

BANK BRANCH STATUTORY AUDIT CERTAIN ASPECTS

1. Deposit Account

A. New Accounts Opened

- Verify that the Know Your Customer ('KYC') norms are complied with
- In case of NRE and FCNR deposit account, the Branch should hold valid, current copies of the Passport and Visas of the account holders
- Examine unusual trend in account opening or account closing, dormant accounts that have suddenly been reactivated by heavy cash withdrawals or deposits, overdrawing, etc
- Selectively verify if signature scanning is pending for the saving/current/cash credit accounts
- Accounts of different parties proposed by a single person/ group

B. Account Operations

- Selectively verify account ledger statements for unusual/large/overdraft transactions
- Large deposits placed at the end of the year (probable window dressing)
- Provisions of Prevention of Money Laundering Act should be kept in mind to ensure that 'suspicious' transactions are reported to the concerned authority
- All cash receipts and cash withdrawals of Rs10 lakh and above should be reported to Regional Office. Accounts reflecting frequent cash transactions of Rs10 lakh and above, should be examined along with the nature of business of the entity
- If term deposits are not in round figures, ascertain the reason and vouch for accounting entries
- Debit balance in Current and Saving accounts should be examined in detail and the outstanding exceeding 90 days should be provided for
- Credit card accounts with debit balances should be treated as loss assets, if they are outstanding for more than 90 days. Review the Master Circular on Maintenance of Deposit Accounts issued by RBI from website www.rbi.org.in
- Matured/overdue term deposit to be classified as demand deposits Interest Rates on Renewal of such matured/overdue deposits should be verified with reference to prevailing interest rates for the period renewed. (To ensure that the renewal is not done blindly at the old interest rates/Zero interest rate)

- Ensure proper classification of savings/current deposit with the debit balance as advances
- Anti Money Laundering Act
- Check that proper record of all transactions involving receipts by non- profit organizations of value more than rupees ten lakh or its equivalent in foreign currency is maintained and to forward a report to FIU-IND Ref: Government of India Notification dated November 12, 2009- Rule 3, sub-rule (1) clause (BA) of PML Rules
- In case of walk-in customer, where the amount of transaction is equal to or exceeds rupees fifty thousand whether conducted as a single transaction or several transactions that appear to be connected, check that the customer's identity and address is verified by the Bank in terms of Clause (b) (ii) of Rule 9 of the PML Rules, 2005
- To ensure compliance with Master Circular of instructions relating to deposits held in FCNR(B) Accounts issued by Reserve Bank of India on July 01, 2009

Ensure that the Deposits from Grameen banks classified as Deposits from the banks as per the third schedule to the Banking Regulation Act, 1949

- Dormant Accounts
- Dormant accounts required should be verified for unusual movement of funds from the account.
- Last year's dormant accounts list should be compared with current year's list along with amounts to identify old accounts which were activated during the year for verifying unusual transactions, if any.
- Verify if the specimen signature cards of dormant accounts are kept separately under joint custody of Manager/Officer. Any cash withdrawal/debits to dormant account should be authorized by the Branch-in-charge

C. Interest calculations

- Verify interest on all schemes of deposits on test check basis e.g. Verify the fields like interest rate with relevant circulars, period of interest, amount of deposit and accrual of interest in the account, interest calculation on premature deposit withdrawal, recurring deposits, back dated renewals
- Ascertain reasons for frequent reversal of interest and the authorization for the same
- RBI Norms for non-resident deposits & its operations — with due importance to opening and operation of accounts like NRE, NRNR, FCNR, RFC, etc

- Examine interest trends as compared to average annual deposits (monthly average figures)
- In case of deposits frozen by Revenue/ Regulatory/ Government etc, procedure given in Master Circular on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts should be followed for Interest credit
- Verify that interest on term deposit matured and remaining unpaid will attract saving bank account rate of interest.
- In case of any advance given after the interest process run done, then need to ensure that a proper provisioning is made for the same.

D. Tax Deducted at Source

- Verify that TDS returns have been uplinked as per schedule laid down in the Income-tax Act, 1961. Also ensure if the Form 15-G and Form 15-H are filed with the Income-tax department within the specified time schedule
- Refer CBDT circular no.3/2010 dated 02.03.2010 on Tax Deduction at Source on interest accrual in Core-Branch Banking Solutions (CBS) software

2. ADVANCES

A. Preliminary information before audit of Advances:

- Obtain the Head Office delegation of power and duties & limit fixed for Branch and its executives
- Study the various reports issued by the concurrent auditors, RBI Inspection reports, RO inspectors. Gain understanding of various audit points and material discrepancies and irregularities reported and compliances of the same. Review monitoring reports (irregularity reports) sent by the branch to the controlling authorities in respect of irregular advances.
- Obtain the detailed list of advances to identify major borrowers, period since when granted, nature of advances and clients, major defaulters, lending under various schemes, industry wise lending, probable NPA, highly sensitive accounts, CDR & BIFR cases, Advances in D1 and D2 (which requires calculation of Asset Shortage), Restructured accounts, OTS proposals, possibility of window dressing in the account, up gradation as well as down gradation of accounts. Compare the list with previous audit to find out major recoveries

B. Verification of Advances:

Before providing any financial assistance, the branch has to follow the systems and procedures as defined by the HO. As an auditor, we have to comment on the flaws in the system, if any, and verify that branch is complying with policies and procedures of the HO before and after granting a Loan.

Efficacy of internal control on Advances can be verified with reference to following criteria:

I. Application:

- Check whether prescribed application form received from the borrower for fresh or renewal proposal
- Check KYC compliance as per RBI requirements
- Verify Board resolution for the availing of the facility
- Verify that latest financial statements/income tax records of borrowers or guarantor are obtained
- Verify that various registration/licenses/permits are obtained

II. Credit Appraisal:

- Review appraisal system, Files of large as well as critical borrowers, sanctions, disbursement, renewals, documentation, systems, securities, etc
- Verify appraisal note of bank is proper and is done by competent authorities
- Review projections whether realistic and evaluate latest financial statements, Prospects of business, sources and periodicity of repayments, evaluation of financial statements, capacity utilization
- Verify networth statement of borrower and guarantor
- Review confidential report and NOC from existing banker and credit worthiness of borrower
- Review CIBIL Report, Title clearance report & valuation report
- Verify whether Exposure limit is within the limits fixed by Bank-group wise, Industry wise & policy of Bank
- Verify nature of securities (prime/ collateral) offered and to confirm the adequacy of security cover
- Verify that important Financial ratios are satisfactory such as
 - Debt Equity ratio
 - Debt service Coverage ratio and other ratios

- Ensure compliance of branch regarding prescribed procedures for credit appraisal
- Ensure whether Branch is conducting credit rating of major advances accounts on periodic basis
- Ensure whether Credit Rating in respect of advance accounts spread over more than one branch is same

III. Sanction and Disbursement:

- Compliance of sanction terms and conditions in the case of new advances
- Verify whether any sanction is beyond the delegation power and if so, whether reporting and confirmation of the same to the higher authorities is done/ obtained
- Verify that proposal has been routed through appropriate authorisation levels and recommendations are properly documented and noted

- Ensure that limits sanctioned are within the discretionary powers of the sanctioning authority
- In case where the sanctions are beyond the discretionary powers, the same has been reported to appropriate authorities and ratified within specified period
- Ensure that any change in the terms of sanction is ratified by appropriate authority
- Verify that pre disbursement unit inspection has been carried out & report held on record
- Adhoc limits (increase) given to borrower for temporary/ seasonal/ peak periods – whether reported to controlling authorities and whether liquidated in time
- Verify whether any advances have been disbursed without fulfilling the conditions in the sanction
- Verify that Disbursement done only after compliance of all terms & conditions of Sanction letter.
- Verify all Ad hoc sanction limits given
- Verify that acceptance of the borrower confirming the terms & conditions of sanction is obtained
- Verify that sanction letter/limit approval letter stating the terms and conditions is available
- Verify Margin Money to be brought by borrower
- Verify end use of funds (capex, Project, etc)

IV. Documentation:

- Verify the advances with reference to the Documentation requirements as per the HO's instructions
- Ensure that all loan documents, as required by the sanction letter and loan policy have been executed (e.g. DP Note, loan Agreement, Letter of guarantee, hypothecation Agreement, etc.)
- Verify that loan documents are properly executed and approved by legal expert, if required – whether appropriately stamped
- Ensure that Fresh loan documents are obtained on change in limit, change in the constitution of the borrower

- Review of ROC forms on test check basis to confirm whether charges have been registered
- Verify that original agreement, share certificate, title deeds, title clearance certificate valuation report are held on record
- In case of Third-party borrowing against Branch Fixed Deposits, normal lending rate of interest should be applied as against concessional rate
- Ensure that documents should not be blank or incomplete & there should be no overwriting, changes, different inks etc.
- Ensure that original documents are kept in safe custody
- Verify that charge on securities offered have been registered with registrar of companies/ appropriate authority (RTO, Mortgage Registration)
- Check NOC of housing society
- Check memorandum and Articles of Association or proof of constitution of the borrower
- Ensure compliance with special documentation for Consortium/ Multiple Banking advances
- Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the controlling authorities of the bank
- Verify whether as per the Master circular No. DBOD No. BP. BC.46/ 08.12.001/2008-09 dated 19 September, 2008; bank has obtained declaration and certification by a professional, regarding compliance of various statutory prescriptions from the borrower enjoying the Consortium/Multiple Banking Arrangements
- Insurance policies with bank clause should be obtained for stocks and collateral, (residence, office premises, etc.) and for stocks held by third parties on Job-work basis
- Verify the consortium advances accounts with regard to:
Status on Joint Documentation, Inspection of unit, Updated minutes of consortium, confirmation from lead bank that they are holding valid documents, monthly updation of drawing power based on lead bank's advice
- Whether the borrower is regular in submission of stock statements, book debt statements, insurance policies, annual accounts, half yearly results, etc. and whether penal interest is charged in case of

default/delay in submission of such data (whether branch is marking the date of receipt on the statement). Whether the bank verifies these statements critically and seeks clarification wherever required e.g. (format is proper, details are adequate, etc). Whether year end stock statement matches with Audited Accounts Stock figure

- Obtain the list of accounts where acknowledgement of debt is not taken from the borrower

V. Supervision/ Monitoring:

- Verify if any Letter of Credit (L/C) limit is availed, the stocks under L/C are separately shown in the stock statements, to prevent double financing
- Verify that the unit submits separate stock statements for Packing Credit (PC) facility and the liquidation is out of export proceeds (if not, concessional interest has to be revised to normal interest charged to the party). Verify whether exchange translation is done regularly to check whether overall exposure is within limits in case of Foreign Currency denominated PC
- Verify if age-wise analysis of book debts is submitted
- If stocks are kept at rented godowns, No-lien letters should be obtained from the concerned owners/landlord
- Verify that non-moving stocks are reduced when calculating the DP
- Check classification of advances, income recognition and provisioning as per RBI Norms/Circulars
- Examine interest trends as compared to average annual advances (monthly average figures)
- Scrutinize the final advances statements with regard to assets classification, security value, documentation, drawing power, outstanding, provisions, etc. in line with the requirements of Master Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances cross check whether the guidelines issued by the Bank for the purpose of classification of advances are in line or more prudent than the RBI guidelines. Verify whether the value of security considered is proper/ realistic
- Check whether Non-Fund based (Letter of Credits/Bank Guarantees) exposure of the borrowers is within the sanctioned limits
- Compare projected financial figures given at the time of project appraisal with actual figures from audited financial statements for relevant period and ascertain reasons for large variances, if any.

- Take into account the assessment of RBI if the regional office of RBI has forwarded a list of individual advances to the bank, where the variance in the provisioning requirements between the RBI and the bank is above certain cut off levels
- Verify the derivatives and off-balance sheet transactions entered into by constituents for any liability and ensure that Marked to Market Margins of Security is taken and amounts provided for in case of default by the party.
- Verify if the accounts are pending for review/renewal
- Status of other banks to ensure there is no excess financing against the stock/book debts
- Verify whether Non-performing accounts reported to the Head office promptly
- Whether Branch is following the Recovery policy and legal action is taken on the advances whenever required as per the Policy of the Bank
- Review the monitoring system; i.e., monitoring end use of funds, analytical system prevalent for the advances, cash flow monitoring, branch follow-up, consortium meetings, inspection reports, stock audit reports, market intelligence (industry analysis), securities updation, etc.
- In case of advances against shares verify that branch has not given loan against Banks own shares and any other partly paid up shares

VI. Drawing Power (DP) Calculation

- Based on Stocks, Debtors and Share value
- Critical review of stock/ Book Debts statement (Old debtors more than 180 days not to be considered)
- DP limits to be set as per latest statements. If stock statements are older than 3 months account to be classified as "irregular"
- Verify banks guidelines for DP calculation specially for unpaid stocks
- Verify Inventory & equity shares Valuation
- Verify annual audit report of the borrower with the monthly stock statement for the last month of the year
- Verify Stock audit report for NPA's more than Rs5 Crore

VII. Fraud in Advances

- Sanction without proper application and/or credit appraisal
- Sanction made beyond discretionary power and non-reporting of the same to the appropriate authority
- Unauthorised release of securities
- Security valuation (Especially NPA account e.g. Immovable Assets, Patents)
- Charging of same security to different Banks
- Diversion of funds
- Fraud risk relating to Controls
- Submission of fake transport documents/ godown receipts
- Discounting of accommodation bills/ issuance/ LC

VIII. Restructured Advances

Verify whether branch has complied with Master Circular No. DBOD.No.BP.BC. 21 /21.04.048/2010-11 dated July 1, 2010 on Restructuring of advances.

Consider the following important points covered in Circular:

- Restructured account could be under 'Standard', 'Sub-standard' and 'Doubtful' categories. Banks cannot reschedule/ restructure/ re-negotiate borrower accounts with retrospective effect
- Date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring/ rescheduling/ renegotiation
- Prior approval should be obtained in case of BIFR and CDR cases under restructuring
- An existing 'Standard asset' will not be downgraded to Sub-standard category upon restructuring and if during the specified period, the asset classification of Sub-standard/ Doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period
- Asset Classification will not be downgraded if satisfactory performance observed during the specified period, subject to:
 - dues being fully secured

- unit becomes viable in 7 years (10 years for infrastructure cases)
- loan is repayable in 10 years (15 years for Infrastructure cases)
- promoter sacrifice and additional funding of at least 15 % of Bank Sacrifice
- obtaining personal Guarantee of promoters

(Specified period means period of one year from the date when the 1st payment of interest or installment of principal falls due under the terms of restructuring)

- Verify the Financial viability and reasonable certainty of repayment of each account restructured
- Verify that advance covered under restructuring should be from other than capital market exposure, personal/ consumer loan
- Verify whether borrowers indulging in frauds and malfeasance are not taken for restructuring. As per circular they remain ineligible for restructuring
- Prudential norms on Unsecured Advances (RBI Circular DBOD.No.BP.BC. 96 / 08.12.014/ 2009-10 dated April 23, 2010)

- Intangible Securities like rights, licenses, authorization etc. charged to the bank as collateral security should not be reckoned as tangible security and to be recorded as unsecured.
- Banks should also disclose the total amount of advances for which intangible securities such as charge over the rights, licenses, authority, etc. has been taken as also the estimated value of such intangible collateral. The disclosure may be made under a separate head in "Notes to Accounts". This would differentiate such loans from other entirely unsecured loans.
- In terms of paragraph 2(a) of circular DBOD.No.BP.BC.125/21.04.048/2008-09 dated April 17, 2009 on 'Prudential Norms on Unsecured Advances', rights, licenses, authorizations, etc. charged to banks as collateral in respect of projects (including infrastructure projects) should not be reckoned as tangible security. In partial modification to the above it has been decided that banks may treat annuities under build-operate-transfer (BOT) model in respect of road/highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

C. Provisioning Norms:

- a. Normal Provision: Bank will hold provision against restructured advances as per the existing provisioning norms. Provision should be difference between the fair value of loan before and after restructuring

Fair value before restructuring: Present value of cash flows (Principal and interest at the existing rate charged on the advance before restructuring) discounted at bank's BPLR plus appropriate term premium and credit risk premium for the borrower category on the date of restructuring"

Fair value of the loan after restructuring: Present value of cash flows (Principal and interest at the rate charged on the advance on restructuring) discounted at a rate equal to bank's BPLR plus appropriate term premium and credit risk premium for the borrower category on the date of restructuring"

WCTL fair value should be computed as per actual cash flow

In case any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1 till maturity of the security

- b. Option in notionally computation of Diminution in fair value: Due to lack of expertise/ appropriate infrastructure RBI has given option to provide diminution at five percent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore till the financial year ending March 2011. The position would be reviewed thereafter

Diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account. Bank may provide short fall in provision or may reverse the provision held in distinct account

- Income Recognition in case additional finance is provided:
- Incase of standard asset: May be treated as 'standard asset', up to a period of one year after the first interest/ principal payment
- In case where pre-restructuring facilities were classified as 'sub-standard' and 'doubtful: On cash basis only
 - Conversion of principal into debt/ equity and conversion of unpaid interest into 'Funded Interest Term Loan' (FITL), Debt or Equity Instruments- specific guidelines to be followed
- Master circular on Agricultural Debt Waiver and Debt Relief Scheme, 2008 – Prudential Norms on Income Recognition, Asset Classification, Provisioning, and Capital Adequacy should be followed in case of agricultural advances as per debt waiver scheme

- As per RBI Circular No.DBOD.No.BP.BC. 46 /21.04.048/2009-10 dated September 24, 2009
- On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books, as is the practice currently followed by some banks.
- For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

D. Review of Operations

- Verify accounts with multiple banking facility, with regard to Drawing Power
- Charge of interest and recovery for each month/quarter or as applicable to be verified
- Review operations in the large Advance Accounts and selectively in other accounts
- Verify debit/credit summation in account with the unit's turnover in audited accounts
- Verify whether bank is charging penal interest wherever applicable
- Obtain the list of Temporary overdrafts and verify authorization and interest application on the same
- Incases of advances given against Deposits, whether lien is marked on the Deposits
- Transaction in the post balance sheet date period
- Change in Interest rate retrospectively in master file of borrower should be blocked at branch level

3. PROFIT & LOSS ACCOUNT

Income/Expenditure: Verify

- Short debit of interest/commission on advances; Excess credit of interest on deposits; In case the discrepancies are existing in large number of cases, the auditor should consider the impact of the same on the accounts; check if charges are recovered from customers on outward RTGS transactions; Determine whether the discrepancies noticed are intentional or by error; Go through the Concurrent/Internal/Revenue Audit report to assess whether the Branch has properly applied interest to deposit/advances accounts, revenue leakage detected, comments on internal control. If discrepancies are pointed

out, the Statutory Auditor may ensure whether the same have been rectified. Check whether the recurrence of such discrepancies are general or in respect of some specific clients

- Proper authority in sanction and disbursement of expenses as also the correctness of the accounting treatment given as to revenue/ capital/ deferred expenses; Check accrual of income/expenditure especially for the last month/ quarter of the financial year
- Verify the significant systematic reversal of income and expenditure with proper reasons.
- Verify the computation of Guarantee Commission and its application over the period of the Guarantee
- Check whether the ASBA commission is accounted properly.

Divergent Trends

- Income/ expenditure of the current year should be compared with the figures of the previous year. Wherever a divergent trend is observed, obtain an explanation along with supporting evidences like monthly average figures, composition of the income/ expenditure, etc
- Verify major items of Expenses especially Rent with respect to the Agreement for Rent of the Branch Premises with the Landlord

4. BALANCE SHEET

Cash & Bank Balances

- Physically verify the Cash Balance as on the year/ period end or trace back the cash balance from the date of verification to year/ period end
- Check instances of cash exceeding the retention limit as set by the Controlling Authorities. Frequent excesses should be reported in the Long Form Audit Report (LFAR)
- Verify cash held at ATM and tally with General ledger
- If substantial amount of soiled notes is held, it should be reported
- Check Insurance cover held for cash balances with the advice sent by HO
- Confirm and verify the reconciliation statements of the Balances with banks as on year end
- Check whether the surprise verification of cash by the independent officer or the branch manager is carried out and frequency of the same

Investments

- Physically verify the Investments held by the branch on behalf of Head Office and issue certificate of physical verification of investments to bank's Investments Department/ Central Statutory Auditors
- Check receipt of interest and its subsequent credit given to Head Office

Fixed Assets

- Check whether the Fixed Asset Register maintained contain details such as location of asset, tag no. given to asset, person using the asset, units of asset, date of capitalization, date of disposal/ write off and whether Fixed Assets Verification have been carried out periodically as per the policy.
- Check Inter-branch transfer memos relating to Fixed Assets and whether they have been correctly classified in the accounts and depreciation accounting thereof
- Check if Dead Stock Register is duly updated and signed by the concerned Manager
- Ascertain the Branch manager's power to acquire new fixed assets and frequency of physical verification
- Verify the suspense account to identify any amount paid to vendor but still unadjusted.

Inter-Branch Reconciliation (IBR)

- Understand the IBR system in detail and prepare an audit plan to review the IBR transactions. The large volume of Inter-Branch Transactions and the large number of unreconciled entries in the banking system makes the area fraud-prone
- Check the head office inward communication to branch to ascertain date up to which statements relating to inter-branch reconciliation have been sent
- Verify the Reversal of any large/ old/ unexplained entries, which had remained outstanding in IBR
- Items of revenue nature, cash-in-transit (for example, cash meant for deposit into currency chest) which remains pending for more than a reasonable period
- Double responses to the entries in the Accounts
- Selectively verify accuracy and correctness of "Daily statements" which are prepared by the branch and sent to IBR department

- The auditor should duly consider the extent of non-reconciliation in forming his opinion on the financial statements. Where the amounts involved are material, the auditor should suitably qualify his audit report. Attention is drawn on the paper on "Certain Significant Aspect of Statutory Audit of Banks" issued by the Council of ICAI in March, 1994, published in the CA journal
- Further, vide its circular No. RPCD.CO.RF.BC.No.103/07.37.02/2004-05 dated may 30, 2005, the Reserve Bank (RBI) advised the banks to maintain category-wise (head-wise) accounts for various types of transactions put through inter-branch accounts so that the netting can be done category-wise. Further, RBI advised banks to make 100 per cent provision (category-wise) for net debit position in their inter-branch accounts arising out of the unreconciled entries, both debit and credit, outstanding for more than six months
- Verify the Inter Office Accounting system under Core Banking Solution (CBS) Branches & verify items not accounted properly & lying in some specific accounts.

Suspense Accounts, Sundry Deposits, etc

- Suspense and Sundry Deposit accounts are adjustment accounts in which certain debit transactions whose authorisation is pending for approval or whose accounting head is not known are temporarily posted
- As and when the transactions are duly authorised by the concerned officials they are posted to the respective accounts and the Suspense Account/ Sundry Deposit account is credited/ debited respectively
- Ask for and analyse their year-wise break-up
- Check the nature and details of entries parked in such Accounts
- Check any movement in such old balances and whether the same is genuine and has been properly authorised by the competent authority
- Check for any revenue items lying in such accounts and whether proper treatment has been given for the same
- Auditors Report & Memorandum of Changes
- The Auditors Report should be a self contained document and should contain no reference of any point made in any other report including the LFAR
- Include Audit Qualifications in the Auditors Report and not in the LFAR
- Quantify the Audit Qualifications for a better appreciation of the point

- For suggesting any changes in the financial statements of the branch, quantify the same in the Memorandum of Changes (MOC) and make it a subject matter of qualification and annexed it to the Auditors' Report

Contingent Liabilities

- Contingent liabilities, being an important "off balance sheet" item, seek reasonable assurance that all contingent liabilities are identified and properly disclosed. E.g. Increase in rent of premises by landlord disputed by bank
- Obtain a letter of representation

5. LONG FORM AUDIT REPORT (LFAR)

- Study the LFAR Questionnaire thoroughly
- Plan the LFAR work along with the statutory audit right from day one
- The LFAR questionnaire is a useful tool for planning the statutory audit of a branch
- Complete and submit Audit Report as well as the LFAR simultaneously
- Be specific while replying the LFAR
- Give instances of shortcomings/weaknesses existing in the respective areas of the branch functioning in the LFAR
- The LFAR should be sufficiently detailed and quantified so that they can be expeditiously consolidated by the bank

6. FRAUD REPORTING

- Obtain the latest status of cases involving fraud, vigilance and matters under investigation having effect on the accounts and its reporting requirement. Review the Master circular DBS. FrMC. BC. No.1/23.04.001/2010-11 dated July 1, 2010 on FRAUDS – CLASSIFICATION AND REPORTING issued by RBI (latest as on date of this note dated July 1, 2010)

b. Introduction

Check the frauds involving Rs.1.00 crore and above reported to Special Committee of the Board.

b. Reporting of frauds to Reserve Bank of India

Frauds involving Rs.1 lakh and above

- Fraud reports should be submitted in all cases of fraud of Rs.1 lakh and above perpetrated through misrepresentation, breach of trust,

manipulation of books of account, fraudulent encashment of instruments like cheques, drafts and bills of exchange, unauthorised handling of securities charged to the bank, misfeasance, embezzlement, misappropriation of funds, conversion of property, cheating, shortages, irregularities, etc.

- Fraud reports should also be submitted in cases where central investigating agencies have initiated criminal proceedings suo motto and/or where the Reserve Bank has directed that they be reported as frauds.
- Soft copy of the reports on frauds in FMR formats should be submitted to the Central Office of the Department of Banking Supervision (DBS). Within three weeks of detection of fraud involving Rs.5.00 lakh and above the copy of FMR-1 should be submitted to the Central Office, DBS and the Regional Office (RO) DBS under whose jurisdiction the Head office of the bank falls and the RO of DBS under whose jurisdiction the branch where the fraud occurs falls. Fraud reports in hard copy format (FMR-1) involving frauds of Rs.1.00 lakh and above and less than Rs.5.00 lakh should be sent only to the concerned Regional Office of RBI, DBS.

c. Frauds Committed by unscrupulous borrowers

Banks should exercise due diligence while appraising the credit needs of unscrupulous borrowers, borrower companies, partnership/ proprietorship concerns and their directors, partners and proprietors, etc. as also their associates who have defrauded the banks.

In addition to above borrower- fraudsters, third parties such as builders, warehouse/cold storage owners, motor vehicle/tractor dealers, travel agents, etc and professionals such as architects, valuers, chartered accountants, advocates, etc. are also to be held accountable if they have played a vital role in credit sanction/disbursement or facilitated the perpetration of frauds. Banks are advised to report to Indian Banks Association (IBA) the details of such third parties involved in frauds.

Before reporting to IBA, banks have to satisfy themselves of the involvement of third parties concerned and also provide them with an opportunity of being heard. In this regard the banks should follow formal procedures and the processes followed should be suitably recorded. On the basis of such information, IBA would, in turn, prepare caution lists of such third parties for circulation among the banks.

Frauds in borrowal accounts having multiple banking arrangements

Certain unscrupulous borrowers enjoying credit facilities under "multiple banking arrangement" after defrauding one of the financing banks, continue to enjoy the facilities with other financing banks and in some cases avail even higher limits at those banks. In certain cases the borrowers use the accounts maintained at other financing banks to siphon off funds by diverting from the bank on which the fraud is being perpetrated. This is due to lack of a formal arrangement for exchange of information among various lending banks/FIs.

In some of the fraud cases, the securities offered by the borrowers to different banks are the same.

In view of this, all the banks which have financed a borrower under 'multiple banking' arrangement should take co-ordinated action, based on commonly agreed strategy, for legal / criminal actions, follow up for recovery, exchange of details on modus operandi, achieving consistency in data / information on frauds reported to Reserve Bank of India. Therefore, bank which detects a fraud is required to immediately share the details with all other banks in the multiple banking arrangements.

d. Frauds involving Rs.100.00 lakh and above

In respect of frauds involving Rs.100 lakh and above, banks may report the fraud by means of a D.O. letter addressed to the Chief General Manager in charge of the Department of Banking Supervision, RBI, Central Office, within a week of such frauds coming to the notice of the bank's Head Office. The letter may contain brief particulars of the fraud such as amount involved, nature of fraud, modus operandi in brief, name of the branch/office, names of parties involved (if they are proprietorship/ partnership concerns or private limited companies, the names of proprietors, partners and directors), names of officials involved, and whether the complaint has been lodged with the Police/CBI. A copy of the D.O. letter should also be endorsed to the Regional Office of RBI under whose jurisdiction the bank's branch, where the fraud has been perpetrated, is functioning.

e. Quarterly Returns

Closure of fraud cases

Banks will report to the Frauds Monitoring Cell, RBI, Department of Banking Supervision (DBS), Central Office, Mumbai and the respective Regional offices of the DBS, the details of fraud cases closed along with reasons for the closure where no further action was called for.

Fraud cases closed during the quarter are required to be reported in quarterly return FMR 3 and cross checked with relevant column in FMR-2 return before sending to RBI.

Banks should report only such cases as closed where the actions as stated below are complete and prior approval is obtained from the respective Regional Offices of DBS

- a. The fraud cases pending with CBI/Police/Court are finally disposed of.
- b. The examination of staff accountability has been completed
- c. The amount of fraud has been recovered or written off.
- d. Insurance claim wherever applicable has been settled.
- e. The bank has reviewed the systems and procedures, identified the causative factors and plugged the lacunae and the fact of which has been certified by the appropriate authority (Board / Audit Committee of the Board)

- f. Banks should also pursue vigorously with CBI for final disposal of pending fraud cases especially where the banks have completed staff side action. Similarly, banks may vigorously follow up with the police authorities and/or court for final disposal of fraud cases and / or court for final disposal of fraud cases.

Banks are allowed, for limited statistical / reporting purposes, to close those fraud cases involving amounts upto Rs.25.00 lakh, where:

The investigation is on or challan/ charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the CBI/Police., or the trial in the courts, after filing of charge sheet / challan by CBI / Police, has not started, or is in progress.

f. Quarterly Review of Fraud

Banks are required to constitute a Special Committee for monitoring and follow up of cases of frauds involving amounts of Rs.1.00 crore and above exclusively, while Audit Committee of the Board (ACB) may continue to monitor all the cases of frauds in general. The Special Committee should consist of CMD in case of public sector banks and MD in case of SBI/its Associates. In case of private sector banks, two members from ACB, two members from Board excluding RBI nominee.

The major functions of the Special Committee would be to monitor and review all the frauds of Rs.1.00 crore and above so as to:

- Identify the systemic lacunae if any that facilitated perpetration of the fraud and put in place majors to plug the same:
- Identify the reasons for delay in detection, if any, reporting to top management of the bank and RBI:
- Monitor progress of CBI/Police investigation and recovery position:
- Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time:
- Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls:
- Put on place other measures as may be considered relevant to strengthen preventive measures against frauds.

All the frauds involving an amount of Rs.1.00 crore and above should be monitored and reviewed by the Special Committee of the Board in case of all Indian commercial banks. The periodicity of the meetings of the Special Committee may be decided according to the number of cases involved. In addition, the Committee should meet and review as and when a fraud involving an amount of Rs.1.00 crore and above comes to light.

The banks may delineate in a policy document the processes for implementation of the Committee's directions and the document may enable a dedicated outfit of the bank to implement the directions in this regard.

g. Guideline for Reporting Frauds To Police/CBI

Private sector banks (including foreign banks operating in India) should follow the following guidelines for reporting of frauds such as unauthorised credit facilities extended by the bank for illegal gratification, negligence and cash shortages, cheating, forgery, etc. to the State Police authorities:

- a. In dealing with cases of fraud/embezzlement, banks should not merely be actuated by the necessity of recovering expeditiously the amount involved, but should also be motivated by public interest and the need for ensuring that the guilty persons do not go unpunished.
- b. Therefore, as a general rule, the following cases should invariably be referred to the State Police:
 - Cases of fraud involving an amount of Rs.1.00 lakh and above, committed by outsiders on their own and/or with the connivance of bank staff/officers.
 - Cases of fraud committed by bank employees, when it involves bank funds exceeding Rs.10,000/-.
- c. Fraud cases involving amounts of Rs.1.00 crore and above should also be reported to the Director, Serious Fraud Investigation Office (SFIO), Ministry of Company Affairs, Government of India. Second Floor, Paryavaran Bhavan, CGO Complex, Lodhi Road, New Delhi 110 003. Details of the fraud are to be reported to SFIO in FMR-1 Format.

Public sector banks should report fraud cases involving amount of Rs.1 crore and above to CBI and those below Rs.1 crore to local police, as detailed below:

Cases to be referred to CBI

(a) Cases of Rs.1.00 crore and above upto Rs.5.00 crore

- Where staff involvement is prima facie evident – CBI (Anti Corruption Branch)
- Where staff involvement is prima facie not evident – CBI (Economic Offences Wing)

(b) All cases involving more than Rs.5.00 crore – Banking Security and Fraud Cell of the respective centres, which is specialised cell of the Economic Offences Wing of the CBI for major bank fraud cases.

Cases to be referred to Local Police

Cases below Rs.1 crore – Local Police.

- a. Cases of financial frauds of the value of Rs.1.00 lakh and above, which involve outsiders (private parties) and bank staff, should be reported by the Regional Head of the bank concerned to a senior officer of the State CID/Economic Offences Wing of the State concerned.
- b. For cases of financial frauds below the value of Rs.1.00 lakh but above Rs.10,000/- the cases should be reported to the local police station by the bank branch concerned.
- c. All fraud cases of value below Rs.10,000 involving bank officials, should be referred to the Regional Head of the bank, who would scrutinize each case and direct the bank branch concerned on whether it should be reported to the local police station for further legal action.

7. GENERAL

- Send a Letter of your requirements of records/accounts/document to the Branch before commencing the audit
 - Obtain a Management Representation Letter (MRL)
 - Banks are advised to strictly comply with the extant regulations and in particular of Master circular on Issuance of Guarantee, not to provide guarantees or equivalent commitments for issuance of bonds or debt instruments of any kind. (Master circular on Issuance of Guarantee DBOD. No. Dir. BC.18/ 13.03.00/ 2008-09 dated July 1, 2009)
 - To ensure compliance with RBI Circular DBOD.BP.BC.No. 42 /08.12.015/ 2009-10 dated September 9, 2009 with respect to Classification of Exposures as Commercial Real Estate (CRE) Exposures
- As per RBI Circular RPCD.SME & NFS. BC.No. 79 /06.02.31/2009-10 dated May 6, 2010 , guidelines for collateral free loans upto Rs.10 lakh sanctioned to the units of MSE sector (both manufacturing and service enterprises) as defined under MSMED Act, 2006 is mandatory and banks must not obtain collateral security in the case of loans upto Rs10 lakh extended to all units of the MSE sector.

INCOME RECOGNITION & ASSET CLASSIFICATION NORMS – AT A GLANCE

CLASSIFICATION OF ADVANCES AS NPA

Term Loans

- Interest or installment remains overdue for a period of more than 90 days from end of the quarter
- Agricultural Advances: Agricultural loans granted for short duration crops and long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons and one crop season respectively

- Overdue: An amount due to the bank under any credit facility is 'Overdue' if it is not paid on the due date fixed by the bank

Cash Credits & Overdrafts

- The account remains continuously "out of order" i.e., Outstanding balance remains continuously in excess of the sanctioned limit/ drawing power or there are no credits continuously for a period of 90 days or credits are not enough to cover the interest debited during the same period
- Banks may not classify an account NPA merely due to existence of some deficiencies, which are of temporary nature such as non-availability of adequate drawing power temporarily, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date but submitted later on, etc
 - A working capital borrowing account will become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days even though the unit may be working or the borrower's financial position is satisfactory.
 - an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA
- Balance outstanding in the account based on drawing power calculated from stock statements more than 3 months old would be deemed as irregular
- Further, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction respectively, will be treated as NPA

Bills Purchased & Discounted

- Bills purchased/ discounted remains overdue for a period of more than 90 days
- Overdue interest should not be charged and taken to income account in respect of overdue bills unless it is realized

Other Accounts

- Any amount to be received in respect of that facility remains overdue for a period of more than 90 days Government guaranteed advances
- State Government guaranteed advances in respect of which guarantee has been invoked and has remained in default for more than 90 days
- The credit facilities backed by guarantee of Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. However, income shall not be recognised if the interest or instalment has

remained overdue or the account has remained continuously out of order or the bills or any other facility has remained overdue for a period of more than 90 days

Notes:

1. Master Circular on Prudential Norms on Income recognition, Asset Classification and Provisioning pertaining to Advance (latest as on date of this note — Circular No. DBOD.No.BP.BC. 21 /21.04.048/2010-11 dated July 1, 2010 referred to as Master Circular in this note

Updated:

1. Interest Application

On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

2. Computation of NPA levels

Banks are advised to compute their Gross Advances, Net Advances, Gross NPAs and Net NPAs, as per the format prescribed in master circular.

- **Projects under implementation**

For all projects financed by the FIs/ banks **after 28th May, 2002**, the date of completion of the project should be clearly spelt out at the time of financial closure of the project.

- **Project Loans**

There are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by banks. Accordingly, the following asset classification norms would apply to the project loans before commencement of commercial operations. These guidelines will, however, not be applicable to restructuring of advances covered under the paragraph 14.1 of this Master Circular (Advances classified as Commercial Real Estate exposures; Advances classified as Capital Market exposure; and Consumer and Personal Advances) which will continue to be dealt with in terms of the extant provisions i.e paragraph 14.1 of the circular.

For this purpose, all project loans have been divided into the following two categories:

- (a) Project Loans for infrastructure sector
- (b) Project Loans for non-infrastructure sector

'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Banks must fix a Date of Commencement of Commercial Operations (DCCO) for all project loans at the time of sanction of the loan / financial closure (in the case of multiple banking or consortium arrangements).

- **Project Loans for Infrastructure Sector**

(i) A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(ii) A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(iii) If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), in accordance with the provisions of Part B of this Master Circular, it can be retained as a standard asset if the fresh DCCO is fixed within the following limits, and further provided the account continues to be serviced as per the restructured terms.

(a) Infrastructure Projects involving court cases

Up to another 2 years (beyond the existing extended period of 2 years i.e total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

(b) Infrastructure Projects delayed for other reasons beyond the control of promoters

Up to another 1 year (beyond the existing extended period of 2 years i.e. total extension of 3 years), in other than court cases.

(iv) It is re-iterated that the dispensation subject to adherence to the provisions regarding restructuring of accounts as contained in the Master Circular which would inter alia require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be :

a. In cases where there is moratorium for payment of interest, banks should not book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.

b. Banks should maintain provisions on such accounts as long as these are classified as standard assets as under :

Until two years from the	0.40%
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original DCCO	
During the third and the fourth years after the original DCCO.	1.00%

(v) For the purpose of these guidelines, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

• **Project Loans for Non-Infrastructure Sector**

(i) A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(ii) A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras (iii) to (v) below.

(iii) In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of six months from the date of completion as determined at the time of financial closure, banks can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts in accordance with the provisions contained in this Master Circular, provided the fresh DCCO does not extend beyond a period of twelve months from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of six months from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be :

a. In cases where there is moratorium for payment of interest, banks should not book income on accrual basis beyond six months from the original DCCO, considering the high risk involved in such restructured accounts.

b. Banks should maintain provisions on such accounts as long as these are classified as standard assets as under :

Until the first six months from the original DCCO	0.40%
During the next six months	1.00%

(iv) For this purpose, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

• **Other Issues**

(i) All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions of Part B of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.

(ii) Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if :

(a) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.

(b) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.

(c) The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCP.

(d) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

(iii) These guidelines would apply to those cases where the modification to terms of existing loans, as indicated above, are approved by banks from the date of this circular.

• **Substandard assets**

(i) The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 20 per cent on the outstanding balance. However, in view of certain safeguards such as escrow accounts available in respect of infrastructure lending, infrastructure loan accounts which are classified as sub-standard will attract a provisioning of 15 per cent instead of the aforesaid prescription of 20 per cent. To avail of this benefit of lower provisioning, the banks should have in place an appropriate mechanism to escrow the cash flows and also have a clear and legal first claim on these cash flows. The provisioning requirement for unsecured 'doubtful' assets is 100 per cent. Unsecured exposure is defined as an exposure where the realisable value of the security, as assessed by the bank/approved valuers/Reserve Bank's inspecting officers, is not more than 10 percent, *ab-initio*, of the outstanding exposure. 'Exposure' shall include all funded and non-funded exposures (including underwriting and similar commitments). 'Security' will mean tangible security properly discharged to the bank and will not include intangible securities like guarantees (including State government guarantees), comfort letters etc

However, banks may treat annuities under build-operate-transfer (BOT) model in respect of road / highway projects and toll collection rights, where there are provisions to compensate the project sponsor if a certain level of traffic is not achieved, as tangible securities subject to the condition that banks' right to receive annuities and toll collection rights is legally enforceable and irrevocable.

• **Standard assets**

(i) The provisioning requirements for all types of standard assets stands amended as below, with effect from November 5, 2009. Banks should make general provision for standard assets at the following rates for the funded outstanding on global loan portfolio basis:

(a) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;

(b) all other loans and advances not included in (a) and (b) above at 0.40 per cent

Excess Provisions on sale of Standard Asset / NPAs

Excess provisions which arise on sale of NPAs can be admitted as Tier II capital subject to the overall ceiling of 1.25% of total Risk Weighted Assets. Accordingly, these excess provisions that arise on sale of NPAs would be eligible for Tier II status in terms of paragraph 4.3.2 of Master Circular DBOD.No.BP.BC.73/21.06.001/2009-10 dated February 8, 2010 on Prudential guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) and paragraph 2.1.1.2.C of Master Circular DBOD.No.BP.BC.6/21.01.002/2009-10 dated July 1, 2009 on Prudential Norms on Capital adequacy - Basel I Framework.

• **Provisioning Coverage Ratio**

i. At present, the provisioning requirements for NPAs range between 10 per cent and 100 per cent of the outstanding amount, depending on the age of the NPAs and the security available. Banks can also make additional specific provisions subject to a consistent policy based on riskiness of their credit portfolios, because the rates of provisioning stipulated for NPAs are the regulatory minimum. It has been observed that there is a wide heterogeneity and variance in the level of provisioning coverage ratio across different banks.

ii. Currently there is a realisation from a macro-prudential perspective that banks should build up provisioning and capital buffers in good times i.e. when the profits are good, which can be used for absorbing losses in a downturn. With this in view, there is a need for improving the provisioning cover as the banking system is currently making good profits. This will enhance the soundness of individual banks, as also the stability of the financial sector. It has therefore been decided that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70 per cent.

iii. Provisioning Coverage Ratio (PCR) is essentially the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses.

iv. Banks should achieve this norm not later than end-September 2010. Also, the PCR should be disclosed in the Notes to Accounts to the Balance Sheet.

• **Disclosures**

Banks should also disclose in their published annual Balance Sheets, under "Notes on Accounts", information relating to number and amount of advances restructured, and the

amount of diminution in the fair value of the restructured advances. The information would be required for advances restructured under CDR Mechanism, SME Debt Restructuring Mechanism and other categories separately. Banks must disclose the total amount outstanding in all the accounts / facilities of borrowers whose accounts have been restructured along with the restructured part or facility. This means even if only one of the facilities / accounts of a borrower has been restructured, the bank should also disclose the entire outstanding amount pertaining to all the facilities / accounts of that particular borrower.

- **Change in instalment schedule of "other farmers" under the Debt Relief Scheme**

In view of the recent drought in some States and the severe floods in some other parts of the country, the Government of India, as announced in the Union Budget 2010-11, has now decided to extend the last date of payment of 75% of overdue portion by the 'other farmer' under Debt Relief Scheme (under ADWDR) up to June 30, 2010. The eligible "other farmers" may be allowed to repay this amount in one or more installments up to June 30, 2010. The banks will not charge any interest on the eligible amount for the period from February 29, 2008 to June 30, 2009. However, they may charge normal rate of interest on the eligible amount from July 01, 2009 up to the date of settlement. Further, no interest shall be paid by the Government of India to the lending institutions for this extension under the Scheme while reimbursing the 25% amount to the lending institutions as per the delayed reimbursement schedule

The Government of India has also advised that the banks / lending institutions are allowed to receive even less than 75% of the eligible amount under OTS provided the banks / lending institutions bear the difference themselves and do not claim the same either from the Government or from the farmer. The Government will pay only 25% of the actual eligible amount under debt relief.

- In case, however, the payments are delayed by the farmers beyond June 30, 2010, the outstanding amount in the relevant accounts of such farmers shall be treated as NPA. The asset classification of such accounts shall be determined with reference to the original date of NPA, (as if the account had not been treated as performing in the interregnum based on the aforesaid undertaking). On such down-gradation of the accounts, additional provisions as per the extant prudential norms should also be made.
 - Please refer to the paragraph 20.1.1 which provides that in case of small and marginal farmers eligible for debt waiver, the amount eligible for waiver, pending receipt from the Government of India may be transferred by the banks to a separate account named "Amount receivable from Government of India under Agricultural Debt Waiver Scheme 2008", and the balance in this account should be reflected in Schedule 9 (Advances) of the Balance Sheet. It is now clarified that in case of 'other farmers' eligible for debt relief, after the 'other farmer' has paid his entire share of 75%, banks may open an account

for Debt Relief Scheme, similar to the one opened for the receivables from GOI under the Debt Waiver Scheme, and bearing the nomenclature "Amount receivable from Government of India under Agricultural Debt Relief Scheme 2008". This amount may also be reflected in Schedule 9 (Advances) of the Balance Sheet.

2. Once an account has been classified as NPA, all the facilities granted to the borrower will be treated as NPA except in respect of Primary Agricultural Credit Societies (PACS)/Farmers Service Societies (FSS). Also, in respect of additional facilities sanctioned as per package finalised by BIFR and/or term lending institutions, provision may be made after a period of one year from the date of disbursement in respect of additional facilities sanctioned under the rehabilitation package. The original facilities granted would however continue to be classified as sub-standard/ doubtful, as the case may be
3. Interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts. Advances against gold ornaments, government securities and all other securities are not covered by this exemption
4. Till the time the account is identified as NPA, income is recognised irrespective of whether realised or not. Where an account is identified as NPA (including Government Guaranteed NPA Accounts) during the year, unrealised income should not be recognised for the year. Also, interest accrued and credited to income account in the previous year should be reversed or provided for if the same is not realised. The finance charge component of finance income on NPA leased assets remaining unrealised, should be reversed or provided for in the current accounting period
5. Partial Recovery in respect of NPA accounts should be generally appropriated against principal amount in respect of doubtful assets till the irregularity is completely regularised
6. If the accounts of the borrowers have been regularised before the balance sheet date by repayment of overdue amounts, the same should be reviewed with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence about the manner of regularisation of the account to eliminate doubts on their performing status
7. If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning

8. In case of restructured accounts, the classification of advances should be done as per master circular
9. In cases of substantial time overrun in the projects under implementation, the asset classification, income recognition and provisioning should be done as per master circular
10. Ordinary NPA accounts can be upgraded to "Standard" accounts if entire arrears of Interest and Principal is paid before 31st March
11. Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit
12. In cases of serious credit impairment assets should be straightway classified as doubtful or loss asset as appropriate if erosion in the value of security is significant; i.e., the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be
13. If the realisable value of security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightway classified as loss asset. It may be either written off or fully provided for by the bank
14. In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over
15. Old Industrial Projects under implementation: Such Industrial Projects may be treated as "Standard Asset" for a period not exceeding 2 years before the date of Completion of the Project, as originally envisaged at the time of initial financial closure of the Project or deemed date of completion of the Project
16. New Projects under implementation can be classified as "Standard" assets only if both the following conditions are satisfied:
 - The delay in commencement of Commercial Production is not beyond 6 months (2 years in case of infrastructure projects w. e .f. March 31st 2008) from the date of completion of the project as originally envisaged
 - Principal and interest on the loan are regularly serviced during the six months or two years period, as the case may be
17. In case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards but only

when there is default in repayment of installments of principal or payment of interest on the respective due dates

18. In cases of NPAs with balance of Rs.5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board would be mandatory in order to enhance the reliability on stock valuation. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors
19. In spite of charging of interest at monthly rests Banks should continue to classify an account as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter
20. In case Funded Interest is recognized as income, a provision of equal amount should be made simultaneously i.e. fully provided
21. In case of Takeout Finance, if the asset is classified as NPA while taking over the asset, the branch should make provisions treating the account as NPA from the actual date of it becoming NPA even though the account was not in its books as on that date

ASSET CLASSIFICATION – AT A GLANCE

Category	Conditions to be Satisfied	Provision amount	Remarks
Standard Assets	Does not disclose problem and which does not carry more than normal risks attached to business	Per RBI circular RBI 2009-10/209 DBOD.No.BP.BC. 58 /21.04.048/2009-10 dated November 5, 2009 • Direct advances to Agricultural and SME@ 0.25% • Commercial Real Estate Sector Exposure @1% • all other loans and advances at @0.40%	The revised norms would be effective prospectively but the provisions held present should not be reversed. However, in future, if by applying the revised provisioning norms, any provisions required over and above the level of provisions currently held for the standard category assets these should be duly provided for
Sub-Standard Assets	Classified as NPA for a period less than or equal to 12 months Classification of an asset should not be upgraded merely as a result of rescheduling, unless there is satisfactory compliance of the	A general provision of 10% of total outstanding should be made without making any allowance for ECGC guarantee cover and securities available Unsecured Exposures which are identified as sub-standard would attract an additional provision of	In respect of accounts where there are potential threats of recovery on account of erosion in the value of security or non-availability of security existence of other factors such as frauds committed by borrowers, it will not be prudent for banks to fi

Category	Conditions to be Satisfied	Provision amount	Remarks
	required conditions at least for one year	10% For detailed treatment of restructured Sub-standard Assets, refer Master Circular No.DBOD.No.BP.BC. 21/21.04.048/2010-11 dated July 1,2010	classify them as sub-standard and then as doubtful after expiry of twelve months from the date the account has become NPA. Such accounts should be straightway classified as doubtful asset or loss asset, as appropriate, irrespective of the period for which it has remained as NPA
Doubtful Assets	Remained sub- standard for a period exceeding 12 months	100% of unsecured amount For the secured portion, provision should be made on the following basis: Period for which Provision the advance has requirement remained in (%) 'doubtful' category • Up to one year 20 % • One to three years 30% • More than three years 100%	It has all the weaknesses inherent in that of a sub-standard asset with the added characteristic that the weaknesses make collection/ liquidation in full, highly questionable and improbable, on the basis of current known facts, conditions and values
Loss Assets	Loss asset is one where loss has been identified by the bank, external or internal auditors or the RBI inspectors, but the amount has not been written off (wholly or partly)	100% of the outstanding should be provided for/written off	If the assessed realisable value of the security is less than 10 per cent of the outstanding amount, the existence of security should be ignored and asset should be straightway classified as loss asset

DRAFT OF MANAGEMENT REPRESENTATION LETTER TO BE OBTAINED FROM THE BRANCH MANAGEMENT

April X, 20XX

M/s. XYZ & Co
Chartered Accountants
Mumbai

Dear Sirs,

Sub.: Audit for the period ended 31-3-20XX

This representation letter is provided in connection with your audit of the financial statements of _____ branch of _____ BANK for the period ended 31-3-20XX for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of _____ branch of _____ BANK as of 31-3-20XX and of the results of operations for the period then ended. We acknowledge our responsibility for preparation of financial statements in accordance with the requirements of the Reserve Bank of India and recognised accounting policies and practices, including the Accounting and Auditing Standards issued by the Institute of Chartered Accountants of India

We confirm, to the best of our knowledge and belief, the following representations:

1. ACCOUNTING POLICIES

The accounting policies which are material or critical in determining the results of operations for the year or financial position are set out in the financial statements and are consistent with those adopted in the financial statements for the previous year. The financial statements are prepared on accrual basis except as stated otherwise in the financial statements. There are no changes in the accounting policies followed by the branch during the current year

2. ASSETS

The branch has a satisfactory title to all assets and there are no liens or encumbrances on the branch's assets. The branch has not received any legal notices from the landlords asking them to vacate the premises that the branch is currently occupying as a lessee

3. FIXED ASSETS

The fixed assets located at the branch are accounted at the Head Office, hence they are not reflected in the branch financial statements and depreciation thereon shall be provided at the Head Office

4. CAPITAL COMMITMENTS

At the balance sheet date, there were no outstanding commitments for capital expenditure, other than as reported in _____

5. OTHER CURRENT ASSETS

In the opinion of the management, other current assets have a value on realization in the ordinary course of the branch's business which is at least equal to the amount at which they are stated in the balance sheet

6. CASH & BANK BALANCES

The Cash balance as on 31st March, 20XX is Rs. _____

7. LIABILITIES

The branch recorded all known liabilities in the financial statements

8. CONTINGENT LIABILITIES

8.1 The branch has disclosed in notes to the financial statements all;

- guarantees that we have given to third parties
- Letters of Credits (Local/Import)
- Letters of Comfort (Local/Import)
- Deferred Payment Credits/Guarantees (Local/Import)
- and all other contingent liabilities

8.2 Other than for advances, there are no matters involving the branch in any claims in litigation, arbitration or other disputes in which there may be some financial implications, including for staff claim, branch rentals, municipal taxes, local levies etc. except for those which have been appropriately included under contingent liabilities

8.3 Guarantees are disclosed net of margins as at the year-end, and expired guarantee where the claim year has also expired has been correctly removed from the branch return

8.4 Contingent liabilities disclosed in the notes to the financial statements do not include any contingencies, which are likely to result in a loss and which, therefore, require adjustment of assets or liabilities

8.5 No cases/ legal disputes are pending against the branch/ lodged by the branch, for which no liability has accrued/ is likely to accrue in the future

9. PROVISIONS FOR CLAIMS & LOSSES

Provision has been made in the accounts for all known losses and claims of material amounts

10. There have been no events subsequent to the balance sheet date that require adjustment of, or disclosure in, the financial statements or notes thereto

11. PROFIT & LOSS ACCOUNT

Except as disclosed in the financial statements, the results for the year were not materially affected by:

1. Transactions of a nature not usually undertaken by the branch
2. Circumstances of an exceptional or non-recurring nature
3. Charges or credits relating to prior years

4. Changes in accounting policies

12. We have made available to you all the following latest reports on the accounts of our branch, and compliance by the branch on the observations contained therein:

1. Previous year's Branch Audit Report
2. Internal Inspection Reports
3. Report on any other Inspection Audit that has been conducted during the course of the year relevant to the financial year 20XX-XX

Apart from the above, the branch has not received any notice, show cause, inspection advice, etc. from Government of India, Reserve Bank of India or any other monitoring or regulatory authority of India that could have a material effect on the financial statements of the branch during the year

13.BALANCING OF BOOKS

The books of the account are computerized and hence the subsidiary records are automatically balanced with the relevant control records

14.OVERDUE/ MATURED TERM DEPOSITS

All Overdue/ Matured Term Deposits are held as Matured Term Deposits

15.ADVANCES

15.1 In respect of all the advances against tangible securities, the branch holds evidence of existence and market value of the relevant securities as at the year-end

15.2 All the borrowers' account have been categorised according to the prevalent RBI norms applicable for the year, into Standard, Sub-standard, Doubtful or Loss assets, with special emphasis on Non-Performing Assets (NPA)

15.3 We have examined the accounts and applied the norms borrower-wise and not account-wise for categorising the accounts

15.4 The classification of advances made as at the end of the previous year has not been changed to a better classification

15.5 No income has been adjusted/recorded to revenue, contrary to the norms of income recognition notified by the Reserve Bank of India; and particularly where the chances of recovery/realisability of the income are remote

15.6 No income has been recorded on Non-Performing Accounts other than on actual realisation

16.OUTSTANDING IN SUSPENSE/SUNDRY ACCOUNT

The year-wise/entry-wise break up of amounts outstanding in Sundry deposits/Sundry assets as on 31-3-20xx has already been submitted to you along with explanation of the nature of the amounts in brief and supporting evidences relating to the existence of such amounts in the aforesaid accounts

17.INTEREST PROVISIONS

17.1 Interest provision has been made on deposits, etc. in accordance with the extent instructions of the Head Office

17.2 Any amount recorded as income up to the year-end, which remains unrecovered or not realisable, has been reversed from the respective income heads or has been debited to corresponding expenditure head during the year

17.3 The accounting treatment as regards reversal, if any of interest/other income recorded up to the previous year end; and the amount reversed during the year under audit; i.e., income of earlier years derecognised during the year has been made in accordance with the prevalent RBI norms of Income Recognition

17.4 The interest provision for Head Office Interest shall be made at the Head Office

18.STATIONERY

Stock of unused stationery like security papers, cheque books, demand draft book, etc. have been produced for your physical verification and are in order

19.LONG FORM AUDIT REPORT – BRANCH RESPONSE TO THE QUESTIONNAIRE

In connection with the Long Form Audit Report, complete information as regards each item in the questionnaire has been made available to you in order to enable you to verify the same for the purpose of your audit

20.OTHER CERTIFICATION

Duly authenticated, information as regards other matters which, as per the bank's letter of appointment, require certification have been made available to you

21.GENERAL

There is no enquiry going on or concluded during the year by Central Bureau of Investigation (CBI) or any other Vigilance or Investigating Agency on the branch or on its employees and no cases of Frauds or of Misappropriation of Assets of the branch have come to the notice of the Management during the year other than for amounts for which provisions have already been made in the books of account

22.The provision for non-performing assets, depreciation, provision for income tax, provision for bonus, gratuity, etc. is made at the Head Office. Therefore the same has not been provided in the branch accounts

23. There have been no irregularities involving management or employees who have a significant role in the system of internal control that could have a material effect on the financial statements

24. At the end of the year, the branch has translated its holdings of Foreign Deposit Accounts at a notional rate of Rs.____ to equivalent foreign currency . The difference between the notional rate of Rs.____ and the actual rate as at the year end will be accounted for at the Head Office

25. The financial statements are free of material misstatements, including omissions.

26. The branch has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulating authorities that could have a material effect on the financial statements in the event of non-compliance.

27. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

28. The other particulars required have already been given to you and particulars and other representations made to you from time to time are true and correct in all respects.

29. TAX AUDIT FOR THE YEAR ENDED 31ST MARCH, 20XX

TAX AUDIT IN TERMS OF SECTION 44AB OF THE INCOME-TAX ACT, 1961

The information required for the tax audit under section 44AB of the Income-tax Act, 1961 has been made available to you in order to enable you to verify the same for the purpose of your report thereon. In respect of the Tax Audit under section 44AB of Income-tax Act, 1961 of _____ for the year ended 31st March, 20XX, we certify the following:

PART – A

29.1 Our Permanent Account No. _____

29.2 The address as per the jurisdiction of the assessee falls under section 124 of the Income-tax Act, 1961 is _____

29.3 The status as defined under the Income Tax Act, 1961 is Company

PART – B

29.4 There is no change in nature of business in current year as compared to preceding previous year

29.5 The books of account maintained by us have been correctly disclosed in clause 9(b) of Form 3CD

29.6 Our Profit & Loss A/c. does not include profits and gains assessable on presumptive basis under sections 44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, 172 of the Income-tax Act, 1961

29.7 The method of accounting followed is as per clause 11(a) which has been consistently followed in the immediately preceding previous year. There was no change in the method of accounting employed vis-à-vis the method employed in the immediately preceding previous year

29.8 Sum received from employee towards contributions to any provident fund or superannuation fund or any other fund mentioned in section 2(24)(x) which is paid/not paid within due dates to concerned authorities under section 36(1)(va) are mentioned in Clause 16 (b) of our Form 3CD and the same are correct

29.9 In Clause 17 of Form 3CD, there are no other amounts of such items debited to Profit & Loss Account

29.10 No payments are made to persons specified under section 40A(2)(b)

29.11 There is no amount of profit chargeable to tax u/s. 41 as disclosed under clause 20 of Form 3CD

29.12 Except for the items shown under clause 21(ii)(B), no tax, duty or other sum as referred to u/s. 43B has been provided as at the year end

29.13 No expenditure/ income of an earlier year has been debited/ credited to the Profit & Loss Account except to the extent disclosed under clause 22(b) of Form 3CD

29.14 No loans or deposits of Rs20,000/- or more have been repaid in cash other than those specified in the statement of particulars as given in the respective clause of Form 3CD. The details of loans or deposits of Rs20,000/- or more given in the said statement of particulars is true and correct

29.15 Section-wise details of deduction admissible under Chapter VI-A

No other deductions other than those mentioned in clause 26 of Form 3CD is available to the branch

29.16 Details of non deduction, non-payment or delay in payment of tax deducted at source to the credit of the Central Government are given in the statement of particulars. Apart from that, there are no other deduction, non payment or delay in payment of Tax Deducted at Source

29.17 The other particulars required have already been given to you and particulars and other representations made to you from time to time are true and correct in all respects

Thanking you, we remain.

Yours faithfully,
For & on behalf of _____ branch of _____ BANK

Authorised Signatory

DRAFT LETTER OF REQUIREMENTS TO BE SENT TO THE BRANCH

March X, 20XX

The Branch Manager
_____ Bank
_____ Branch
Mumbai

Dear Sir:

Sub.: **Statutory Audit of your branch for the year 20XX–XX**

As you are aware, we have been appointed as the Statutory Auditor to report on the accounts of your Branch for the year 20XX–XX.

In order to enable us to finalise the audit programme and furnish our report on the audit of the accounts for the year 20XX–XX of your branch, may we request you to keep ready the information/clarification as stated below and make the same available to our audit team at the earliest

1. Latest reports

The following latest reports on the accounts of your Bank, and compliance by the Bank on the observations contained therein may be kept ready for our perusal:

- Latest RBI Inspection Report
- Internal/ Concurrent Audit Reports
- Head Office Inspection Reports
- Internal Inspection Reports
- Revenue Audit Report (if any)
- Income and Expenditure Control Report (if any)
- Report on any other Inspection/Audit that may have been conducted during the course of the year relevant to the financial year 20XX–XX

2. Circulars in connection with accounts

Please let us have a copy of the Head Office circulars/instructions in connection with the closing of your accounts for the year, to the extent not communicated to us or incorporated in our letter of appointment

3. Accounting policies

Kindly confirm whether, as compared to the earlier year, there are any changes in the accounting policies during the year under audit

If so, please let us have a list and a copy of the accounting policy/ies amended by the bank during the year covered by the current audit and compute the financial effect thereof to enable us to verify the same

4. Balancing of Books

Kindly confirm the present status of balancing of the subsidiary records with the relevant control accounts. In case of differences between balances in the control and subsidiary records, please give the details thereof and let us know the efforts being made to reconcile/balance the same. This information may be given head-wise for the relevant control accounts, indicating the date when the balances were last tallied

5. Deposits

1. Please let us have the Interest rate structure, applicable for the current year, for all the types of deposits accepted by the branch
2. Kindly confirm having transferred Overdue/ Matured Term Deposits to Current Account Deposit. If not, details/ particulars of credit balances comprising Overdue/ Matured Term Deposits as at the year-end which continue to be shown as Term Deposit, particularly where the branch does not have any instructions/ communication for renewal of such deposits from the account holder and amount of provision of interest made on such overdue/ matured term deposits, should be separately marked out and be kept ready for our reference

6. Advances

1. Kindly confirm whether in respect of the advances against tangible securities, the branch holds evidence of existence and latest market value of the relevant securities as at the year-end
2. Kindly inform the year-end status of the accounts, particularly those which have been adversely commented upon in the latest reports of RBI/Internal Auditors/Concurrent Auditors/Statutory Auditors, etc. On the branch as also accounts in respect of which provisions have been made/recommended as at the previous year-end
Information in relation to such advances accounts where provision computed/recommended may please be prepared indicating:
 - i. Name of the borrower
 - ii. Type of facility
 - iii. *Total amount outstanding as at the year-end (both for principal and interest) specifying the date up to which interest has been levied and recovered

- iv. Particulars of securities and value on the basis of latest report/statement
- v. Nature of default and action taken
- vi. Brief history and present status of the advance
- vii. * Provision already made/recommended
- viii. NPA since when (please specify the date)

** Corresponding figures for the previous year-end may please be given*

3. Kindly confirm whether the borrowers' account have been categorised according to the norms applicable for the year into Standard, Sub-standard, Doubtful or Loss assets, with special emphasis on Non-Performing Assets (NPA) and whether such classification has also been made applicable by the branch to advances with balances of less than Rs.25,000 each

Kindly confirm whether you have examined the accounts and applied the norms borrower-wise and not account-wise for categorising the accounts. Please let us have the particulars of provisions computed/ recommended in respect of the above during the financial year under audit.

4. While preparing MOC for NPA accounts if one account is identified as NPA, than all the other accounts also become NPA for the same borrower should be considered.
5. A list of all advances accounts which have been identified as bad/ doubtful accounts and where pending formal sanction of the higher authorities, the relevant amount have not been re-classified/ re-categorised in the book of the Branch for provision/ write off. This covers all account identified by the Branch or internal/ external auditor or by RBI inspectors but the amount has not been written off wholly or partly

In case the Bank has recommended action against the borrowers or for initiating legal or other coercive action for recovery of dues, a list of such borrowers' accounts may be furnished to us

6. Please let us have a list of borrowers' accounts where classification made as at the end of the previous year has been changed to a better classification, stating reasons for the same and ensure the following classification should not be happen without a proper explanation

Sr. No.	Classification	
	Last Year	Current Year
1	LOS	DB1

2	DB2	DB1
3	DB1	DB1
4	SUB	DB3
5	STD.	DB3

7. Kindly also confirm whether the NPA status is updated regularly in CBS system, and after classification as NPA no further interest and charges should be debited in account.
8. Kindly also confirm whether any income has been adjusted/ recorded to revenue, contrary to the norms of income recognition notified by the Reserve Bank of India and/or Head Office circulars issued in this regards; and particularly where the chances of recovery/ realisability of the income are remote

Kindly also confirm whether any income has been recorded on Non-Performing Accounts other than on actual realization.

7. Outstanding in Suspense/ Sundry Account

Kindly let us have a year-wise/ entry-wise break up of amounts outstanding in Suspense/ Sundry accounts as on 31-3-20XX. Kindly explain the nature of the amounts in brief. Supporting evidences relating to the existence of such amounts in the aforesaid accounts may be kept ready at the branch for verification. Reasons for non-adjustment of items included in these may be made known

8. Inter-branch/ Office Accounts/ Head Office Account

1. Please let us have a statement of entries (head-wise) which originated prior to the year-end at other branches, but were responded during the period after 31-3-20XX at the branch
2. Date-wise details of debits in various sub-heads relating to Inter-branch transactions and reasons for outstanding amounts particularly those, which are over 30 days as at the Balance Sheet date

9. Contingent liabilities

1. Kindly confirm whether other than for advances, there are any matters involving the Bank in any claims in litigation, arbitration or other disputes in which there may be some financial implications, including for staff claim, municipal taxes, local levies etc. If so, these may be listed for our verification, and you may confirm whether you have included these as contingent liabilities
2. Kindly confirm whether guarantees are being disclosed net of margins, or otherwise as at the year-end, and whether the expired guarantee where the claim year has also expired, continue to be disclosed in the Branch return. Please confirm specifically

10. Interest Provision

1. Kindly confirm whether interest provision has been made on deposits etc. in accordance with the latest instruction of the RBI/interest rate structure of the bank. A copy of such instructions/rate structure may be made available for our scrutiny
2. Kindly confirm whether any amount recorded as income up to the year-end, which remains unrecovered or not realisable, has been reversed from any of the income heads or has been debited to any expenditure head during the financial year. If so, please let us have details to enable us to verify the same
3. Kindly confirm the accounting treatment as regards reversal, if any of interest/other income recorded up to the previous year-end; and the amount reversed during the year under audit; i.e., income of earlier years derecognised during the year

11. Foreign Currency outstanding transactions

1. Kindly confirm whether amount outstanding as at the year-end have been converted as at the year-end rates prescribed by FEDAI. An authenticated copy of the FEDAI rates applied may be given for our records
2. Kindly confirm the amount of inward value of foreign currency parcels, if any, which originated prior to the year-end from other banks, but could not be recorded as these were in transit and for which entries were made after the year end

12. Investment/stationery

For Investment held by the branch:

1. These may be produced for physical verification and/ or evidence of holding the same be made available
2. Stock of unused security paper stationery/ numbered forms like B/Rs, SGL forms, etc. may please be produced for physical verification
3. It may be confirmed whether income accrued/ collected has been accounted as per the laid down procedure
4. It may be confirmed whether Investment Valuation has been done as per the extant RBI guidelines

13. Long Form Audit Report — Branch response to the Questionnaire

In connection with the Long Form Audit Report, please let us have complete information as regards each item in the questionnaire, to enable us to verify the same for the purpose of our audit

14. Tax Audit in terms of section 44AB of the Income-tax Act, 1961

Please let us have the information required for the tax audit under section 44AB of the Income-tax Act, 1961 to enable us to verify the same for the purpose of our report thereon

15.Other certification

Please furnish us the duly authenticated information as regards other matters, which as per the letter of appointment require certification

16.Bank Reconciliation & Confirmations

Please let us have, the duly reconciled statements for all Nostro as well as Local bank accounts. A copy of the year-end balance confirmation statements should also be called for and kept ready for our review

17.Books of account and records

Kindly keep ready all the books of account and other records like vouchers, documents, Fixed Assets Register, etc. for our verification

We shall appreciate your kind co-operation in the matter

Thanking you,

Yours truly,

Chartered Accountants

Advances checklist for LFAR

1. In respect of common irregularities, the Auditors can give their comments borrower-wise in the LFAR in the format given hereunder:

Name of Borrower	Name of Branch	Region	IRAC Status	Facility	Sanctioning Authority	Limit	Amount o/s. as at the year end	Irregularity No.
1	2	3	4	5	6	7	8	9

2. In respect of Column 9 above, "Irregularity No.", the number as given in the "Glossary to Irregularities" in Point 5, under the head "Item" below should be given for the irregularity applicable to respective borrower

In case the auditors feel that in spite of the list of irregularities given below, there are some other irregularities, which the auditor would like to bring to notice, the auditor may separately disclose under the given head by giving "appropriate number"

For the aforesaid purpose, "appropriate number" would mean, for example, if the auditors feels that in case of "Review/ Monitoring/ Supervision", which has the number "4", any additional irregularity has to be incorporated, he may give a number after the last number appearing in the list, such as "4.62", and onwards. Similarly in case of "Credit Appraisal" which has the number "1", any additional irregularity may be given "1.19", and so on

3. The borrower-wise details may be given in descending order based on the Amount outstanding
4. Glossary to irregularities

SN	Remark
1	Credit Appraisal
1.1	Loan application not on record at Branch
1.2	The appraisal form was not filled up correctly and thereby the appraisal and assessment was not done properly
1.3	Loan application is not in the form prescribed by Head Office
1.4	The Bank did not receive certain necessary documents and Annexures required with the application form
1.5	Basic documents such as Memorandum & Articles of Association, Partnership deed, etc, which are a pre-requisite to determine the status of the borrower, not obtained
1.6	Certain adverse features of the borrower not incorporated in the appraisal note forwarded to the management
1.7	Industry/group exposure and past experience of the Bank is not dealt in the appraisal note sent to the management for sanction
1.8	The level for inventory/book-debts/creditors for finding out the working capital is not properly assessed
1.9	Techno-economic feasibility report, which is required to know the technical aspects of the borrower's business, is not obtained from Technical Cell
1.10	Credit report on principal borrowers and confidential report from their banks are not insisted from the borrowers

SN	Remark
1.11	The opinion reports of the associate and/or sister concerns of the borrower are not scrutinized
1.12	The opinion reports of the associate and/or sister concerns of the borrower are not called for
1.13	The opinion reports of the associate and/or sister concerns of the borrower are not updated
1.14	The opinion reports of the associate and/or sister concerns of the borrower are not satisfactory
1.15	The opinion reports of the associate and/ or sister concerns of the borrower are not scrutinised/ called for/ not updated/ not satisfactory
1.16	The procedure/instructions of head office regarding preparation of proposals for grant not followed
1.17	The procedure/instructions of head office regarding preparation of proposals for renewal of advances not followed
1.18	The procedure/instructions of head office regarding preparation of proposals for enhancement of limits, etc. not followed
1.19	No exposure limits are fixed for forward contract for foreign exchange sales/purchase transactions
2	Sanctioning and disbursement
2.1	Credit facility sanctioned beyond the delegated authority or limit of the branch
2.2	Certain proposals were sanctioned pending approval of higher authorities wherever required
2.3	<i>Ad hoc</i> limits were granted for which sanctions were pending since long
2.4	Facilities were disbursed before completion of documentation
2.5	Facilities were disbursed without following sanction terms

SN	Remark
2.6	Facilities were disbursed without any sanction
2.7	Sanction letter was missing in the branch
2.8	Guarantor as required in the sanction letter was not obtained
2.9	Required promoters stake not invested before disbursement of loan
2.10	Sanctions were made without proper appraisal
2.11	Security charge not created before disbursement as required by sanction letter/renewed letter
2.12	Full disbursement of the facility not made
2.13	Sanction terms were not complied with or were not recorded
2.14	Disbursement made without proper sanction
2.15	Term loan was disbursed by creating the cash credit or savings account of the borrower
3	Documentation
3.1	The security against which the advance was sanctioned was not available/was not on record
3.2	Mortgage for the property given as security is not created
3.3	Mortgage for the property given as security created, was inadequate, as compared to terms of sanction
3.4	Second charge as required, on assets is not created in favour of the bank
3.5	Documents of second charge on assets is not on the record
3.6	Documents pertaining to registration of charges with ROC or any other concerned authority requiring charging of assets is not obtained

SN	Remark
3.7	Copies evidencing lodgment of the original conveyance/sale deeds with the Sub-Registrars for registration not on record
3.8	Authority letter/Power of Attorney to the Bank to collect the original documents from the Sub-Registrar not on record
3.9	Documents pertaining to consortium advances not yet executed/not available with bank
3.10	Documents signed by persons not duly authorised to sign or who have signed in other capacity accepted by the bank
3.11	Signatures of the executants were not found on all the pages of the documents
3.12	Some documents on record were blank, without signatures of Branch Manager, witnesses, or guarantors, etc.
3.13	Revival letters in respect of documents to be reviewed from the borrowers not received
3.14	Guarantors have expired
3.15	Guarantors not on record
3.16	Guarantors not renewed
3.17	Guarantors not assigned
3.18	Worth of the guarantors not available
3.19	Stamping not as per the amended Stamps Act
3.20	Documents have become mutilated, soiled, time barred or not obtained
3.21	Opinion report by the field officer for the borrowers not found on record
3.22	"Nil Encumbrance Certificate/s" or "No Dues Certificate/s" or "No Lien Letters" not obtained for the mortgage/s

SN	Remark
3.23	Advances for vehicle loans, Registration certificate, transfer certificate, etc. not obtained
3.24	Work completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans
3.25	Documents are not duly attested/signed by concerned officials/not renewed
3.26	The agreements for hypothecation do not contain details regarding goods hypothecated
3.27	Copy of Bills/receipts, on the basis of which the amount was disbursed not found on record. For example, Vehicle Loans, Plant & Machinery
	Charge on main &/or collateral securities not created in terms of sanction letter
	Original security papers/sale deed/lease deed/title deed/agreement of sale not available on record
3.30	TDR are not discharged or renewed
3.31	Control returns not sent to the HO
3.32	The branch has not taken any action for not compliance with terms of agreement
3.33	No documents executed for enhancement of limit/document not on record
3.34	ECGC Post shipment policy not obtained
3.35	Credit facility released without execution of all necessary documents
3.36	Common Seal not affixed on Letter of Comfort
3.37	Confirm orders for export credit not found on record for facilities released
4	Review/Monitoring/Supervision
4.1	The account is frequently overdrawn

SN	Remark
4.2	The account is continuously overdrawn
4.3	The account is overdrawn and the branches have not taken sufficient steps to regularise the accounts promptly
4.4	The balance outstanding have exceeded the drawing power
4.5	Balance confirmation and acknowledgment of debt not obtained
4.6	The stock, book-debts statements not received regularly/promptly
4.7	The FFI/financial statements/audited statements/FFR 1 & 2/other operational data, etc, not received regularly/promptly
4.8	The stock, book-debts statements, etc, not scrutinised and no suitable action is taken
4.9	The FFI/financial statements/audited statements/FFR 1 & 2/other operational data, etc, not received regularly/promptly/not scrutinised and no suitable action is taken
4.10	Non-moving stock is not deducted to arrive at the drawing power
4.11	The age-wise break-up of debtors is not found on record. The borrowers are allowed to draw money on entire outstanding debt, which must rather be for the recent debts as prescribed for particular industries and as per margin prescribed in the sanction letter
4.12	Wide discrepancies observed in the stock statements and stock figures in the annual audited financial statements
4.13	No penal interest has been charged for delay in submission of various statements as per the terms of agreement depending upon the type of loan/credit availed by the borrower
4.14	Many branches have not adhered to prescribed frequency of physical verification of securities given against loans & advances
4.15	Drawing power limits are not revised as per market value of shares for advances against security of shares

SN	Remark
4.16	End-use of funds not ensured/not known funds utilised for purpose other than for which granted
4.17	The projections submitted by the borrower stay far beyond the actual performance. Further, no explanation for the same is taken from the borrower
4.18	Major sale proceeds of the borrower not routed through the Bank
4.19	Audited statements of non-corporate borrowers having limit beyond Rs10 lakh not received
4.20	Renewal proposals of advances not received on time and in many cases the limits are not renewed
4.21	Application of wrong rate of interest, processing charges, commission, other charges, etc resulting in income leakage/excess booking of interest of the Bank
4.22	Insurance cover for stock/property is inadequate/not on record/not renewed/not endorsed in favour of the Bank
4.23	Inspection/physical verification of security charged, not been carried out
4.24	Expired bills/foreign currency sight bills which are outstanding, have not been crystallized
4.25	EBW statements on write-off of overdue export bills of ECM not found on record
4.26	Confirmation as to genuineness of export transactions not obtained from Bank's foreign offices/correspondents/customs department
4.27	Import credit, bill of entry evidencing import of goods not found
4.28	Documents are not obtained for bills discounted under Letter of Credit
4.29	Advances eligible for whole turnover packing credit guarantee cover of ECGC, are not brought under its cover
4.30	Though government guaranteed accounts are irregular since long, the issue

SN	Remark
	of invocation of guarantee does not seem to have been considered
4.31	Prescribed margins not maintained as per sanctions
4.32	Allocated limits, full terms of sanctions, stock statements, inspection reports, margin, etc. not available at monitoring branches
4.33	For allocated limits, inordinate delays were noticed in responding to transfer by the allocator branch
4.34	Regular meetings not held with other consortium members to review the performance of borrowers and to assess the current state of affairs/not been held as per norms
4.35	Individual members of consortium are not advised about quarterly operating limits/D. P. allocated to each of them
4.36	Minutes of the consortium meetings not found on record/not been held as per norms
4.37	Inspection report from the consortium members not obtained
4.38	The capital of the borrower has eroded/networth is negative/decreasing. Close monitoring needs to be done
4.39	Drawing power is calculated wrongly and/or hence borrower allowed to enjoy excess credit than actually eligible
4.40	Signboard of the bank is not displayed in godown, where the pledged/hypothecated stock is stored
4.41	Limit not fully utilised by borrower/No commitment charge is levied for limit not fully utilised by the borrower
4.42	Loan against TDR/STDR, which is matured, is neither renewed nor credited to loan account
4.43	The Stock and Debtors Audit Report not found on record. No audit has been done for accounts of the borrower
4.44	The valuation report in respect of tangible security from government

SN	Remark
	approved valuer have not been obtained
4.45	Guarantees, Opinion Reports Financial statements, IT assessment orders and etc. of guarantor not found on record
4.46	Opinion report on guarantor is not obtained
4.47	For Small Government Sponsored loan accounts, security cover could not be ascertained since neither any record was available at branch nor physical verification conducted by the branch
4.48	Pre-sanctions and/or post-sanctions inspection reports were not on record
4.49	The account was overdue for repayment and/or no credit was received from the borrower for a long time
4.50	The borrower is absconding or deceased and legal formalities are incomplete and there is willful default from the borrower. Either establishment was closed or security was disposed of or no action taken by the branch
4.51	Subsidy claim process was incomplete or subsidy was yet to be received or needs follow-up
4.52	Security disposed of/Entity closed by borrower and no action taken by the branch
4.53	Irregularity not advised to controllers
4.54	Letter of subordination of deposits not taken
4.55	Secured and unsecured portion not segregated properly in advance return of the branch
4.56	Renewal of limits was done before the receipt of financial statements
4.57	Heavy cash withdrawal for which consent of corporate guarantor is not taken
4.58	Proper valuation of stock not done/needs critical scrutiny
4.59	Security obtained is inadequate/lower as compared to amount of outstanding/no collateral security

SN	Remark
4.60	The party was dealing with other bank also though it was not permitted
4.61	Sticky accounts require close follow-up by the management
5	Bad and doubtful advances
5.1	The IRAC norms for classification of advances were not followed and the same is implemented through Memorandum of Changes by auditors during audit
5.2	Installments were not received from the borrowers
5.3	Interest was not received from the borrowers
5.4	Legal action for recovery of advances was not taken although authorised by the Board/Controlling Authority
5.5	Discontinuance of application of interest not followed although authorised by the Board/Controlling Authority
5.6	Government guarantees have expired and fresh guarantees not obtained/not renewed
5.7	Terms of the BIFR scheme not complied
5.8	Payment from government not received although guarantees were unconditional, irrevocable, payable on demand
5.90	Delays in the settlement/repayment in respect of sanctioned proposals
5.10	The repayment accepted in case of compromise cases inadequate <i>vis-à-vis</i> value of security
5.11	Compromise proposals pending at various levels where guarantors are local government/outside agencies
5.12	Copy of Search Report not on record
5.13	Decree awarded but no further steps taken for recovery

SN	Remark
5.14	DI & CGC claims submitted/rejected/pending data not available
5.15	Irregular/ sticky advance not reported to the controlling authority promptly
5.16	Compromise/ OTS proposal is recommended and is under negotiation since long but not finalised. Suit is filed in the court/ DRT and pending to be finalized
5.17	ECGC claim not submitted/lodged for recovery