

**ONE DAY STUDENTS
WEBINAR ON CONCURRENT
AUDIT OF BANKS**

[15th April 2021]

LOANS AND ADVANCES

- Updated Loans and Advances policy from H.O.
- Updated instructions for coverage for concurrent auditor
- Study various loan products at branches
- Study latest Balance Sheet and Profit and Loss Account of the branch for understanding nature of loans and advances / size of branches / product wise
- Copies of latest Risk Based Internal Audit / Concurrent Audit/ Inspection Audit/ RBI Inspection Audit/ Statutory Audit Report and its compliances
- Nature of audit remarks frequently reported

LOANS AND ADVANCES

- ❑ Compliance status at branch for audit reports
- ❑ Internal Control at Branch – Advances section / procedures adopted
- ❑ Pre -sanction stage
- ❑ Appraisal / sanction stage
- ❑ Consortium Loan – its compliances / Lead Bank – documentation
- ❑ Post sanction and disbursement stage
- ❑ Monitoring loans - disbursement stage

LOANS AND ADVANCES

- List of loans disbursed during the audit period at branch – product wise
- Selection of loan /documents verification
- Study the loan documents submitted by the borrowers/ details and further documents asked for
- Various correspondence with applicants at various stages

LOANS AND ADVANCES

- Search Report – compliances with various objections raised if any
- How borrower responding thereto
- Security valuation Report
- Study the financial statements /audit report/ copies of ITR /Statement of Income of borrower and guarantors
- Net Worth of borrowers and guarantors

LOANS AND ADVANCES

- Compliances under various laws/ Act pertaining to loan proposal
- Verification of securities offered / Ensure whether securities offered are duly appearing in the financial statements [except for loans applied for purchase of new assets]
- Rate of interest / latest applied
- Documents executed –as per sanction letter duly approving by borrower / guarantors

LOANS AND ADVANCES

- Compliances to sanction letters
- **CIBIL Reports** – borrowers and guarantors /firm/ Company/ LLP etc.– its study
- Ensuring required margin for loans applied – with supporting
- Purpose of loan applied / loan appraisal by branch – working of various ratios
- End use of funds disbursed / transfer to existing overdue loan / NPA to Standard

LOANS AND ADVANCES

- Group Exposure concept – understanding concept
- Repayment capacity – procedure adopted / how worked out
- Scrutiny of loan a/c ledger – verification of end use of funds – how sanctioned funds has been disbursed by branch – whether in compliance with sanction letter
- Verification of gold Loan – No. of articles with loan balance book as on the date of audit / as per instructions

LOANS AND ADVANCES

- Post disbursement visit report – branch officials and records kept in file
- Study the overdue reports – monthly
- Procedure adopted for identification of irregular advances/ classification/ CBS online
- Reporting to higher authorities – NPA status
- Major adverse audit observations to be brought to notice of Higher Authorities on timely basis.

LOANS AND ADVANCES

- **LFAR – Revised by RBI on 5th Sept 2020 –**
- **Loans and Advances section - scope**
- Concurrent Audit Report helps to document to Statutory Auditor/ Management
- Working paper –its importance – use of modern technology audit skills –storage

Reference

- 1] ICAI Manual on Concurrent Audit of Banks [2016 Edition]
- 2] RBI Circular dated 16.07.2015
- 3] Revised LFAR –RBI Circular dated 05.09.2020
- 4] Govt. of India Circular dated 26.09.2012.
- 5] ICAI –The Chartered Accountant Journal – Mar 2021 [Bank Audit issues]

LOAN PROPOSAL SCRUTINY, APPRAISAL AND POST DISBURSMENT REVIEW

V S SAKKARSHETII (CHARTERED ACCOUNTANT)

Basis issues

- Rate of Interest –revised as per banks policy from time to time
- Ensure correct int. rate applied to loan a/c – master data –customer profile attached with loan proposal file
- Clear cut guidance / circulars to branches from loan section – handling of loan proposals etc.
- Periodic monitoring & review by loan section / Head Office for loans and advances portfolio of branches.
- Exchange of credit information – among bankers

Loan proposal scrutiny and appraisal

- Loan Application Form with following minimum documents / details to be taken at the time of receipt [**General Points**]
- Adherence to KYC norms – borrowers and guarantors
- Loan application register / receipts/ disposal / pending loan applications / up dation
- Properly completed loan application form with applicant name, address, business name, amount of loan, purpose of loan

Loan proposal scrutiny and appraisal

- Guarantors Name and Signatures with complete details required in Guarantors forms.
- Duly renewed Shop Act License / related Business license copies duly certified
- Copy of Ration Card/ KYC Norm prescribed documents for proof of address, id proof./ PAN card Xerox/ Residence proof – with supporting
- Copies of Profit and Loss Account and Balance Sheet with all schedules / Capital A/c – Details of secured loans and unsecured loans with bank name / branches/ A/c No / purpose of loan – Details of all present bankers – Bank Name/ Branches/ A/c No. Type of a/c – S/B, C/A, R/D, FDR etc.

Loan proposal scrutiny and appraisal

- Copy of CIBIL report generated – with remarks – steps taken from CIBIL Reports
- Copies of Income Tax and GSST Registration Certificate / returns for last 3 years with statement of income [Computation of Income]
- Status Report / Confidential opinion/ all related banks/ financial institutions.
- CIBIL data generated online etc. (now mandatory for UCB to have membership of all 4 rating companies by UCB) – RBI Circular 29.01.2015
- Gold Loans – Loan to Value – LTV ratio 75% of value of gold – RBI Circular dated 30.10.2014 – applicable to gold loans up to Rs.2.00 Lakhs. For others?

Loan proposal scrutiny and appraisal

- Sources for required margin money with supporting / declarations etc. before sanction of loan.
- Proper and analysis of Profit and Loss Account and Balance Sheet – comparison for last 3 years financial statements.
- Confirm properly whether the property/ land / plot/ security offered have been duly appearing in the financial statements submitted with proper valuation stated. Further sources for purchase of these securities has been properly shown
- Whether present loan sanctioned amount is being used for transfer to old NPA accounts / closure / regularization of overdue loan a/c?

Exposure Limit for Individual Borrowers and Group Borrowers to be fixed by H. O. on half yearly basis

- Necessary exposure limit for individual borrowers and group borrowers to be fixed by Head Office on half yearly basis i.e. based on financial statements as on 31st March and 30th Sept.
- **Restrictions for Individual unsecured loans, Loans to Real Estate Sector [Builders, Developers] and towards purchase of Resi. House/ Flat to borrowers:-**
- H. O. had to consider various restrictions laid down by RBI from time to time by issue of Circulars relating to lending of unsecured loans to individual borrowers, Loans to Real Estate Sector [Builders, Developers] and towards lending to individual borrowers for purchase of Resi. House / Flat from time to time

- Loan Amount applied – for purpose please obtain necessary related Documents in support of purpose of the said loan amount.
- Obtain details of sources for required margin money for the loan amount, if sanctioned / disbursed by the branch.
- Visit to the Applicant Business / related premises – prepare visit report
- Ensure that the amount of loan applied is not excessive / considering the market conditions / need of the applicant.

- Loan Appraisal by B.M – list out the present all loan limits sanctioned / disbursed till date and details of parties to whom the applicant is also Guarantors for what amount / purpose/ whether these loan accounts are regular.
- Work our properly EMI for loan amount applied considering the present EMI liability of the applicant.
- Please ensure that asset which is being taken as Security – Land / Building / Assets/ Vehicles etc. is being reflected already in the Balance Sheet, submitted with the application forms.

- For Agri .Income – Agri. Bills / Receipts are supported by the applicant but necessary Land 7 x1 2 extract in the name of the Applicant to be taken. If possible, obtain Agri. Income Certificate from Tahasildar, Taluka Office etc.
- Further, if Agri. Land is owned by more than 1 persons / applicant – joint owners of the Agri. Land, then necessary consent letter to be taken from the co-owners.
- **Priority is to be given for securing the loan amount by obtaining proper security but at the same time preference to the purpose and loan amount applied to be verified in detail with income generation assets created out of loan sanctioned/ disbursed and repayment capacity of the borrower.**

- **Special Points:** - Considering the purpose of loan applied, following details / documents to be taken besides completion of Loan Appraisal Form by Branch Manager / Head Office Loan Section

Vehicle Loans

- Vehicle Bill/ Receipt/ Delivery Challan / Note/ Insurance Cover Note with bank charge
- Vehicle RC / TC Book with bank charge
- RTO TT Form No.29, 30, 31 duly signed by the borrower with stamp
- Vehicle Inspection – its reports
- Proper amount adhesive stamps are to be affixed / [if not affixed] on loan documents executed.
- D.D/ Pay Orders directly payments in the name of the dealer, write the Name of the Borrower/ Loan A/c No. on the covering letter to the dealer and also on backside of the D.D./ Pay Orders issued to the dealers. Direct hand delivery of D.D/ Pay order to the borrower to be avoided. .
- For Transport Vehicles, necessary RTO permit copies to be taken.
- Second hand vehicles – Valuation Report from Registered valuer

Building Constructions Loan

- Construction Estimate duly certified by Architect / Engineer to be obtained.
- Legal Search Report copy from panel Advocates Study carefully the said report, if compliances is required to be completed, the same to be inform to the applicant for compliance. On proper compliance of all requirements only the loan proposal to be appraised further.
- Approved Building plan and permission Copy – if possible obtain Original copy.
- N.A. Order Copy if any.

Building Constructions Loan

- ❑ Interest during construction period – for residential / commercial complex
- ❑ Ensure borrower stage wise Margin Money introduced by Engineer / Architect stage wise construction completion Certificate.
- ❑ Visit to the related place / and prepare visit report and kept on record.
- ❑ If Registered Mortgage had been created, latest property extract with bank charge to be taken and kept record. For this, separate register if possible to be maintained so that pending list to be taken out.

Building Constructions Loan

- Insurance Cover Note with bank charge with correct address of Building Construction to be ensured. Note that property to be insured with correct amount of valuation / total estimated cost.
- In case loan to Builders / Developers, necessary investment CA. Certificate to be taken to ensure proper borrower margin.
- Net Worth Certificate from C.A. – borrower and guarantors for last 3 years
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Machinery / Equipments Purchase

- Quotation of Machinery, Nature of Industry, Ensure properly requirement of Machinery
- In case second hand machinery, obtain Valuation Report from Registered Approved Valuer.
- For proper delivery of Machinery, obtain Machinery Invoice, Delivery Note, Stamped Receipt, Transport Freight Receipt [L/R] and Octrio Receipts.
- Post disbursement inspection to be carried out for verification of Machinery delivered / purchased.
- Insurance Cover Note with Bank Charge to be taken.
- Ensure for installation of Machinery, proper premises owned / rented through Rent Agreement executed etc. Obtain relevant papers in this regard also.
- If existing Machinery is taken as security, please ensure these are reflected / accounted in the Balance Sheet / Statement of A/c submitted.

HYPOTHICATION LOAN

- Considering the nature of business of the borrower, ensure need for loan amount applied. Purpose of the loan applied should be ensured properly before sanction of the loan.
- Status Report from present bankers/ financial institutions to be taken. Existing turnover to be verified with statement of accounts submitted with loan application
- End use of the funds disbursed should be strictly observed. At the most, cash withdrawals to be minimized / withdrawals through cheques to be allowed.
- For high value transactions in the newly opened loan A/c, proper clarification to be obtained by the Officer / Branch Manager in charge before authorization of the withdrawals

HYPOTHICATION LOAN

- Ensure proper turnover in the A/c regularly. Not to allow excess limit beyond delegation of powers of the Branch Managers.
- Proper drawing power limit to be worked out periodically and stock statement register / to be updated / in the Computer System also.
- Latest property extract and Insurance Cover Note for securities charged [Stock + collateral securities taken] with bank charge to be taken.
- Borrower's proper required margin to be ensured from time to time.
- For new Agency business/ dealership business/ Agency business, necessary Dealership Appointment Letters / Agreement copies duly authenticated to be taken.

HYPOTHICATION LOAN

- If Guarantors property is to be taken as security by way of Registered Mortgage, then the said Guarantors also to be taken as Co-borrowers in the Mortgage Deed to be executed since the name of the borrower is not appearing in the property extract.
- At least 5 times of loan limit turnover is required in the A/c.
- Audited Statement of A/c for loan limits exceeding of Rs.10.00 lakhs to be obtained. In the case of Adat / Commission Agent business, Profit and Loss A/c and Balance Sheet certified by C. A. is sufficient compliance.

Purchase of Flat / Resi. House

- Copy of Approved Plan, Agreement for sale, Building Permission copy
- RERA Registration Certificate and its compliances by Builder
- Legal Search Report from panel advocate. Comply with all defects if any, stated by the Advocate. Please ensure all the documents stated in the Legal Search Report had been taken by the Branch.
- If Resi. House seller is member / belonging to Co-operative Housing Society, then necessary permission for sanction of loan, Resolution copies from society to be taken.

Purchase of Flat / Resi. House

- ❑ After disbursement of loan , Copy of Share Certificate in the name of the borrower, charge creation letter to the said Society to be sent.
- ❑ Latest property extract with Bank Charge to be taken.
- ❑ Insurance Cover Note with Bank Charge is to be obtained.
- ❑ Ensure proper Margin Money has been invested / contributed by the purchaser/ borrowers
- ❑ Original copy of Sale Deed, Agreement of Sale Deed, stamped receipt from builders if any to be taken

Agil. Land development works

- Proper purpose of loan has to be verified.
- Whether the Agri. Land is in the name of the borrower
- Agri. Land is not a secured Assets under Securitization Act
- Nature of Agri. Land Development work – supporting documents
- Whether Agri. Land is shown in the financial statements submitted by the applicant
- Sources of margin money for development of Agri. Land
- End use of funds disbursed – payments should be strictly to dealers / suppliers and not cash withdrawals allowed.
- Proper Engineer Certificate has been taken in compliance of utilization of loan amount.
- Proper insurance coverage has been taken
- Latest Property extract with bank charge to be taken.

Related documents to be taken – Business / Profession wise: -

Sr. No.	Nature of Business/Profession	Related license / documents duly renewed	Supporting details
01	Commission Agent – Adat Income	Market Committee License,& Shop Act License	Stock Statements, List of Sundry Debtors and Creditors. Periodically
02	Trading Business	Shop Act License	Stock Statements, List of Sundry Debtors and Creditors periodically
03	Medical Stores	Medicine & Drug License	Stock Statements, List of Sundry Debtors and Creditors periodically
04	Hotel Business	Liquor license, permit copies, hotel license,	Stock Statements.
05	Agency Business/ Dealership	Copies of dealership appointments/ Agreement copies	Stock Statements/ List of Sundry Debtors and Creditors

Related documents to be taken – Business / Profession wise

Sr. No	Nature of Business/Profession	Related license / documents duly renewed	Supporting details
06	Fertilizers/ Seeds dealers	Z.P. Agri. Officer Z.P. Fertilizers/ Seed license copies Copies of dealership appointment letters	Stock Statements, List of Sundry Debtors and Creditors periodically
07	Manufacturing Activity – Dall Mill/ Oil Mill etc	Process license/ Factory Act License/ Market Committee License/ NOC from Grampanchayats/ local authority	Stock Statements, List of Sundry Debtors and Creditors periodically

Related documents to be taken – Business / Profession wise

Sr. No.	Nature of Business/Profession	Related license / documents duly renewed	Supporting details
08	Civil Contractors	Registration Certificate with State / Central Govt.- with work order copies/ details of works completed / contract works in hand	Work order copies, details of works completed/ in hand with details
09	Builders/ Developers	Land search report/ Deed of declaration/ Agreement of sale/ etc	Approved Plan/ Estimate etc. and Proper Credit Appraisal RERA Registration

Monitoring

- For Loan limits / amounts sanctioned more than the recommended by B.M./ Loan section , necessary reasons and details to be noted and kept on record by Head Office.
- For Loan A/c with documents are transferred from one branch to other, the same to be with previous permission of Head Office and necessary communication to be sent to H. O. In this regard, necessary correspondence to be maintained by both the branches

Diversion of funds

- Branch should have a mechanism for proper monitoring of the end use of the funds. Wherever diversion is observed, they should take appropriate action including recalling the loans, reduction of sanctioned limits, charging penal interest etc to protect banks interest.
- Branch should keep a proper vigil over requests of borrower for cash withdrawals in their accounts for large amounts.
- Utilization of short term working capita funds for long term purposes not in conformity with the terms of sanction.
- Heavy withdrawals of cash by borrowers – reporting in CTR / STR mandatory
- Deploying borrowed funds for purposes / activities or creation of assets other than those for which loan was sanctioned.

Diversion of funds

- Transferring of funds to the sister concern firms/companies under the same group
- Post sanction / disbursement follow up of loans and advances should be effective so as to ensure that the security obtained from borrowers by way of hypothecation, pledge etc. are not tampered with in any manner and are adequate.
- Recent development in Banks Loans and Advances

Checklist

Sr. No	Particulars	Compliance status yes/ no
A]	Credit Appraisal/ Sanction	
1	Loan application obtained / received complete in all respects?	
2	Credit reports / appraisal reports are prepared in the format?	
3	Appropriate method is adopted for assessment of working capital depending upon on the nature of borrowers?	
4	Working Capital Term Loan is permitted with definite repayment period? Monitored properly	
5	Loan sanction at branches sent to head office periodically	
6	Pre-release audit observations – outsiders credit appraisal reports – its compliances	
7	LSR - Legal search reports – compliances before sanction / disbursements	

Checklist

Sr. No	Particulars	Compliance status yes/ no
	<i>Financial statements are analyzed and quality of analysis mentioned</i>	
9	Branch has worked out critical ratios – commented	
10	Appropriate documentation is obtained where Adhoc over limits – (TOD) granted but not closed / regularized within stipulated time period <ul style="list-style-type: none">- Request letters from the borrowers- TOD allowed in newly opened a/c during first six months- Frequent sanction of TOD / adhoc limits to parties- Delay in reporting of TOD –to head office from time to time.	

Checklist

Sr. No	Particulars	Compliance status yes/ no
11	Visit reports – with photographs – premises – business places etc and to be kept with file	
12	ROC search report obtained in case of Pvt. Ltd Co/ Limited companies /LLP	
13	Audited financial statements submitted are cross verified with the ones submitted to statutory authorities like Income Tax/ Sales Tax/ ROC etc.	

Checklist

Sr. No	Particulars	Compliance status yes/ no
B]	Disbursement / Monitoring	
1	Terms and conditions of sanction – sanction letter obtained duly signed by borrower and guarantors (if co-borrowers then also from co-borrowers)	
2	Verification of loan documents – by independent Advocate	
3	Charge noting with CTS/ competent authority – control over pending noting – registers – follow up matters	
4	Valuation report / fresh valuation report is obtained - margin provided by the borrower- increase in valuation – how ascertain margin by borrower	
5	Security – LIC policies – yearly premium paid receipts	

Checklist

Sr. No	Particulars	Compliance status yes/ no
6	Security – immovable properties – latest tax paid receipts/ property extracts etc	
7	Post disbursement visits – report thereof	
8	Takeover of borrower accounts – whether takeover norms / policy complied	
9	Stock Audit – conducted periodically and reports submitted / compliance	
10	Borrower firm is reconstituted with substitution / retirement/ induction of new partners, whether necessary formalities have been complied?	
11	Entire sale proceeds are being routed through the loan account	

Checklist

Sr. No	Particulars	Compliance status yes/ no
12	Book Debt statement certified by C.A. is obtained at stipulated periodical intervals – follow up	
13	A/c due for renewal not renewed – listing out – monitoring -	
14	Insurance of securities with bank clause – coverage / charge noting / renewal / register / control	
15	Guarantees – control over thereof	



Thank you

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