

# KOTTAYAM BRANCH OF SIRC BANK AUDIT SEMINAR

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# IRAC NORMS

- Record of recovery
- System generated NPA statement
- NPA Movement analysis
- Year bend adjustment
- Genuine credit
- Additional limits
- Post balance sheet status

# POINTS OF CONSIDERATION

- Loan sanction appraisal
- Loan sanction condition
- Loan sanction documentation
- Loan delivery system
- End-use certificates
- Loan review mechanism
- TOD

# DOCUMENTATION

- Balance sheet analysis
- Legal compliance
- Recovery documentation
- Recovery status
- Restructured advances

# ADVANCES

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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 prescribed limits to be identified.

- Obtain a list of advances above 10 cores or 10% of branch aggregate advances including fund-based and non-fund based for thorough verification.
  - Classify the borrower's constitution wise for allocation of work among auditors.
  - Also classify it as consortium advances, syndicated loans, multiple banking arrangement, group accounts, etc. For bringing more focus to such accounts.
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# GENERAL INSTRUCTIONS

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The answers to the following questions may be based on the auditor's examination of all large advances.

For this purpose, large advances are those in respect of which the outstanding amount is over 10% of the outstanding aggregate balance of fund-based and non-fund-based advances of the branch or Rs.10 crores, whichever is less.

The limit of specific advance accounts to be verified by Branch Auditors have been refixed.

The specific methodology of Transaction Audit and Process Audit included.

Transaction Audit includes the verification and reporting of the overall conduct of the account with respect to :-

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**Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.**

**Overall operations  
Quantum of each operations Cash Vs Account Transactions Business Vs Personal transactions Cheque Returns  
Operated at the brim of limits.  
Frequent over-drawings  
Transfer to another bank frequently.  
Round Stripping.**

**Process verification includes the overall control framework and procedure followed at the branch vis a vis the policy of the bank which mainly include**

**Documentation  
Request letters for OD  
Flagging stop payments/instructions  
Monitoring and follow up  
Manning of the credit department.  
Concentration of credits.**

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**Guaranteed Emergency Credit line  
loans extended for MSME enjoying  
working capital loans up to 25 crores  
which are not NPAs as on 28.2.2020.  
Additional loan Guaranteed by Govt.  
For limits enjoyed up to 25 Crores.  
@ 20% limit availed as on 28.2.2020  
MSME and other business included.  
Registration as per GST Act a must.  
To be repaid in 36 installments  
Maximum Tenure 4 years  
One-year initial holiday.  
No processing fee.  
No pre-payment penalty  
No Guarantee fees.**

(ii) The critical comments based on the review of the above and other test check should be given in respective paragraphs as given in LFAR given below.



Account No.	Account Name	Balance as at year end – Funded	Balance as at year end – Non-funded	Total
<b>Total</b>		<b>A</b>	<b>B</b>	<b>C = A + B</b>

<b>Total Outstanding of the branch</b>		<b>X</b>	<b>Y</b>	<b>Z = X + Y</b>
<b>Percentage examined</b>		<b>A as % of X</b>	<b>B as % of Y</b>	<b>C as % of Z</b>

# CREDIT APPRAISAL

In your opinion, has the branch generally complied with the procedures/ instructions of the controlling authorities 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. What, in your opinion, are the s major shortcomings in credit appraisal, etc.

Any comments on advance processing, preparation of proposals, analysis of financial credentials / statements, rating need to be reported.

The appraisal report of the branch manager and his comments and recommendation to the higher authorities should be verified.

If it is branch sanction, the sanction order and comments of the credit manager and senior manager/branch head to be verified

Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner:-

- Account No.
- Account Name
- Balance as at year end

Quick mortality is referred to accounts becoming irregular/sticky and stagnant from the day one of its availing or becoming NPA within one year of sanction.

The sanction procedure, appraisal, group accounts, accounts opened anew as fresh customer, loans taken over should be given more emphasis.

Whether in borrowal accounts the applicable interest rate is correctly fed into the system?

Verification points include :-  
Feeding of rate to account master  
Linking of rates to MCLR  
Periodicity of interest application.  
Change management from CORE  
Simple Interest/compound interest  
Moratorium period interest.  
(compounding factor during COVID period to be excluded)

**Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to**

**The influence of CORE in the application of interest should be analyzed. The sanction condition as floating/fixed should be fed to master properly.**

**MCLR / EBLR (External Benchmark Lending Rate)?**

**Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.**

**The process of renewal/review should be verified. Roll over of renewal dates and making short/adhoc/limited review should be verified.**

**RBI Circular:  
RBI2020-21/Dos\_CO  
-PPG\_BC\_1/11.01.002/2020-21-August-2020  
Bank policy for renewal/review to be obtained and strict adherence to be verified and deviations reported**

**Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?**

**The time lag between the last rating to the balance sheet date should be commented, it is more than 2 years.**

**The deterioration in latest rating is to be considered for further monitoring.**

**The interest rate setting attuned to the rating granted to be verified.**

**Accounts becoming NPA even after high rating should be commented separately.**

# SANCTIONING / DISBURSEMENT

In the cases examined by you, have you come across instances of:

(a) credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch?

(b) Are such cases promptly reported to higher authorities?

Obtain the latest extant guidelines of the bank regarding delegated powers and keep it as auditor's records.

The TOD/TOL powers, casual business powers, loan sanction powers need to be examined.

The reporting of each such instances need to be made to controlling authority. Verify the records / register maintained for the same.

Obtain the regular/exception report of TOD/TAL as on 31.3.2021 and compare it with same report as on 28.2.2021 and 20.3.2021

**Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.**

**The selected advances (as in column 1 of Para .5 above) accounts should be verified with special reference to sanction terms, usual slippages are**

- 1) Failure to conduct pre sanction and post sanction inspection.**
- 2) Legal audit of documents executed and obtained**
- 3) Creation of charge**
- 4) Conditions attached to and between consortium members.**
- 5) Failure in obtaining personal guarantees of owners and family members, satisfaction letter, NOC etc.. as per sanction**

**Did the bank provide loans to companies for buy-back of shares/securities?**

# DOCUMENTATION

In the cases examined by you, have you come across instances of:

Find out for any increase in the promoter's pattern of shareholding between last year and this year.

If so, enquire the source of buying such shares and if it is buy back, then analyze for any funding made by bank just before the buy back.

Credit facilities released by the branch without execution of all the necessary documents ? If so, give details of such cases.

The legal audit report need to be verified for inadequacy of documentation.

Obtain a letter of representation in this regard from the branch manager.



**Deficiencies in documentation including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.**

**Verify creation of charge with special reference to the nature, extend and details of assets charged, location of the assets charged. The nature of charge as first charge, second charge, Parri-Passu charge, etc. Need to be verified.**

**Obtain latest search report if there is any change in advances by our bank or any other bank/financial institution. Even modification of conditions of loan need to be verified with charge created and modified.**

**Obtain a letter of representation in this regard from the branch manager.**

Advances against lien of deposits have been granted without marking a lien on the bank's deposit receipts and the related accounts in accordance with the guidelines of the controlling authorities of the bank.

Compare the list of advances against TDR with the lien marked report generated from system. Specific verification regarding continuation is necessary for TDR modified as to term, date, rate of interest etc.

**Obtain a letter of representation in this regard from the branch manager.**

**The deposit lien should have been extended to related loans/accounts of the borrower to ensure enforcement of general lien on deposits before it is given back to customer.**

# 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. What, in your opinion, are major shortcomings in monitoring, etc.
- Obtain a list of due dates or report of review dates of advances and inspection. See that no review is overdue for more than six months. Any such cases need to be classified as NPA as per prudential norms.
- Ensure that comprehensive review is done.
- The short review, extension of time of review etc. Need to be commented on merits.
- Obtain confirmation from higher authorities if the review is pending at their end during audit period and report.

**Obtain confirmation from higher authorities if the review is pending at their end during audit period and report.**

- **a) between 3 to 6 months, and**
- **b) over 6 months**

- ***Earlier it was 6 months to one year.***
- ***Earlier it was over one 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?**

- *Is the DP properly computed?*
- *Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?*

**Verify stock statement register, the date stamping of receipt of stock statements, calculation of drawing power. Elimination of slow moving, obsolete stocks and creditors from calculation of drawing power.**

**Ensure submission of separate stock details of goods for which separate packing credit loan is availed.**

**Elimination of debtors beyond stipulated period as per sanction and disputed debtors while calculating drawing power.**

**Ensure that the drawing power is fed to system periodically for proper control and appropriate charging of interest**

**Share of Drawing power in case of Multiple Banking/consortium arrangement should be obtained and verified.**

**If it is not communicated by lead bank, the pendency should be reported.**

**Audited statements should be verified with UDIN and membership number of Cash.**

- Whether there exists a system of obtaining reports on stock audits periodically?
- If so, whether the branch has complied with such system?

Details of:

cases where stock audit was required but was not conducted.

where stock audit was conducted

but no action was taken on adverse features

- Stock audits are to be conducted yearly for all advances above bench mark for working capital limits sanctioned against stock and or debtors as decided by the bank.
- Obtain list of accounts requiring stock audit from branch manager.

Verify stock audit reports and consider adverse comments if any.

The stock audit initiated and report pending from auditors should be reported with special reference to delinquent accounts.

- The comments of the stock audit report and the regularization of such comments by the branch should be reported.

- **Indicate the cases of advances to non- corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.**

- **Obtain a list of such advances. Verify the financial statements and ensure auditors sign with seal and membership number.**
- **The limit set by the bank should be obtained as a letter from the branch manager.**
- **The limit for obtaining audited statements is now as per the bank policy. Earlier it was Rs. 10 lakhs and above.**



- Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate/report is not obtained or not available on record.
- In case, the branch is not the lead bank, copy of certificate/report should be obtained from lead bank for review and record)

Report on Information exchange between member Banks  
Sharing of information on DP  
Sharing of status of account  
Due diligence report as specified by RBI to be part of documents/file  
Obtain list of accounts with Multiple/Consortium arrangement.  
Report if the due diligence report is not kept on record.

**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?**

**The branch should record the periodical inspection report of unit which will include verification report of securities. The inspection report should be documented and kept on record. Any large variation needs to be reported. Long pending inspection on COVID effected borrowers and its RISK of mortality to be reported.**

Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?

Verify with reference to Clause No. 4.2.9 of Master Circular regarding erosion in the value of security.

Erosion in value of security below 50% would make it Doubtful straight away and below 10% to LOSS asset.

**In respect of advances examined by you, have you come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?**

**A comprehensive analysis of loans to group concerns with overlapping charge on same security need to be verified. The asset coverage of all group loans vis a vis all outstanding loans need be comprehensively analysed and any deficiency reported.**

**Verify insurance register and comment on adequacy and coverage of insurance. Confirm all policies are with bank clause. Obtain a letter of representation in this regard from the branch manager.**

Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flagged Accounts?

The policy and process of red flagging should be obtained from the branch.

The SMA categorization and red flagging should be in sync with the norms prescribed.

The EXIT marked accounts, watch category accounts, accounts with early warning signals, otherwise delinquent accounts etc.. also should be seen for red flagging. If it is not done and requires to be flagged as per branch auditor, it should be reported

**Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.**

**TOP 5 accounts should be selected in terms of overall exposure and CRITICALITY.**

**Need not necessarily to restrict to 5 accounts, it can be more, but 5 numbers is a requirement.**

**The post COVID conduct of accounts and industry wise knowledge of the auditor should be blend while reporting.**

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?

**Asset Classification, provisioning of Advances and Resolution of Stressed Assets**

Lease financing for assets where depreciation claim can be made by bank on such assets.

Verify extend guidelines of accounting and report for any inconsistencies with accounting principles / standards.

- **Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, without manual intervention?**
- **Is this identification & classification in line with the norms prescribed by the Reserve Bank of India**
- **Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA- 1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.**

- **The reliability of system generated classification need to be ensured for program error, data entry and data updation / modification etc.**
- **Manual intervention with respect to feeding periodical Drawing power, Change in sanction condition, increase in limits, ECLG Scheme Loans etc.. to be commented**
- **The NPA statement for any two periods may be generated for comparison of upgraded/ downgraded loans.**
- **The year-end circular of the bank need to be verified with master circular of RBI. Any inconsistencies need to be brought to the notice of statutory central auditors.**



- Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes.
- List the accounts (with outstanding in excess of Rs. 10.00 crore) which have either been downgraded or upgraded with regard to their classification as Non-Performing Asset or Standard Asset during the year and the reason thereof.

Whether RBI guidelines on income recognition and provisioning have been followed

- The SMA categorization and its reporting should be verified. A copy of the report on SMA accounts should be kept on record.
- The data of such accounts with its justification of the branch for such down/upgradation with the auditors comments should be given here.
- Obtain list of accounts above 10 crores upgraded/Downgraded and report. The restructuring and re-phasing of stressed assets should be reported separately.

- **Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?**
- **Whether the RBI Guidelines for restructuring on all such cases have been followed.**
- **Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?**

**Refer Circular No.:**  
**RBI/2018-19/203DBR** **No.**  
**BP.BC.45/21.04.048/2018-19** **June**  
**07 2019**

- Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India
- Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.

- Upgradation only after satisfactory performance for one year for all restructured assets.
- Upgradation based on **CRITICAL** factors as below to be verified and reported.

Fresh Valuation of assets/security

Infusion of capital by Borrowers

Transfer of funds from other branches

Have you come across cases where the relevant Controlling Authority of the bank has authorized 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.

Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch?

Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?

Take a list of core NPAs and verify the stage of legal proceedings for recovery. if no action is taken / reported verify the file to see the instruction from controlling authorities.

Obtain a letter of representation in this regard from the branch manager.

The list of such accounts should be obtained from the branch manager for further verification and comments. .

- Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled?
- Give details of claims rejected? (As per the given table)
- Whether the rejection is appropriately considered while determining the provisioning requirements

Banks would have opted out of DICGC. If so verify the recovery during the year in accounts where DICGC claims have been received.

The ECGC claims pending and rejected should be verified for reporting.

Ensure the share of recovery has to be forwarded to DICGC. The data furnished in DICGC certificate should synchronize with data furnished here.

Any rejection of claim should be commented with the country risk attached to the overseas buyer.

Proper provisioning of ECGC rejected accounts should be ensured at branch level or should be reported to CSA.

Particulars	Number	Amount
Claim at the beginning of the year		
Further claim lodged during the year		
<b>Total A</b>		
Amounts representing		
(i) Claims accepted/settled		
(ii) Claims rejected		
<b>Total B</b>		
Balance as at year end (A-B)		

**In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?**

**This forms part of verification of documents. The valuation of properties needs to be not more than 3 years. If the auditor feels that the value post COVID is far too less than the value considered, insist for a fresh valuation report. This would be more appropriate in cases of real estate valuation.**

**The RBI has insisted for valuation by two valuers for properties above prescribed limit.**

**Obtain a letter of representation in this regard from the branch manager.**

**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 Rs. 50.00 lakhs may be given.**

**The list of OTS, write off or settlement accounts beyond 50 lakhs need to be obtained. The sanction, authority and accounting of such transactions need to be verified and commented up on for any deviation from extend guidelines or accepted accounting principles / practices.**

**The compliance of settlement conditions of all cases need to be verified and reported.**

**The settlement or OTS does not make any impact on prudential norms for any account which will continue as it was till finally settled or written off.**



Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.

Whether in the cases concluded the recoveries have been properly appropriated against the principal /interest as per the policy of the bank?

The decree obtained from courts/DRT pending execution should be obtained and reported.

The branch may be insisted to obtain the list and details from the legal department for auditors to report here.

The policy of bank regarding apportionment to be verified. The general policy of adjusting first interest and then to principal should be followed consistently. The policy of the bank should be obtained.

Special mention regarding the different policies adopted by merged banks with parent bank should be made and reported for any inconsistency.

**In cases where documents are held at centralized processing centers / office, whether the auditor has received the**

**relevant documents as asked by them on test check basis and satisfied themselves. Report the exceptions, if any**

**List the major deficiencies in credit review, monitoring and supervision.**

**Physical custody of documents, if centralized and not able to be verified should be reported.**

**The overall control and coordination of documents and upkeep of the same need to be commented.**

**The list of documents sought for verification and not provided should be reported separately.**

**The follow up of watch category accounts, SMA 0 to 2 accounts under standard assets and recovery initiative of other accounts need to be reported here.**

# ***NON-FUND BASED FACILITIES***

- **List of borrowers with details of LCs devolved or guarantees invoked during the year.  
(Earlier it was at the end of the year.)**

- **Any guarantees invoked should be transferred to protested bills account or appropriate years as per HO guidelines.**
- **See the list of guarantees closed during the year with special reference to the guarantees invoked during 2020-21.**
- **Comment on LC pending to be honored near about the balance sheet date in respect of a delinquent borrower.**
- **Obtain details and a letter of representation in this regard from the branch manager.**

- **List of borrowers where the LCs have been devolved or guarantees have been invoked but not paid with amount thereof.  
(New Format given.)**

- **The LCS issued in favour of borrowers whose account is classified as NPA where the LCS are overdue and due in near about dates need to be verified and reported.**
- **The auditor may insist on provision if it is a confirmed and potential loss to bank. it may even be brought to the notice of central statutory auditors for appropriate action.**
- **Obtain details and a letter of representation in this regard from the branch manager.**

- **List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.**

- **Take the list of LC devolved and DEBITED to the existing CC/OD account in the pretext of interchangeability of facilities sanctioned by the bank.**
- **The exercise of such an option which may effect the NPA classification should be commented and reported to the CSA.**
- **The extension/enhancement of limits due to interchangeability should be verified with the security cover and borrower capacity.**

## Advances - Alet for Banks

Following are 45 early warning signals provided by RBI about wrongdoings/frauds in loan accounts.

1. Default in payment to the banks/ sundry debtors and other statutory bodies, etc., bouncing of the high value cheques
2. Raid by Income tax /sales tax/ central excise duty officials.
3. Frequent change in the scope of the project to be undertaken by the borrower.
4. Under insured or over insured inventory.
5. Invoices devoid of TAN and other detail.
6. Dispute on title of the collateral securities.
7. Costing of the project which is in wide variance with standard cost of installation of the project.
8. Funds coming from other banks to liquidate the outstanding loan amount.

9. Foreign bills remaining outstanding for a long time for bills to remain overdue.
10. Onerous clause in issue of BG/LC/standby letters of credit.
11. In merchanting trade, import leg not revealed to the bank.
12. Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
13. Delay observed in payment of outstanding dues.
14. Financing the unit far away from the branch.
15. Claims not acknowledged as debt high.
16. Frequent invocation of BGs and devolvement of LCs.
17. Funding of the interest by sanctioning additional facilities.
18. Same collateral charged to a number of lenders.
19. Concealment of certain vital documents like master agreement, insurance coverage.

## Advances - Alet for Banks

20. Floating front / associate companies by investing borrowed money.
21. Reduction in the stake of promoter / director.
22. Resignation of the key personnel and frequent changes in the management.
23. Substantial increase in unbilled revenue year after year.
24. Large number of transactions with interconnected companies and large outstanding from such companies.
25. Significant movements in inventory, disproportionately higher than the growth in turnover.
26. Significant movements in receivables, disproportionately higher than the growth in turnover and/or increase in ageing of the receivables.
27. Disproportionate increase in other current assets.



## Advances - Alet for Banks

36. Poor disclosure of materially adverse information and no qualification by the statutory auditors.
37. Frequent change in accounting period and/or accounting policies.
38. Frequent request for general purpose loans.
39. Movement of an account from one bank to another.
40. Frequent ad hoc sanctions.
41. Not routing of sales proceeds through bank
42. LCs issued for local trade / related party transactions
43. High value RTGS payment to unrelated parties.
44. Heavy cash withdrawal in loan accounts.
45. Non submission of original bills.

*THANK YOU*