

AUDIT OF ADVANCES

FUNDED & NON-FUNDED

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INTRODUCTION

- Branch's dependence on 1 or 2 Borrowers.
 - Compromises (in procedures, in charges)
 - Accommodation (Overdrawing, Documentation Defects)
- Problem of over familiarity – resulting into fraud.

UNDERSTANDING ADVANCES

- Funded / Non Funded
- Secured / unsecured
- Type of Lien
- Margins
- Priority / Non Priority
- Inland / Foreign

UNDERSTANDING ADVANCES

- Base Rate
- Differential Rate of Interest (DRI)
- Nature of Borrowing Arrangements
- Sector Specific Limits
- Type of Advances – T/L, CC, OD, Bills Purchased/ Discounted

UNDERSTANDING ADVANCES

- Export Credit
- Gold Ornament and Bullion Loan
- Loan to Directors and their relatives
- Loan to Officers and relatives of Senior Officers.
- Financing Housing Projects

STAGES OF ADVANCE

- Credit Appraisal
- Sanctioning and disbursement
- Review, Monitoring, Supervision and Inspection
- Classification

CREDIT APPRAISAL

- Project technically feasible, economically viable and commercially acceptable
- Review of Documents submitted by borrower
- Review of Loans approved by an Officer before retirement

CREDIT APPRAISAL

- Compliance with instructions of Controlling authorities
 - Loan Application
 - Proposal for grant/renewal
 - Enhancement
 - Adequate appraisal
 - Documentation

SANCTIONING/DISBURSEMENT

- Beyond Delegated Authority
- Disbursement without complying with Terms and Conditions of Sanction
 - Promoter's Contribution
 - Inspection
 - Security
 - End-use
 - Confidential Report/No dues Certificates

REVIEW / MONITORING / SUPERVISION

- Procedure for periodic review
- Periodic balance confirmation
- Overdue for review / renewal
- Stock / Book debt statements, operational data and financial statements scrutiny
- Stock Auditor's Report

REVIEW/MONITORING/SUPERVISION

- Advances to Non-Corporate entities
- Verification of Securities charged to the bank
- Valuation and Inspection of Securities
- Frequent overdrawing beyond limits
- Lease Financing

REVIEW / MONITORING / SUPERVISION

- Reporting of NPAs and progress of rehabilitation
- Recovery of Credit Card Dues
- Classification of advances into Standard and NPAs
- Memorandum of Changes

REVIEW / MONITORING / SUPERVISION

- Legal actions/ Recalling of advances
- Claims with CGC/DICGC
- Valuation of Non-performing assets
- Compromise/settlement and write-off
- Major deficiencies in credit review, monitoring and supervision

RESULT OF MONITORING AND SUPERVISION

- Renewal/Enhancement
- Re-scheduling/Cancellation of Limits
- Reduction of D.P.
- Obtaining additional security

RESULT OF MONITORING AND SUPERVISION

- Obtaining Balance Confirmation
- Valuation of Assets
- Lodging claim
- Legal Action

SECURITY

- Mode of creation of Security
- Equitable Mortgage v/s Registered Mortgage
- Assignment
- Auditor to verify - legal enforceability, effective control, Inspection, valuation, classification

DOCUMENTATION

- Legal Status - Individual, Partnership, Company, Trust
- Government Recognised Status - Priority Sector, SSI, Manufacturer
- Purpose of Loan - Financing Machinery, Stock, Vehicle
- Security - Primary/Collateral

DOCUMENTS TO BE EXAMINED

- Submitted by Borrower
 - i. Application, Project Report
 - ii. Financials
 - iii. Data of Individual
 - iv. Business Proofs

- Obtained by Bank
 - i. Mortgage Deed
 - ii. Valuation Reports

DOCUMENTS TO BE EXAMINED

➤ Prepared by Bank – Internally

- i. Appraisal Note
- ii. Sanction Letter
- iii. Demand Promissory Note
- iv. General Lien and Set-off Letter
- v. Guarantee Bond
- vi. Visit Report

DOCUMENTS TO BE EXAMINED

➤ Collected from Third Party

- i. Credit Report
- ii. Insurance
- iii. Lien Marking by RTO
- iv. NOC of Society
- v. Charge Noting by ROC
- vi. Direct confirmation of Dealership

DIFFECTS / INCONSISTANCIES IN DOCUMENTS

- Blank /incomplete / with change in ink or handwriting/not signed by the borrowers
- Deed of Mortgage/Hypothecation not signed on each page by borrowers.
- Personal Papers of borrowers/
Guarantors not available

DIFFECTS / INCONSISTANCIES IN DOCUMENTS

- Acknowledgement of debts not available
- Only Proforma Invoice / Quotation / Receipt on record, No Final Invoice available
- Final Accounts not certified by C.A. or not certified properly.
- Documents not properly stamped

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS



TERM LOAN -

- Property valuation
- Original Agreement / Share Certificates/ NOC of the society
- Legal Opinion on clear title
- Mortgage to additional facility
- ROC certificate not obtained / not modified

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS..

➤ TERM LOAN ..Contd.

- Change of Guarantors
- Common Guarantors
- Cross Guarantees
- Change in Constitution of the Borrower
- New loans taken to repay old loans
- Facilities disbursed without complying with sanctioned terms.

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS..

➤ CASH CREDIT

- Frequent overdrawing
- Repeated request for against effects
- ECGC Cover
- Certified Accounts of Non-Corporate Entity

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS..

➤ CASH CREDIT (contd...)

- Stock and Book Debts
 - ✓ CA Certificate, Stock Audit Report
 - ✓ Debts due from Group Companies
 - ✓ Unpaid Stocks
 - ✓ Stocks under L/C, Packing Credit, received for Job work
 - ✓ Drawing Power

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS..

➤ CASH CREDIT.. Contd.

- Stock and Book Debts Contd..
 - ✓ Valuation – Interest included, 31st March value not tallying
 - ✓ Non moving / Slow Moving
 - ✓ Insurance not extended to new godown
 - ✓ Data in the stock statement not logical

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS..

➤ CASH CREDIT (contd...)

- Stock and Book Debts Contd..
 - ✓ Pledged Stock not checked for obsolescence
 - ✓ Age-wise Debtors Statement not provided

OBSERVATIONS OTHER THAN DOCUMENTATION DEFECTS..

➤ CASH CREDIT (contd...)

- Insurance – Expired, Inadequate, not assigned to bank
- Inspections – Frequency, Reports
- Review / Renewals

➤ TODs/Debit Balances in SB Accounts

SCRUTINY OF ACCOUNTS

➤ Scrutiny of operations in Cash Credit

- Turnover – Credit summation
- Cash withdrawals – Excessive, immediate withdrawal after sanction
- Transfer of Funds between Associates
- Diversion of Funds
- Off Balance Sheet items

SCRUTINY OF ACCOUNTS..

➤ Scrutiny of operations in Cash Credit (cont...)

- Payment of loan installments to others
- Payment to unrelated parties
- Frequent bouncing of cheques
- Cash deposits to clear cheques

SCRUTINY OF ACCOUNTS..

➤ Scrutiny of operations in Cash Credit (cont...)

- Irregular or infrequent credits
- Overdue bills cleared
- Temporary enhancement/Adhoc Limit
- Last month's transactions

SCRUTINY OF ACCOUNTS..

➤ Overdrafts

- Fixed Deposits
- National Savings Certificates
- Loan against shares/units
- Life Insurance Policy

SCRUTINY OF ACCOUNTS...

- Bills Purchased / Discounted
- Cheques Purchased
- Bank Guarantees
- Letter of Credit

NON FUNDED ADVANCES

- Master Circular on Guarantees and Co-acceptances
- Guarantees and L/Cs
- In the nature of contingent liability
- Off Balance Sheet items

NON FUNDED ADVANCES

- Dual Transactions – Guarantee and Counter Guarantee
- Reflected in Notes
- Non Funded Loan sanctioned converted to Funded for Temporary Period

NON FUNDED ADVANCES

➤ Guarantees

- Customer should enjoy credit facility
- Financial v/s Performance
- Financial – Promise to pay a stated amount
- Performance – Failure of performance, Generally discouraged, customer to have necessary experience, capacity, means to perform the obligation under contract and remote possibility of default.

NON FUNDED ADVANCES

➤ Guarantees.. Contd..

- Risky Advance
- Over Trading by Borrower solely on the basis of the guarantees be discouraged
- Specific Guarantees v/s Continuing Guarantees
- Maturity not to exceed 10 years
- Un-Secured Guarantees not to exceed 10% of total exposures

NON FUNDED ADVANCES

➤ Guarantees.. Contd..

- Margins in the form of Cash or Term Deposits or other securities insisted
- Stock Brokers – 50% Margin (25% Cash Margin)
- Extensive guidelines on issue of guarantees to exporters and Importers

NON FUNDED ADVANCES

➤ Co-acceptance of Bills

- Co-acceptance by buyer's Banker
- Discounting of Bills based on such Co-acceptance
- Valuation of Goods to be verified
- Guard against accommodation bills

NON FUNDED ADVANCES

➤ Letter of Credit (L/C)

- Should be issued only to regular customers
- Devolvement
- Discounting of bills drawn under L/C

MEMORANDUM OF CHANGES (MOC)

- MOC as a document prepared by Auditor
- MOC not acceptable to Branch Management
- Interpretation of NPA Circular

OTHER AREAS IN ADVANCES

- Agricultural Advances
- Problems in Computerization
- Advances in Foreign Exchange

Thank you