, directors, shareholders holding more than 1% and their undivided family
- 5.3 KYC norms formulated and followed by the banks
- 5.4 Compliance of pre-requisite conditions for Purchase of fixed assets
- 5.5 Any comments or issues, which the auditor feels appropriate to be communicated to the supervisor and is not covered by the above.

6. CONCLUSION

- 6.1 Type of Audit opinion expressed in the final audit Report
 - 6.1.1 Unqualified
 - 6.1.2 Qualified
 - 6.1.3 Disclaimer
 - 6.1.4 Adverse
- 6.2 Main reason for the qualified, disclaimer or adverse opinion on the financial statement produced, where applicable.
- 6.3 Areas of operation where it is exposed to excessive risk
- 6.4 The risk areas where bank/FI has not been able to properly address these risks
- 6.4 Comment on the Major Problems faced by the Bank/FI
- 6.5. Overall opinion of the auditor on the operation and financial standing of the bank/FI