AUDIT OF ADVANCES

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DATED: 02.04.2023

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AUDIT OF ADVANCES

- Audit of advances is one of the most important areas covered by the auditors during bank audits. Hence, it is necessary that auditors should have adequate knowledge of the banking industry and the regulations governing the banks.
- Audit of advances involves verifying the accuracy of the loan balances, ensuring proper documentation and compliance with applicable regulations.

KEY AREAS OF ADVANCES

Here are some key areas that needs to be cover:

Loan Portfolio Review : to identify any unusual transactions, such as loans with no repayments or large exposures to a single borrower.

Internal Control Assessment : to check internal controls over loan origination, disbursement, and repayment, to ensure that proper policies and procedures are in place to mitigate risk and prevent fraud.

Testing : to perform substantive testing procedures to verify the accuracy of loan balances, such as confirming balances with borrowers, examining loan agreements and supporting documentation, and testing the completeness of loan-related disclosures in the financial statements.

KEY AREAS OF ADVANCES

Impairment Assessment : to assess the adequacy of the bank's allowance for loan losses, which is a reserve established to cover potential losses from loan defaults & to review the bank's impairment methodology and test the reasonableness of the assumptions used.

Regulatory Compliance : to ensure that the bank is in compliance with applicable laws and regulations governing loans, such as lending limits, loan documentation requirements, and interest rate disclosures.

RBI Circular/Mater Direction issued from time to time

Credit Policy : to acquaint with the credit policy of the bank and and composition of advances portfolio.

TYPES OF ADVANCES

DIFFERENT TYPES OF ADVANCES ARE OFFERED BY BANKS

FUND BASED CREDIT FACILITIES

NON FUND BASED CREDIT FACILITY

TYPES OF ADVANCES

FUND BASED CREDIT FACILITIES

- CASH CREDIT
- OVERDRAFT
- BILL DISCOUNTING
- CONSUMER LOANS
- AGRICULTURAL LOANS
- TERM LOANS
- EPC
- Working Capital Demand Loan (WCDL)

TYPES OF ADVANCES

NON FUND BASED CREDIT FACILITY

- LETTER OF CREDIT
- BANK GUARANTEE

TYPES OF ADVANCES

I) Fund Based Credit Facilities where ,upon sanction. There is actual outflow of funds from the bank to borrower such as:-

- Cash Credit (short-term loan for working capital usually secured by way of hypothecation of stock-in-trade or book debts.)
- Overdraft (short-term loan for working capital usually secured by Fixed Deposit & Other securities like immovable properties ,life insurance policies, shares, bonds, NSCs ,KVPs, IVPs etc.
- Bill Discounting (short-term loan for working capital by discounting the bill of exchange)

TYPES OF ADVANCES

- Consumer Loans (for purchasing a car, home renovation, or education etc.. These loans are typically unsecured and have a higher interest rate than secured loans.)
- Agricultural Loans (loans provided to farmers to meet their farming-related requirements such as purchasing seeds, fertilizers, or machinery.
- Term loans (loan for Fixed Capital repayment of the loan is made in Instalments over a period of time.
- EPC (working capital requirements to exporters during the pre-shipment period).

TYPES OF ADVANCES

- Working Capital Demand Loan (WCDL) (to meet the working capital requirement gap and is considered as a part of working capital facility)

II) Non Fund Based Credit where outflow of the bank's fund does not involve at the time of sanction. These facilities may turn into a fund based facility if not paid on due date. Such facilities are :-

- letter of credit (letter of credit, also known as a documentary credit or bankers commercial credit, or letter of undertaking, is a payment mechanism used in trade to provide an economic guarantee)
- Bank Guarantee (a promise by a lending institution to cover a loss if a business transaction doesn't unfold as planned).

KEY AUDIT AREAS

Describe the key areas of focus for auditing advances, such as credit policy, loan review, classification and provisioning, and recovery efforts:

The following are the key areas that need to be addressed in an audit of advances in bank audit:

- Credit appraisal: Evaluate the bank's credit appraisal process to ensure that it is robust and takes into account all relevant factors. This includes the borrower's creditworthiness, financial stability, and repayment capacity.

KEY AUDIT AREAS

- Documentation: Review the loan documentation and ensure that it is complete, accurate, and up to date. All necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should have been executed by the parties before advances are made.
- Disbursement: Ensure that the loans are disbursed only after all the necessary conditions have been met. This includes the fulfilment of documentation requirements, compliance with regulatory norms, adherence to internal policies and Compliance with terms of sanction and end use of funds should be ensured

KEY AUDIT AREAS

- Monitoring: Review the bank's monitoring process to ensure that it is adequate and effective. This includes regular review of borrower's financial statements, ensuring timely payment of instalments, and taking corrective action in case of default.
- Recovery: Review the bank's recovery process to ensure that it is effective in recovering the outstanding dues. This includes timely follow-up with borrowers, enforcement of security, and taking legal action if necessary.

CHECKLIST

Irregularities in fresh sanctions:

- Exercise of DFP and ratification wherever exceeded.
- Risk are properly analysis and whether terms and conditions of sanction are captured properly.

Pre-sanction / Sources:

- Loan application form duly filled in and signed by the applicant/s and guarantors. With affixed photo graph.
- KYC documents (ID and Address proof)
- Latest Bank statement of the borrower
- Copy of shop and establishment license

CHECKLIST

- Registration certificate of Partnership Deed /Private /Limited Company.
- Borrowing power resolution along with authorized signatory for private /LTD company.
- Proposals justifying the limit /loans.
- ITR for 3 years (Latest)
- Salary slips of borrower & guarantor for 3 months (Latest)
- Profit & Loss A/c and Balance sheet (CA attestation in case of unaudited financial)and networth certificate in case of business.
- Copy of statutory permission (where ever applicable)

CHECKLIST

- TEV Study /information Memorandum in case of TL(wherever applicable)
- Collection of Processing Fees
- Security offered

Processing / Appraisal

- CIBIL of borrower & guarantor
- CERSAI Report
- Process Note (Financial analysis /notes of account inter group , dealing arrangement of bank finance / consortium ref etc.

CHECKLIST

- Confidential Report from bank/s (if account is maintained with other bank/s
- NOC from banks (if applicant is enjoying any facility with other bank)
- NOC from other bank incase of take over , Loan account statements to verify overdue / NPA and List of document held by other bank
- Pre –inspection
- Valuation report from approved valuer (Incase of Mortgage)

CHECKLIST

- Legal opinion on security offered by the borrower (In case of Mortgage) (Search report)
- Rating - internal / external wherever applicable as per bank's extent guidelines

Documentation and disbursement

- Acceptance of sanction letter by borrower and guarantor
- Documents to be obtained as per bank's guidelines duly stamping filled up and signed.
- Compliance of Stipulated terms and conditions in the sanction letter
- Collection of processing Fees and other charges

CHECKLIST

- Vetting of document applicable , wherever applicable.
- Registration of charge (In case of Company), RC (In case of vehicle loan) Society(HL)
- Intimation of Equitable mortgage(In case of mortgage loan,)
- Post sanction , Inspection
- Insurance of Security with bank clause
- Margin required if any.
- Appropriate ROI has been stipulated.
- CERSAI Creation

CHECKLIST

- Post disbursement Inspection and Collection of Inspection charges
- Capturing of data in system relating to limit rate of interest ,EMI ,Moratorium period and up dation/modification.
- Verification of Security value (Primary & Collateral)
- Value dated entries.
- Credit Audit wherever applicable.
- LSR certified copy of Title Deed .

CHECKLIST

Vehicle loan

- Quotation from dealer
- Original Invoices.
- Copy of RC duly lien marked within 90 days
- One page copy of registration till receipt of normal RC book.
- Insurance Policy of vehicle
- In case of second hand vehicles, valuation certificate from reputed automobile engineer in prescribed format.

CHECKLIST

Housing Loan

- NOC from builder /society
- Agreement for sale (Registered) Index II
- Legal opinion (as the case)
- Property Valuation Report (not more than 3 years old)
- OC and share certificate (For sale flat)
- Chain of Old agreements(An original of re-sale of flat)
- Disbursement in account of borrower in favor of Seller

CHECKLIST

In case of building purchase under construction:

- Letter of allotment from Private Builder /Housing Board /Society
- Blueprint (Plan copy) stamped by Municipal Authority.
- Development Agreement of builder (Registered Copy)
- Photo of the building / flat under construction are obtained at each stage of construction and countersigned by branch official who has visited the site with DATE & SEAL.
- Limit will be disbursed stage by stage as per CC duly signed by architect
- OC on final construction
- Disbursement in account of borrower in favor of builder Escrow A/c

CHECKLIST

In case of OWN construction:

- Blueprint (Plan copy) stamped by Municipal Authority.
- Site inspection on a rotation basis by the branch officials at each stage of construction.
- Bills/vouchers (in detail) are submitted at the time of each disbursement.
- Valuation report to be obtained after completion of construction.
- Building will be insured after completion.
- Check repayment schedule. Repayment should be start after 12/15/18 months . As the case may be.

CHECKLIST

Gold Loan

- Sanction within DFP
- Variation by certified valuer on panel
- Interest on Jewel Loan
- Physical verification
- Auction of Jewel Loan if any.

CHECKLIST

Conduct of Account

- Sales performance vs. Turnover routed
- Overdue
- Cash Withdrawal
- Suspicious Transaction
- Return of Inward /Outward of cheque
- LC devolvement /BG Invocation
- Adhoc Limit
- Leakage of income
- ECGC invocation /LC development
- Group Transaction if any

CHECKLIST

Monitoring and Follow Up

- Post Disbursement Compliance
- Stock and Book Debts Statement (Age wise) Submission and DP calculation
- Penal int. For delay recovered /Waived
- Inadequate / lapsed Insurance Policy for Primary &collateral security with Bank Clause & Policy due within next 3 months (Data Source –Insurance Registered /Report)
- LPS Supervision
- Unit Visit and its major observation

CHECKLIST

- End use of TL Released during last Month
- Stock and Book Debts Audit
- Particulars of Exchange of Information
- QIS/Quarterly financial published are analyzed and review notes placed
- Whether review/renewal was done as per the sanction terms
- Expired Limit & Limit due within next 3 months
- Exchange of Information (In case of multiple banking)
- Consortium Meeting (Quarterly)
- Internal & external rating

CHECKLIST

- Turnover
- Recovery in Compromise cases as per terms and conditions in of the compromise agreement.
- Service of interest /Installment
- EM / ROC formality pending

CHECKLIST

Adhoc Sanction

- Account with sanction CC/OD limit within permissible DFP
- DP availability
- Regularization within the period for sanction or maximum of 3 months.
- Excess Drawl Allowed/ Drawing Unlcleared effects
- Refer TOD register
- Report if any not adjusted within 15 days.
- Report if any frequent TOD is allowed
- Allowed within DFP
- Drawing against un cleared balance.

CHECKLIST

BG/LC Issued /Renewed

- Source LC /BG issued registered /Report
- Request Letter along with necessary documents such as Copy of order etc.
- Report Irregularities in live /expired LC /BG.
- LC/BG issued /amended as per approved format / model guarantee .
- No auto renewal closed/ Definite expired date /Claim Date.
- Deviation if any terms of sanction in regard to margin , security period , beneficiary

CHECKLIST

- Collection of charges ,commission / fees etc Recovery of charges
- LC /BG Devolved/Invoked (Register /Report)
- LC/BG Devolved /Invoked should be debited to borrowers accounts.
- Report is fresh LC /BG are opened when LC/BG are devolved /Invoked.
- Reversal of liability of expired LC /BG.

CHECKLIST

Bill Purchased /Discounted

- Source Bills Purchased /Discounted Register.
- Request along with necessary documents .
- DFP Adherence .
- Overdue bills purchase/discounted & follow up.
- Bills Purchased /Discounted return unpaid.
- Collection of Charges.
- Collection of Interest as per mandate.
- Check Terms and conditions of LC /Order.

CHECKLIST

A/cs with warning signals:

- Data Source: Statement of Account
- Turnover is very poor vis-à-vis projection
- Frequent return of cheques issued
- Frequent devolvement of LC /Invocation of BG
- Frequent request for TOD/Excess over limit
- Interest servicing is always delayed
- Stock/book-debts statement is not submitted for > 3 months
- Renew /renewal not take place for period of more than 6 months.

CHECKLIST

SMA & Restructured A/cs:

- Data Source:
- SMA: Probable NPA Report
- Re-structured Accounts: Register of Re-structured A/cs
- Report only SMA-1 (31 to 60 days) and SMA-2 (61 to 90 days)
- In case of restructured A/cs
- Report on compliance of terms of restructuring

CHECKLIST

Others :

- Controls over custody and storage of documents and their removal for verification
- In the case of goods in possession of the bank, contents of the packages should be test checked at the time of receipt. The godown should be frequently inspected by responsible officers of the branch concerned, in addition to the inspectors of the bank.
- Drawing Power Register should be updated every month to record value of securities hypothecated. These entries should be separately checked by an independent officer.

CHECKLIST

Others :

- Accounts should be kept within the drawing power and the sanctioned limit.
- Policy related with valuation of primary and collateral securities including periodicity of the same.

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Non-Performing Assets

- An asset becomes non-performing when it ceases to generate income for the bank
- 90 days overdue norms – w.e.f. April 1, 2009
- What does Overdue mean?
- Any amount due to the bank under any credit facility, if not paid by the due date fixed by the bank becomes overdue
- NPA Identification:
- System based approach
- Ongoing basis

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Now RBI issued circular Ref. No. DoS.CO.PPG./SEC.03/11.01.005/2020-21 Dated September 14, 2020 on Automation of Income Recognition, Asset Classification and Provisioning processes in banks.

- Objective vis-à-vis Subjective Criteria
- NPA Provisioning: at the end of each quarter of the financial year
- NPA Treatment:
- Borrower-wise and not facility-wise
- Consortium advances

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Income Recognition

- Has to be objective and based on record of recovery
- Income on performing assets
- Can be recognized on accrual basis
- Income on non-performing assets
- Cannot be recognised on accrual basis
- Only on cash basis
- On a performing asset becoming non-performing

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

- Unrealized income has to be reversed from the Profit & Loss account or provided fully
- Subsequently, interest accrued in case of NPA to be shown under:
- ‘Interest Receivable’ on the Asset side of the Balance Sheet
- ‘Overdue Interest Reserve’ on the Liability side of the Balance Sheet

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

NPA Identification – Objective Criteria

Term Loan	Interest and / or principal instalment overdue > 90 days.
Cash Credit/ Overdraft limits	Outstanding > Sanctioned Limit/Drawing Power for 90 days consecutively
	Outstanding < Sanctioned Limit/Drawing Power, but No credits continuously for 90 days
	Credits not enough to cover interest debited during the period

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

NPA Identification – Objective Criteria

Bills discounted	Overdue for a period of more than 90 days
Direct Agricultural advances (Agri & allied activities)	Long duration crop (>1 year) = overdue for 1 crop season
	Short duration crop = overdue for 2 crop seasons
Any other advance	Overdue for a period of more than 90 days

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Other Objective Criteria

- Non-renewal or non-review of regular/ad-hoc credit limits > 90 days
- Drawing power in case of CC accounts calculated on the basis of stock statements older than three months
- Devolvement of Letters of Credit / Invocation of Bank Guarantees: To be treated as part of the principal operating credit facility

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

- Non Financials Parameters:
- Inherent weakness in Accounts
- Non Achievement of DCCO-Project Loans:
- Infrastructure: If commercial operations not started after expiry of two years from the original DCCO
- Non-Infrastructure: If commercial operations not started after expiry of six months from the original DCCO
- Failure to Comply with Key Restructuring Conditions
- Erosion in Value of Security

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

NPA Identification – Subjective Criteria

- Existence of deficiencies:
- Temporary in nature: not NPA
- If threat of loss or doubt of recovery: NPA
- Recovery of overdues:
- should be from genuine sources, no ever-greening
- Account should remain ‘standard’ subsequently on its own
- Irregular or NPA for major part of the financial year but regularized near the balance sheet date through multiple credits or solitary credit:

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

NPA Identification – Subjective Criteria

- Entire overdues cleared through genuine sources and account remains standard subsequently: Not NPA
- Overdues cleared temporarily using non-genuine sources and account again becomes NPA after the balance sheet date: NPA

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

NPA Identification – Specific cases

- Loans against term deposits, NSCs, IVPs, KVPs and Life insurance policies
- Staff Housing Loans
- Loans guaranteed by:
- Central Government
- State Government
- Gold Loans
- Agricultural
- Non-agricultural
- Bullet repayment , Others

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Asset Classification Guidelines

- Standard Assets
- Non-Performing Assets:
- Sub-standard- NPA up till 12 Month
- Doubtful 1– Sub standard for 12 Month
- Doubtful 2– Sub standard for 12 - 24 Month
- Doubtful 3– Sub standard for 24 - 36 Month
- Loss
- Loan accounts where there are potential threats to recovery on account of erosion in the value of security: Directly Doubtful or Loss

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

- Internal system for classification of assets as NPA:
- Eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts
- Responsibility and validation levels for ensuring proper asset classification need to be fixed

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Provisioning Norms – Loans and Advances co-op Banks

Category of Standard Asset	Rate of Provisioning	
	Tier-I	Tier-II
Direct Advances to Agriculture and SME sector	0.25%	0.25%
Commercial Real Estate Sector	1.00%	1.00%
Commercial Real Estate – Residential Housing (CRE-RH) Sector	0.75%	0.75%
All other loans and advances not included above	0.25%	0.40%

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Provisioning Norms – Loans and Advances of other than Co.Op. Banks

NPA Category	Rate of Provisioning	Remarks
Sub-standard	10%	On the secured portion, unsecured portion – 20%
Doubtful-1	20%	On the secured portion, unsecured portion – 100%
Doubtful-2	30%	
Doubtful-3		
Loss	100%	

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Category of Standard Asset	Rate of Provisioning
Direct Advances to Agriculture and SME sector and housing loan to individual on or after 07th June, 2017	0.25%
Commercial Real Estate Sector	1.00%
Commercial Real Estate – Residential Housing (CRE-RH) Sector	0.75%
All other loans and advances not included above	0.40%

NPA Category	Rate of Provisioning	Remarks
Sub-standard	15%	On the secured portion, On unsecured portion additional 15%
Doubtful-1	25%	On the secured portion, unsecured portion – 100%
Doubtful-2	40%	
Doubtful-3		
Loss	100%	

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Provisioning Norms - Others

- Staff Retirement Benefits – Gratuity, Leave Encashment
- Frauds
- With effect from May 14, 2015:
- Entire amount due to the bank or for which the bank is liable
- Irrespective of the quantum of security held against such assets
- To be provided for over four quarters commencing with the quarter in which the fraud was detected

ASSETS CLASSIFICATION, INCOME RECOGNITION AND PROVISIONING

Provisioning Norms - Others

- If fraud reported with delay to RBI: entire provisioning to be made immediately
- Advances against fixed deposits/NSCs/IVPs/KVPs/Life insurance policies – exempted from provisioning requirements
- Advances against gold ornaments, govt. securities, and all other kinds of securities – not exempted from provisioning requirements
- Advances covered by ECGC Guarantee:
- Provision to be made for the balance in excess of the amount guaranteed by the ECGC

AUDIT, APPROACH & PROCEDURES

Examination of Loan Documents

- Documents relating to advances would be affected by the legal status of the borrower and the nature of security. Thus, where the borrower is a company, loan documents would include certificate of incorporation, memorandum and articles of association, certificate of commencement of business (in the case of public limited companies), resolution of board of directors, and special resolution of shareholders [in cases covered by section 180 (1)(c) of the Companies Act, 2013, etc. Where the borrower is a partnership firm, loan documents would include copy of the partnership deed.

AUDIT, APPROACH & PROCEDURES

- Where the security is in the form of mortgage, apart from mortgage deed (in the case of English Mortgage) or letter of intent to create mortgage (in the case of Equitable Mortgage), the evidence of registration of the charge with the Registrar of Companies would also form part of loan documentation if the borrower is a company. Each bank has its own set of rules regarding the documents to be obtained from various types of borrowers and in respect of different kinds of securities. Formats of many of the documents are also prescribed. The auditor should evaluate the adequacy of loan documents in the context of the rules framed by the bank in this regard. Centralisation and location of original loan documents at Loan Processing Centres.

AUDIT, APPROACH & PROCEDURES

Working Capital Demand Loan (WCDL)

- WCDL is granted for a fixed period on expiry of which it has to be liquidated, renewed or rolled over. WCDL is generally granted to meet the working capital requirement gap and is considered as a part of working capital facility. Depending on the sanction terms, repayment of WCDL can either be in the form of instalments spread over the loan tenure or an end of tenure bullet payment. It has to be ensured that there is actual repayment at the end of the loan tenure by fund flows and not just a renewal by roll-over which could tantamount to ever-greening.

AUDIT, APPROACH & PROCEDURES

- As per RBI Circular dated December 05, 2018Guidelines on Loan System for Delivery of Bank Credit for FY 2020-21, In respect of borrowers having aggregate fund based working capital limit (WCL) of Rs. 1500 million and above from the banking system, a minimum level of 'loan component' of 60 percent is prescribed. Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 60 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 60 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.

AUDIT, APPROACH & PROCEDURES

Marketing / Launching / Branding etc.

- Banks may give general purpose loans also i.e. without stipulating any enduse of funds, on the strength of a suitable security, or even without security based on the borrower's credit worthiness. Bank's policy provides guidance and documentation to be obtained for end use of funds in such cases which has to be ensured.
- Regular inspection of the borrower's assets and books.

AUDIT, APPROACH & PROCEDURES

The main purposes of inspection are as follows:

- To ensure that the amounts disbursed have been utilised for purposes for which the advance was sought.
- To check that the borrower has not acquired / disposed of any asset without the consent / knowledge of the bank, depending upon the terms of the advance. Acquisition of fixed assets from working capital funds may amount to diversion of short-term funds which, from the viewpoint of the bankers, is not a sign of financial prudence.
- To cross-check the figures declared in the stock statements with the books maintained by the borrower (including excise and other statutory records, as applicable) as well as to physically verify the stock items, to the extent possible.

AUDIT, APPROACH & PROCEDURES

- To check that the unit has been working on projected levels particularly in the areas of sales and production and the general working of the unit is satisfactory.
- To ensure that the borrower has not availed of finance against stocks for which it has itself not made the payment.
- To ensure that the borrower has not availed of unauthorised finance from any other lender.
- To ensure that the borrower has not defaulted on payment of Statutory Liabilities.
- To ensure that the borrower has not made any investment in, or advances to, its associates without the bank's approval, if such approval is required as per the terms of the loan or otherwise diverted the funds.

AUDIT, APPROACH & PROCEDURES

- To check that there is a regular turnover of stocks and the unit does not carry any obsolete, unusable stocks. Generally, banks place a limit on the age of stocks which are eligible for bank finance; the items older than such limit are not financed. Similarly, in the case of book debts, debts outstanding beyond a specified period are also not eligible for bank finance. Also to check sundry creditors for goods.
- To ensure that the borrower continues to be engaged in the activity for which the loan has been granted.

AUDIT, APPROACH & PROCEDURES

- Periodic review of the progress in implementation of the project (to note whether project timelines given at the time of processing loan are being adhered to. If there are delays, it may hamper the project completion and may affect servicing of loan). Generally, in large and complex projects, banks appoint lead engineering agency to who provide the status of the project periodically.
- Review of the conduct of the account.
- Obtaining and scrutinising stock statements.

AUDIT, APPROACH & PROCEDURES

- Obtaining other relevant financial data periodically and analysis of the data. Banks obtain information at monthly / quarterly / half yearly / yearly intervals about on the levels of sales, production, profit, cash accruals, break up of assets and liabilities, cash flows etc. The analysis covers the following points:
  - Comparison of the data with the projections contained in the appraisal note to find out the deviations, the reasons thereof, and the corrective action to be taken, wherever necessary.
  - Comparison of the unit's performance, on an on-going basis, with other similar units.
  - Ratio analysis based on the provisional data submitted by the unit to find out the liquidity and solvency position and any diversion of shortterm resources towards long term uses.
  - Observing the credits to the account

AUDIT, APPROACH & PROCEDURES

The SBAs, in carrying out audit of advances are primarily concerned with obtaining evidence about the following:

a) Amounts included in balance sheet in respect of advances which are outstanding at the date of the balance sheet.

b) Advances represent amount due to the bank.

c) Amounts due to the bank are appropriately supported by loan documents and other documents as applicable to the nature of advances.

d) There are no unrecorded advances.

e) The stated basis of valuation of advances is appropriate and properly applied, and that the recoverability of advances is recognised in their valuation.

f) Advances are disclosed, classified and described in accordance with recognised accounting policies and practices and relevant statutory and regulatory requirements.

g) Appropriate provisions towards advances are made as per the RBI norms, Accounting Standards and Generally Accepted Accounting Practices.

AUDIT, APPROACH & PROCEDURES

The auditor can obtain sufficient appropriate audit evidence about advances by study and evaluation of internal controls relating to advances, and by:

- examining the validity of the recorded amounts;
- examining loan documentation and it’s vetting by the legal department;
- reviewing the operation of the accounts especially of accounts held and operated with other banks;
- examining the existence, enforceability and valuation of the security from time to time especially for loans given on a standalone basis;
- checking compliance with RBI norms including appropriate classification and provisioning;
- carrying out appropriate analytical procedures; and
- procedure for loan balance confirmations.

AUDIT, APPROACH & PROCEDURES

- In carrying out audit procedures for Advances, the auditor should examine all large advances while other advances may be examined on sampling basis. The accounts identified to be problem accounts need to be examined in detail unless the amount involved is insignificant.
- The auditor should obtain a list of SMA 1 and SMA 2 borrowers from the bank and the same should also be considered for selection of problematic accounts. The extent of sample checking would depend on auditor's assessment of efficacy of internal controls. What constitutes a 'large advance' needs to be determined in the context of volume of operations of the branch.
- As per revised LFAR guidelines, large advances are those in respect of which the outstanding amount is in excess of 10 percent of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less. However, SBA should apply their professional judgement to decide advances accounts to be selected for verification.

AUDIT, APPROACH & PROCEDURES

- Advances which are sanctioned during the year or which are adversely commented by RBI inspection team, concurrent auditors, bank's internal inspection, etc., should, generally, be included in audit sample.
- Besides this new advances sanctioned during the year should be included on selective basis in the sample.
- In nutshell, the SBA at branch may keep the following in mind to plan comprehensive coverage of advances and for selection of sample in addition to the mandatory selection of accounts as per revised LFAR guidelines (i.e., large advances which are those in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less):
- Obtain Top/ Large Exposure Accounts
- Obtain the List of Stressed Accounts
- Obtain List of Restructured Accounts
- Obtain List of Unsecured Exposures above Rs. 1 Crore

AUDIT, APPROACH & PROCEDURES

- Quick Mortality Cases
- List of accounts upgraded during the year or previous years.
- List of accounts rated adversely as per bank's internal ratings.
- List of accounts where adverse issues have been noted during previous audits.
- Consideration of Drawing Power/Limits in respect of Stocks Hypothecated
- In respect of credit facilities against hypothecation of stocks (inventories) being the primary security, Bank's system of appraisal for determining the maximum permissible finance to borrowers and fixing of limits, Guidance Note on Audit of Banks (Revised 2022) 348 inter alia, should take into consideration the level of sundry creditors. The sanction is expected to be in tune with the appraisal so made. While sanctioning such credit facility, the bank is expected to stipulate in the documents, that for computing the Drawing Power, the value of declared stocks is to be considered only net of the stipulated margin; and that declared stocks shall not cover the borrower's liability outstanding in the form of sundry creditors for goods or covered by LCs/ guarantees/ co-acceptances or Buyer's Credit availed for procurement of material.

AUDIT, APPROACH & PROCEDURES

- The bank should also insist on such information from borrowers. In case of consortium accounts, drawing power calculation and allocation made by the Lead Bank is binding on all member banks of the consortium.
- Inherent Weakness in the Account:
- The auditor should review the bank policy for any inherent weakness in the credit system, where the stringency in appraisal, is relaxed while sanctioning the advances, having consequential effect on monitoring and supervision, and may have effect on the classification status of the borrower, where the drawing power falls short of the outstanding.
- Documents not in the Branch Custody:
- Due care is required to be exercised by the auditor in case of:
- Documents retained in original at centralised offices where these are not available at the branches that are advised of drawing power limits; and

AUDIT, APPROACH & PROCEDURES

- consortium advances, where the bank, not being the leader, gets related figures of drawing power from the leader bank, without related evidence of computation or appropriateness of drawing power. The auditor needs to look into this aspect to verify that there is no slippage of the account into NPA classification.
- Review of Operation of Account
- The SBA should review the operation of the advance accounts. In doing so, an intelligent scrutiny of the operation of the account should be carried out to see that the limit is not exceeded; that the account is not becoming stagnant; that the customer is not drawing against deposits which are not free from lien; that the account is not window-dressed by running down overdrafts at the year end and again drawing further advances in the new year, etc. The Audit procedure should be able to highlight disbursals from pre/freshly sanctioned limits made either to the same borrower or to group entities near the repayment dates of critical dues.

AUDIT, APPROACH & PROCEDURES

- The SBA should also examine whether there is a healthy turnover in the account. It should be seen that the frequency and the amounts of credits in the account are commensurate with the sanctioned limit and the nature and volume of business of the borrower. Any unusual item in the account should be carefully examined by the auditor. If the auditor's review indicates any unhealthy trends, the account should be further examined. The auditor's examination should also cover transactions in the post-balance sheet date period. Large transactions in major accounts particularly as at the year-end may be looked into, to identify any irregularities in these accounts. A written note/explanation may be obtained from the management as regards any major irregularities which may have a bearing on his report.

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- The auditor may also review the following to assess recoverability of advances:

(a) Periodic statements submitted by the borrowers indicating the extent of compliance with terms and conditions.

(b) Latest financial statements of borrowers.

(c) Reports on inspection of security.

(d) Auditors' reports in the case of borrowers enjoying aggregate credit limits of Rs. 10 lakhs (or as approved by Board of Directors of respective banks) or above for working capital from the banking system.

- The auditor should verify that interest is being charged on all performing accounts regularly on sample basis and should compare the rate of interest with the agreement, sanction letter and credit rating reports where rate of interest is linked to credit rating. In case the interest rate is revised based on changes in PLR/BPLR/Base Rate of the bank, it needs to be ensured that the rate of interest to be charged form the borrower is suitably revised as and when there are changes in PLR/BPLR/Base Rate. Calculation of interest should be test-checked.

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- The auditor should examine that the interest not serviced (received) in NPA is not recognised as income, as per RBI guidelines. It may be noted that interest accrued but not due on advances does not form part of advances.
- Penal interest on delayed submission of stock statements, non-creation of security, overdrawn accounts etc., needs to be charged as per sanctioned terms and norms of the bank. Compliance of the same should be checked in detail by the SBAs.
- Verification of Security Against Advances
- An advance is treated as secured to the extent of the value of the security on the reporting date. If a part of the advance is covered by the value of the security as at the date of the balance sheet, that part only should be classified as secured and the remaining amount should be classified as unsecured.

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- Following points are relevant for classifying advances based on security:

(a) Government guarantees include guarantees of Central/State Governments and advances guaranteed by Central/State Government owned corporations, financial institutions like IDBI, IFCI, ICICI, State Financial Corporations, State Industrial Development Corporations, ECGC, CGTS, etc.

(b) Advances covered by bank guarantees include advances guaranteed against any negotiable instrument, payment of which is guaranteed by a bank.

(c) Advances covered by bank/Government guarantees should be included in unsecured advances to the extent the outstanding in these advances exceed the amount of related guarantees.

(d) While classifying advances as secured, the primary security should be applied first and for residual balance, if any, value of collateral security should be taken into account. If the advance is still not fully covered, then, to the extent of bank/Government guarantees available, the advance should be classified as 'covered by bank/Government guarantee'. The balance, if any, remaining after the above classification, should be classified as 'unsecured'.

AUDIT, APPROACH & PROCEDURES

(e) There may be situations where more than one facility is granted to a single borrower and a facility is secured, apart from primary and collateral securities relating specifically to that facility, by the residual value of primary security relating to any other credit facility (or facilities) granted to the borrower. In such a case, in the event of shortfall in the value of primary security in such a credit facility, the residual value of primary security of the other facility (or facilities, as the case may be) may be applied first to the shortfall and the value of collateral securities should be applied next.

(f) In case of common collateral security for advances granted to more than one borrower, if there is a shortfall in the value of primary security in any one or more of the borrower accounts, the value of collateral security may be applied proportionately to the shortfall in each borrower account.

(g) Advances covered by ECGC, CGTS guarantees should be treated as covered by guarantees to the extent of guarantee cover available. The amount already received from ECGC/CGTS and kept in sundry creditors account pending adjustment should be deducted from advances.

AUDIT, APPROACH & PROCEDURES

(h) An account which is fully secured but the margin is lower than that stipulated by the bank should nevertheless be treated as fully secured for the purposes of balance sheet presentation.

(i) All documentary bills under delivery-against-payment terms (i.e., covered by RR/Airway Bill/Bill of lading) for which the documents are with the bank as on the balance sheet date should be classified as 'secured'.

(j) Documentary bills under delivery-against-acceptance terms which remain unaccepted at close of 31st March (i.e., for which documents of title are with the bank on this date) should be classified as secured. All accepted bills should be classified as 'unsecured' unless collaterally secured.

(k) Cheques purchased including self-cheques (i.e., where the drawer and payee are one and the same) should be treated as unsecured.

(l) Advances against supply bills, unless collaterally secured, should be classified as unsecured even if they have been accepted by the drawees.

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(m) ‘Security’ means tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State Government guarantees), comfort letters, etc. Moreover, rights, licenses, authorisations, etc., charged to banks as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security as per Master Direction No. RBI/DOR/2021-22/83 DOR.ACC.REC.No.45/ 21.04.018/ 2021-22 dated August 30, 2021 on “Financial Statements - Presentation and Disclosures.

In examining whether an advance is secured and, if so, to what extent, the auditor is concerned with determining:

- (a) whether security is legally enforceable, i.e., whether necessary legal formalities regarding documentation, registration, etc., are complied with;
- (b) whether security is in effective control of the bank; and
- (c) to what extent the value of the security, assessed realistically, covers amount outstanding in the advance.

AUDIT, APPROACH & PROCEDURES

The SBA should examine the following aspects in respect of advances classified as 'secured':

(a) Documents executed are complete and in force.

(b) Where documents are not renewed, limitation period has not expired.

(c) Evidence is available to the market value of the security.

(d) Evidence is available to the effect that:

i. hypothecated/pledged goods are the property of the borrowers and are not old/obsolete or otherwise unsaleable;

ii. advances against book debts of borrowers are related to their current debts and not old/doubtful debts; and iii. Stocks hypothecated/pledged are paid stocks owne

(e) In case of companies, charge is appropriately registered with the Registrar of Companies and a certificate of registration of charge or other evidence of registration is held.d by the borrower.

AUDIT, APPROACH & PROCEDURES

(f) Borrowers are regular in furnishing requisite information regarding value of security lodged with the bank.

(g) In respect of second charge being available in respect of certain assets, the amount of the lender(s) enjoying the first charge on such asset be worked out and only the residuary value, if any, available for second charge holders, be considered.

AUDIT, APPROACH & PROCEDURES

- Life Insurance Policies
- The SBA should inspect the policies and see whether they are assigned to the bank and whether such assignment has been registered with the insurer.
- The SBA should also examine whether premium has been paid on the policies and whether they are in force.
- Certificate regarding surrender value obtained from the insurer should be examined.
- The SBA should particularly see that if such surrender value is subject to payment of certain premia, the amount of such premia has been deducted from the surrender value.
- It should be verified whether policies are assignable in bank's favour.
- In certain types of policies where assignment to third party are restricted, due care has to be taken while considering it as a security

AUDIT, APPROACH & PROCEDURES

- Bank's Own Deposit Certificates
- The SBA should inspect such certificates and examine whether they have been properly discharged and whether lien of the bank is noted on the face of the certificates, in the relevant register of the bank and in CBS master data.
- Immovable Property
- The SBA should inspect title deeds, empanelled solicitor's/advocate's opinion taken by the bank in respect thereof, and the mortgage deed. For valuation, he may rely on the report of the architect or valuer (which should be taken at least once in three years) after carrying out appropriate audit procedures to satisfy himself about the adequacy of the work of the architect/valuer for this purpose. He should also examine the insurance policies.

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- In some cases, banks make advances against immovable properties where the title deeds are not in the name of the borrower. For example, an advance may be given against the security of a flat in a co-operative housing society, the title deeds of which may not be in the name of the borrower. In such cases, the auditor should examine the evidence regarding the right or interest of the borrower in the property mortgaged, e.g., power of attorney, share certificate of co-operative housing society, 'no objection certificate' from the society/lessor (in the case of leasehold properties) for offering the property as security, etc.
- In case the bank has accepted third party property as a security, the owner of the property should also execute guarantee bond in bank's favour. The mortgage value in bank's favour should be equal/in excess of the loan amount covered by such mortgage.

AUDIT, APPROACH & PROCEDURES

- Reliance on / Review of Other Reports
- The auditor should take into account the adverse comments, if any, on advances appearing in the following:
  - Previous years' Audit Reports.
  - Latest internal inspection reports of bank officials.
  - Latest inspection Report/Asset Quality Review/ Risk Based Supervision report of RBI.
  - Concurrent /internal audit report.
  - Report on verification of security.
  - Any other internal reports specially related to particular accounts.
  - Manager's charge-handing-over report when incumbent is changed.

AUDIT, APPROACH & PROCEDURES

- Bills Purchased/ Discounted
- The SBA should examine whether registers of bills purchased and discounted are properly maintained and the transactions are recorded therein correctly. He should examine whether bills and documents accompanying the bills are properly endorsed and assigned in favour of the bank. In checking the bills, it should be ensured that the bills are held along with the documents of title. In case of documentary bills, it should be examined whether related RRs/TRs are held along with the invoices/ hundies / bills and that these have not been parted with. Wherever such RRs/TRs are not held on record, the fact should be duly considered by the auditor and the auditor should also examine the bills collected subsequent to the year-end to obtain assurance regarding completeness and validity of recorded bill amounts.

AUDIT, APPROACH & PROCEDURES

- Drawing Power Consideration
- In working capital borrower account, drawing power calculated from stock statement older than 3 months has to be considered as “irregular” (overdue). If such “irregular” account continues for 90 days, it has to be classified as NPA, even though the account is otherwise operated regularly.
- Stock statements, quarterly returns and other statements submitted by the borrower to the bank should be scrutinized in detail.
- The audited Annual Report submitted by the borrower should be scrutinized properly. Monthly stock statement of the month for which the audited accounts are prepared and submitted should be compared and the reasons for deviations, if any, should be ascertained.
- It needs to be examined whether the drawing power is calculated as per the extant guidelines formulated by the bank, which should also be in line with RBI guidelines/directives. Special consideration should be given to proper reporting of sundry creditors for purposes of calculating drawing power.

AUDIT, APPROACH & PROCEDURES

- Stock audit should be carried out by the bank for all accounts having funded exposure over Rs.5 crores. The SBAs can recommend for conduct of stock audit in other cases if situation warrants the same. Branches should obtain stock audit reports from lead bank or any other member bank, as decided in consortium in cases where the bank is not the leader of the consortium of working capital. The report submitted by the stock auditors should be reviewed during the course of the audit and special focus should be given to the comments made by the stock auditors on valuation of security and calculation of drawing power.
- The Drawing Power needs to be verified carefully in case of working capital advances to entities engaged in construction business. Valuation of work in progress should be calculated properly and consistently. It should be examined whether mobilization advance being received by the contractors is reduced while calculating the drawing power. In respect of certain businesses such as diamond merchants and jewellers, the SBA should exercise due caution while verifying realisable value of precious metals, diamonds, jewellery etc. The SBA may also consider obtaining assistance of an expert in case circumstances so warrant.

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- In case of consortium accounts, the drawing power calculation and allocation is made by the Lead Bank and is binding on the member banks.

- Banks generally provide various retail advances namely:
  - Home loans and loans against property
  - Vehicle/Automobile loans
  - Education loans
  - Personal loan
  - Consumer durable loans
  - Credit cards
  - Micro finance loans
  - Jewel loans or Gold Loan

AUDIT, APPROACH & PROCEDURES

- Audit Approach, Procedures including Regulatory Considerations

A. Preliminary Check

- SBA should review product note or circular or policy related to every loan product under the audit. Also, review that the product note/ policy/ circular is in line with RBI guidelines.
- In retail advance, the volume of transactions are high; hence the auditor needs to apply effective sampling to ensure proper coverage. While selecting sample, the auditor may consider loan sanctioned/ disbursed near to reporting date, high/low in interest rate sanctions as compared to average rate, coverage of different branches and different type of loans. The auditor should review the compliance of Master Direction No. RBI/DBR/2015-16/20 Master Direction DBR.Dir. No.85/13.03.00/2015-16 dated March 03, 2016 (Updated as on June 10, 2021) on –"Reserve Bank of India (Interest Rate on Advances) Directions, 2016".

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- SBA should look at the following documents for checking the bank process for selected sample accounts:
  - Prescribed Application form.
  - CIBIL Check of borrower and guarantor.
  - KYC Compliance.
  - Income proof like salary slip, financial statement, Income tax returns, Bank statement.
  - Property Valuation Report.
  - Title clearance report in case where property like flat, plot, building is mortgaged.
  - Technical review in case of mortgage of machinery.
  - In case of vehicle loans, copy of original invoices, copy of RC and insurance policy of vehicle with bank clause should be obtained.
  - In case of education loans, document for the studies in affiliated universities/colleges, prospectus and fees details should be obtained.

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- Whether the bank has complied with the particulars given in the documentation manual.
- If the loan is taken over from another bank, satisfactory performance report from that bank needs to be collected.
- If any additional limit is granted, ensure that security and eligibility is being considered.
- Whether the bank has obtained legal security report in addition to valuation report.
- Whether all registers required by the Bank/Branch are kept updated.
- Confidential Report and NOC from the existing bankers.
- Valuation report in case of Gold loan.
- Master creation of loan in Core Banking System/Operating system including classification of loans as Priority Sector Loans.
- In respect of FDs pledge against the loans, the auditor should also verify the lien marking in the system.
- Field verification in case of micro lending.

AUDIT, APPROACH & PROCEDURES

B. Disbursement

- The SBA should check whether the disbursements had been made only if all the terms and conditions of the sanction letter have been fulfilled and an acceptance letter for the same has been obtained. Also check whether processing charges, inspection charges, mortgage charges and documentation charges have been collected by the bank. The practice may differ between banks; in few cases these charges are collected from the amount of disbursement itself to the borrower.

C. Post Disbursement Inspection

- The bank should have a proper check on the active accounts. The important elements that SBA can check are as follows:
  - There should be an acceptance letter duly acknowledged by the borrowers and guarantors, if any for all the loan accounts.
  - Execution of the loan documents should be as per the terms and conditions of the sanction letter.

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- All the original documents are held in the safe custody in fire resistance safe.
- Valuation of securities.
- External and Internal Credit Rating.
- Due Diligence Certificate.
- Verify if the payment schedule as per the sanction letter is implemented. If any, check the approval document for the same.
- Whether the interest and principal repayment are received in time in accordance with the repayment schedule as mentioned in the loan agreement/term sheet.
- Whether the SMAs/EWS are reported to the management on regular intervals and what course of action has been taken to mitigate the same.
- Verify whether the group exposure and industry exposure are within the prescribed limits.

AUDIT, APPROACH & PROCEDURES

- The SBA should set the expectation for the movement in yield based on the discussion and inquiries made with the management; rate movement observed in the industry, etc., and should obtain explanations for major variances in the yield on monthly basis or quarterly basis.
- The SBA should perform analytical procedures for computing the processing fee percentage for different ticket size loans.
- The SBA should check the master data of the borrower in the CBS to ensure correct feeding of data with regard to sectorial classification of advances, e.g. priority sector and non-priority sector in accordance with Master Direction No. RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/ 2020-21 dated September 4, 2020 (Updated 31 May 2021), amount of instalments with due dates of payment etc.
- The SBA should also carry out cut-off procedure for the purpose of ascertaining the completeness of loans and also should review the subsequent cancellation of loan after balance sheet period.

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- The SBA should check for any Non-Performing Asset (NPA). All accounts which are overdue or stops generating income for the banks continuously for 90 days, have to be treated as NPA and provision should be made as per extant guidelines of RBI.

AUDIT, APPROACH & PROCEDURES

Export Financing

A) Pre-Shipment/Packing Credit to Exporters

- Generate the list of EPC / PCFC accounts opened and maintained by the branch.
- Verify whether all details are correctly filled in the Masters.
- Whether the liquidation of EPC / PCFC is as per RBI guidelines? If not, whether interest rate as per bank's Policy is charged or not.
- Documents evidencing end use of funds should be verified.
- Whether genuineness of Export LC is confirmed before sanctioning EPC / PCFC?
- If remitting bank advises, the bill is required to be presented to the alternate drawee, then necessary approval and borrower's consent should be obtained.
- Similarly the advance should be covered under bank's WTPCG cover if stipulated. The premium should be recovered from the client if stipulated.

AUDIT, APPROACH & PROCEDURES

B) Post-Shipment Credit to Exporters

- Export Bills Discounted / Purchased
- Generate a report on Export Bills purchased/negotiated during the audit period.
- Verify whether details are correctly filled in Masters especially amount and discounting rate.
- Generate a report on outstanding / realized export bills during the audit period.
- In case of overdue bills check whether the interest has been charged as per bank's Policy.
- Verify whether the period of sanction is within the period prescribed by RBI i.e. 360 days.
- Verify credit report on buyer should be held from international agency.
- ECGC buyer wise cover should be obtained by the exporter client if stipulated.
- Similarly the advance should be covered under bank's WTPSG cover if stipulated.

AUDIT, APPROACH & PROCEDURES

Selection of Accounts

- The SBA should obtain a list or breakup of all advance accounts as at the yearend. This should be obtained facility wise – security wise – sanction date and amount wise. In accordance with RBI guidelines contained in the LFAR, the auditor has to mandatorily comment on all advances in respect of which the outstanding amount is in excess of 10 percent of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.10 crores, whichever is less. Apart from these accounts mandatorily to be considered for reporting, the auditor should also select advance accounts for each type – Each of Unsecured, Educational. Housing, Vehicle, Personal, Loan against FD, Loan against Shares, Loan against property, Loans granted against other securities. Besides loans accounts cash credit accounts, overdraft against property, bills discounting / purchase accounts should be selected for verification, a mix of both - new sanctions in the current year and sanctions of previous years. The sampling should be based on the Standards on Auditing (SA) 530, Audit Sampling issued by the ICAI and in accordance with requirement of LFAR.

AUDIT, APPROACH & PROCEDURES

- All the accounts falling within the threshold should be scrutinized in depth end to end keeping in mind the reporting requirements of the LFAR. The selection has to be done in a manner that each distinct and unique type of credit facility is verified and reported. Adverse issues noted on verification to be discussed with the Branch, Branch responses obtained and appropriate reporting to be made in the Long Form Audit Report Requirements. The SBA should refer the Technical Guide on Revised Formats of Long Form Audit Report for reporting as required by LFAR.
- The format of reporting for advances below Rs.10 Crores is not specified. The auditor may report the same in the format he feels appropriate ensuring that adverse issues noted are brought out for corrective action. It should be noted that finding gaps in process is the key. The transactional errors noted is the outcome of a weakness in the process and the process will need strengthening to ensure that such transactional errors are minimized if not zeroed.

AUDIT, APPROACH & PROCEDURES

- The LFAR specifies the format in which the auditor has to obtain data from the Branch for large advances. The compilation has to be done by the Branch. The auditor has to review on a test check basis whether the data keyed into the system is correct.
- While giving his observations, the auditor has not only to go through all the points filled in by the Branch but also through all the loan correspondence files of the borrower. The process of appraisal, sanction, disbursement, documentation, monitoring, review or renewal, follow-up, classification as SMANPA will have to be independently verified for such accounts. Audit comments should not be simply based on the data submitted by the Branch. Independent verification and assessment is essential.

THANK YOU