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Bank Branch Audit

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NOTE:

1. Master Circulars issued by Reserve Bank of India on 1st July 2014 and other relevant circulars issued are considered for this compilation. New Master Circular would be issued on 1st July 2015. The user may refer the new Master Circular to understand the changes if any as compared to the Master Circular of 1st July 2014 which is considered for this compilation.
2. Long Form Audit Report format by Reserve Bank of India is likely to be revised. Therefore the current criteria of large advance may under go change. Accordingly large advances for verification may be selected as per the revised criteria. Also the details sought from the Branch incumbent before commencement of audit be accordingly changed.

Sr. no	Item	Important Audit Checks
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1.	Planning	• Preliminary Work: • Acceptance letter • NOC from previous auditors • issue of audit engagement letter as per SA-210 • Familiarity with RBI circulars and Institute guidance note, Accounting policies of the Bank • letter to the Branch manager for requirements for the purpose of the audit • review of various circulars issued by HO especially the closing circular • Study previous year's audit report, concurrent audit reports, RBI inspection etc • Risk assessment & Evaluation of Internal controls • Preparation of audit program and its execution. • Lay down an overall time schedule. • Ensure that the Audit staff is satisfactorily trained and there is sufficient skill and competence for specialised areas. • Keep flexibility in the Audit plan for giving extra focus to weak areas, identified during the course of audit. • The Audit program should cover all the areas under liabilities, assets, income, expenditure and off Balance sheet items. However there should be special emphasis on verification of advances, income recognition and provisions to be made. • Co ordination with the Branch Management
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2.	Auditing Standards	With all the Auditing Standards mandatory and Peer Review in place, its imperative that all the Auditing Standards of ICAI are complied with. Though all the auditing standards are mandatory, in the context of bank audits ,following auditing standards are more relevant and branch auditor need to give more emphasis to the same: • SA 210 – Terms of Audit Engagement • SA 310 – Knowledge of Business • SA 400 – Risk Assessment and Internal Control • SA 320 – Materiality • SA 530 – Audit sampling • SA 300 – Audit Planning • SA 220 – Quality Control for Audit Work • SA 500 – Audit Evidence • SA 230 – Audit Documentation • SA 580 – Representation by Management
3.	Areas to be covered	The broad areas which the branch auditors should verify are: • Physical verification of cash, security papers, valuable securities etc. • Deposits. • Advances. • Sundry Assets / Suspense Accounts. • Sundry Liabilities. • Inter Branch Reconciliation. • Fixed Assets. • Contingent Liabilities. • Income Heads. • Expenditure Heads. Brief guidelines for verification of the above areas are given in the following paragraphs.

4.	Deposit i. Term ii. Saving iii. Current iv. FCNR / NRE / NRNR	Reliance be placed on work of Concurrent Auditors/Internal Auditors with regard to following: • Compliance of KYC norms • Accounts closed • Dormant Accounts • RBI Norms for Non-resident deposits & its operations – with due importance to opening and operation of accounts like NRE, NRNR, FCNR, RFC, etc Verify following : • Interest on various types of deposits including savings account on test check basis ; Tax Deducted at Source and year end interest • Provisions. • Large deposits placed at the end of the year (<i>probable window dressing</i>) • Examine interest trends as compared to average annual deposits (monthly average figures) • As per the Depositor Education and Awareness Fund Scheme, 2014, notified on 24th May 2014, Amount to the credit of a Bank by way of Savings, Fixed, Recurring, Current, Other Deposits remaining un-claimed for more than 10 years shall be credited to the fund within 3 months from the expiry of period of 10 years. • On the date of transfer the amount to be fund the bank should get details verified by the Concurrent Auditors. • Depositor shall be entitle to claim the deposit or operate account after expiry of 10 years. • Auditor would be required to verify that the above procedure has been followed by the Branch
5.	Advances	Extent of Checking : Verify: • All the large advances as per the laid down criteria by RBI in LFAR (LFAR is likely to be revised effective from 31-3-16 , the current criteria of lower of 5% or Rs 2 Cr for verification of large advance may undergo change) • Advances which are sanctioned during the year and other advances on test check basis depending on the balance outstanding. • Advances which are adversely commented by previous auditors, RBI inspection team, concurrent auditors, bank's internal inspection Type of Advances:

a) Funded: Cash Credit/Overdraft, Term Loans, Bills Purchased/discounted, Packing credit etc.

b) Non Funded: Bank guarantees, Letter of Credits, Letter of comforts etc.

Some of the important areas to be examined/reviewed in respect of advances are:

- **Evaluation of Internal Control :**

- Existence of clearly laid down delegation of authority
- Existence of clearly laid down eligibility criteria for loan
- Existence of post disbursement monitoring.

- **Presanction stage:**

- KYC compliance, prescribed application form
- Review of credit appraisal system before sanction of loan, system of renewal/review of loan.

- **Post sanction stage:**

- Whether terms of sanction have been complied with in case of new advances
- Whether documents in respect of all the facilities are obtained as per the bank manual and charge has been created in respect of securities available to the bank
- Approval of documents executed by legal department .panel of advocates.
- Whether end use of funds in case of new loans is verified.

- **Review and Monitoring of advances:**

- Whether the borrower is regular in submission of the stock & book debt statements and same are scrutinized by an officer and Drawing Power correctly calculated.
- Whether insurance policies are on record and assets which are charged as security are adequately insured.
- Whether regular inspection/stock verification of the borrowers is done by the Bank/ by a firm of CA as per laid down procedure of the Bank.
- Whether frequently overdrawn accounts are properly monitored and reported to the Controlling Office.
- Whether the borrower regularly submits its quarterly reviewed results (in case of listed companies) and annual audited financial statements. Whether they are scrutinized by the Officer to verify

		that actual results match with the projections. If not, whether clarification is sought. • Review the operations in the accounts on test check basis • If borrower is a Company, in respect of security offered , whether charge is registered with Registrar of Company • Whether interest and penal interest in case of delayed submission of stock statements, overdrawn accounts etc. is charged. Verification of statement of advances: • Check that classification of advances, income recognition and provisioning is done as per RBI guidelines • Scrutinize the final advances statement with regard to asset classification, ,security value, classification in secured and unsecured, drawing power, outstanding balance
6.	Profit & Loss Account	Income/ Expenditure: Verify • Short debit of interest/ commission on advances with special emphasis on penal interest, commitment charges, processing fees etc. • Whether interest is charged as per bank guidelines for internal/external rating of the borrower • Excess/short credit of interest on deposits • Miscellaneous income like locker rent, income on forex business etc on test check basis. • Proper authority in sanction and disbursement of expenses as also the correctness of the accounting treatment given as to revenue & capital expenditure • Verify depreciation in case it is provided at the Branch level • Check accrual of income/ expenditure especially for the last month of the financial year • Divergent Trends • Divergent trends in income/ expenditure of the current year may be analysed 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

7.	Balance Sheet	Cash & Bank Balances • Physically verify the Cash Balance as on March 31, 2016 or reconcile the cash balance from the date of verification to March 31, 2016 • Confirm and reconcile the Balances with banks as on March 31, 2016 • Verify that the cash is held in dual custody • Verify whether cash held by the Branch during the year is within the retention limit fixed by the Head Office • Verify whether cash held by the Branch is adequately insured. Stationery & Stamps • Physically verify stationery and stamps as on March 31, 2016. • Verify whether the Branch has adequate internal control for receipt, issue and custody of the stock of stationery & stamps
		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 • Check receipt of interest and its subsequent credit to be given to Head Office
		Fixed Assets • Check that accounting of fixed assets is done in accordance with AS-10. Also check accounting of major capital expenditure especially in branches located in leased premises • Check Inter-branch transfer memos relating to Fixed Assets and whether they have been correctly classified in the accounts and depreciation correctly provided thereon

		Suspense Accounts, Sundry Deposits, etc Suspense accounts are adjustment accounts in which certain debit transactions are temporarily posted whose authorisation is pending for approval Sundry Deposit accounts are adjustment accounts in which certain credit transactions are temporarily posted whose authorisation is pending for approval 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 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 • Provision should be recommended against old balances(beyond six months) unless recoverable.
8.	Auditing in CBS/Computerised environment	• Overall scope of audit does not change but audit procedure is affected. Conduct audit as per SA 401- Evaluation of Internal Control in CIS environment • Familiarize with EDP/CBS system, gain the understanding of the flow of transactions and specific control procedures by reviewing sample reports. • Review system audit report to understand the system, weakness in the system and suggestions made to improve the system • Verify various controls like a) control in respect of access to system, password protection, b) input control in respect of rate of interest, value of security, drawing power etc. • Verify how start of Day (SOD) and End of Day (EOD) procedure is handled. • Verification of system of uploading of transactions during down time. • Verify controls during transfer of data from CBS to software used for preparation of financial statements. • Verify controls in respect of access to data base, restriction on change in master data and back up controls • Verify Exceptional Reports.

9.	Auditors Report & Memorandum of Changes	• Audit Report should be on the letter head of the firm and not on the printed stationery given by the bank and it should be correctly dated. • 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 made to the reader • 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 annexe it to the Auditors Report • Certain items like provisions for employees benefit, provision on NPA etc. is done at Head Office and many Accounting Standards are complied with at Head Office. Auditors Report should contain qualification in respect of the same. • The latest Audit Report format in case of Bank Branches as per revised SA 700 is given as Annexure
10.	Long Form Audit Report (LFAR)	• Study the LFAR Questionnaire (effective from 31-3-15)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 & submit the Auditors Report as well as the LFAR simultaneously • Comments in LFAR should be specific and not vague. • 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.

11. Certificates		There are number of certificates required to be issued by the Branch Auditors. Some of these certificates are relating to disclosures for the Bank as a whole. These are: i) Certification of figures for capital adequacy as per Basel-III norms. ii) Asset Liability management (ALM) iii) Details of restructured account/interest sacrifice etc. Branch auditor need to take due care while certifying the figures of these certificates. In respect of data for compliance of Basel II norms and ALM, the branch auditor need to apply appropriate audit checks to ensure that data generated by the system are reliable. Also refer the relevant Master Circular. Certification of Ghosh and Jilani Committee recommendations is another important certification for which auditor should give suitable disclaimers wherever required.
12. General		• Materiality should be observed while reporting. • Send a Letter of your Requirements to the Branch before commencing the audit [Draft Letter enclosed herewith] • Obtain the latest status of cases involving fraud, vigilance and matters under investigation having effect on the accounts and report it appropriately. • Obtain a Management Representation Letter (MRL) [Draft MRL enclosed herewith]

Income Recognition & Asset Classification Norms – At A Glance

Credit Facility	Basis for treating a Credit Facility as NPA	Remarks
Term Loans	• Interest or instalment remains overdue for a period of more than 90 days from end of the quarter <u>Agricultural Advances</u> : In respect of advances granted for agricultural purposes where interest and/ or instalment of principal remains overdue for a period of more than two crop seasons for short duration crops and one crop season for long duration crops, the advance should be treated as NPA	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

Credit Facility	Basis for treating a Credit Facility as NPA	Remarks
Cash Credits & Overdrafts	The account remains continuously “out of order” for a period of more than 90 days 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 as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period	Banks may not classify an account merely due to existence of some deficiencies, — which are of temporary nature such as non-availability of adequate drawing power, balance outstanding exceeding the limit, non-submission of stock statements and non-renewal of the limits on the due date, etc However, outstanding in an account based on stock statements older than three months would be deemed irregular. Such 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. 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	The 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
Derivative Transactions	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date.	
Liquidity Facility	Remains outstanding for more than 90 days in respect of Securitisation transaction.	
Government guaranteed advances	State Government guaranteed advance would attract asset classification and provisioning norms, if interest and/ or principal or any other amount due to the bank remains overdue for more than 90 days	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 installment 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:

- For Copy of Master Circular on Prudential Norms on Income recognition, Asset Classification and Provisioning pertaining to the Advances Portfolio issued by Reserve Bank of India vide circular No DBOD.No.BP.BC.1/21.04.048/2014-15 dated July 1, 2014 refer to www.notifics.rbi.org.in

2. For prudential norms in respect of Projects under implementation , refer para 4.2.15 of Part A of Master Circular.
3. 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
4. Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and Life policies need not be treated as NPA. However income on such advances can be recognized subject to availability of margin. Advances against gold ornaments, government securities and all other securities are not covered by this exemption
5. 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 during the year, unrealised income should not be recognised for the year. Also, unrealized interest of the previous periods should be reversed or provided.
6. In respect of NPAs with the balance of ₹5.00 crores and above, bank needs to formulate policy for annual stock audit by external agencies & in respect of immovable properties, valuation to be carried out once in three years by approved valuer.
7. If the accounts of the borrowers have been regularised before the balance sheet date by repayment of overdue amounts, the same should be verified carefully 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 to the Statutory Auditors about the manner of regularisation of the account to eliminate doubts on their performing status.
8. Advance under rehabilitation programme approved by BIFR / Institutions, Provision should be continued to be made on existing facilities.
9. No provision is required to be made on additional facilities for a period of one year.
10. In case of advances guarant Draft Engagement Letter to be sent to the Appointing Authority of the Bank eed by CGTSI/ECGC, Provision should be made only for balance in excess of the amount guaranteed by these corporations.
11. In absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries of NPAs, banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner. Thus in case of recoveries in NPAs, auditor should verify that appropriation between interest and/or principal is done as per its consistent accounting policy of the Bank.
12. The Master Circular issued by RBI on 1st July 2014 has separate Part B only on restructuring. Classification of various categories of restructured advances should be done as per Para 10 to 18 of this chapter. Some of the important aspects relating to restructuring are highlighted below.

RESTRCTURING OF ADAVCNES - IMPORTANT ASPECTS (PART B OF MASTER CIRCULAR)

- Eligibility

- Any account classified as standard, sub standard or doubtful.
- Restructuring cannot be done retrospectively and usual asset classification norms would continue to apply.
- Restructuring should be subject to customer agreeing to terms and conditions.
- Financial viability should be established. (Refer Appendix on page 57 of Master Circular for viability parameters)
- Borrowers indulging in frauds and malfeasance are ineligible.
- BIFR cases eligible for restructuring subject to approval from BIFR.
- **Asset Classification Norms**
 - Restructuring of accounts could take place in following stages:
 - Before commencement of commercial production
 - After commencement of commercial production / operation but before the asset has been classified as 'Sub Standard'.
 - After the commencement of commercial production / operation but after the asset has been classified as 'Sub Standard' or doubtful.
 - Standard Asset would get reclassified as sub standard and account which is already NPA would continue to have the same classification.
 - Additional finance would be treated as standard up to a specified period.
 - All restructured accounts, classified as NPA upon restructuring would be eligible for up gradation after observation of satisfactory performance during specified period.
- **Provisioning Norms**
 - Total provision required would be normal provision plus provision in lieu of diminution in fair value of advances.
 - Diminution in fair value would be required to be recomputed on each balance sheet date.
 - Banks have option of notionally computing the diminution in fair value and providing at 5% in case of all restructured accounts where the total dues to bank is less than one crore.
- **Special Regulatory Treatment for asset classification.**
- **Not available to following categories of advances:**
 - Consumer and personnel advances
 - Advances classified as capital market exposure
 - Advances classified as commercial real estate exposure.
- **Incentive for quick implementation of package**

The asset classification status may be restored if the approved package is implemented :

- Within 120 days from the date of approval under CDR
- Within 120 days from the date of receipt of application by Bank in other cases.
- **Asset classification benefits**
 - A. Standard advance will not be reclassified as sub standard upon restructuring if following conditions are satisfied.
 - i. Dues of the bank are fully secured by tangible security (except SSI borrower with outstanding upto Rs.25 lacs & infrastructure projects)
 - ii. Unit becomes viable in 8 years, if it is engaged in infrastructure activities and in 5 years in case of other units.
 - iii. Repayment period including moratorium does not exceed 15 and 10 years for infrastructure and other projects respectively (10 years ceiling won't apply to restructured housing loan accounts)
 - iv. Promoters sacrifice and additional funds brought by them should be a minimum of 20% of bank's sacrifice or 2% of debts restructured whichever is higher
 - v. Personal guarantee is offered by promoters.
 - vi. The restructuring is not 'repeated restructuring'
 - B. During the specified period the asset classification of sub standard / doubtful accounts will not deteriorate, if satisfactory performance is demonstrated during the specified period.

EARLY RECOGNITION OF FINANCIAL DISTRESS, PROMPT STEPS FOR RESOLUTION AND FAIR RECOVERY FOR LENDERS. FRAME WORK FOR REVITALISING DISTRESSED ASSETS IN THE ECONOMY (PART C OF MASTER CIRCULAR)

Reserve bank of India has introduced detailed guidelines for early recognition of stressed assets and accelerated provision in respect of such stressed assets. Part C of the Circular prescribes detailed guidelines in respect of the same. Salient features of the guidelines are as under.

- i. Banks are required to identify incipient stress in the account by creating three sub category under the Special Mention account

SMA Sub categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

- ii. Banks are required to report SMA accounts as per prescribed limit of exposure to Central Repository of Information on Large Credits (CRILC) of RBI.

- iii. As soon as an account is reported as SMA2, Banks have to form a committee called Joint Lender's Forum (JLF). The JLF in turn would decide corrective Action Plan (CAP) which would be either rectification or restructuring or recovery.
- iv. While a restructuring proposal is under consideration by the JLF/CDR, the usual asset classification norm would continue to apply.
- v. As a measure to impose disincentives on borrowers not maintaining credit discipline, accelerated provisioning norms are prescribed (Refer para 26 of the Master Circular).
- vi. As per para 27 of the Master Circular, banks would be required to identify directors whose name appear more than once in the list of willful defaulters as also non cooperative borrowers. The provisioning for such cases will be at the rate of 5% if it is a standard account and accelerated provision as per para 27 if it is NPA.

ASSET CLASSIFICATION & PROVISIONING – AT A GLANCE

(AS PER MASTER CIRCULAR DATED JULY 1 2014)

Category	Conditions to be satisfied	Provision Amount	Remarks
Standard Assets	Does not disclose any problem and which does not carry any more than normal risks attached to business	General Provision on standard assets is as under: Direct advances to Agricultural and SME sector 0.25% - Commercial Real Estate (CRE) Sector- 1% - CRE/Residential Housing (CRERH) Sector .75 % - Others .40% - Housing Loan at teaser rates 2% and later at .4% - Restructured Infrastructure loans as per para 4.2.15.3(iv) of part A of Master Circular - Restructured non infrastructure loans as per para 4.2.15.4(iii) of Part A of Master Circular	Such an asset is not a NPA

Category	Conditions to be satisfied	Provision Amount	Remarks
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 required conditions at least for one year	- A general provision of 15% of total outstanding. - An unsecured exposure i.e. an exposure where the realizable value of security is not more than 10% ab-initio of the outstanding exposure, an additional provision of 10% i.e. total of 25% of the outstanding balance. (Refer para 5.4 of the master circular)	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 and existence of other factors such as frauds committed by borrowers, it will not be prudent for banks to first 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 straightaway classified as doubtful asset (when realizable value of security is less than 50% of the total value of security) or loss asset (when realizable value of security is less than 10% of the value of security), as appropriate, irrespective of the period for which it has remained as NPA
Doubtful Assets	Remained NPA for a period exceeding 12 months	100% to the extent to which the advances are not covered by the realisable value of the security to which the bank has a valid recourse - Over and above the aforesaid, depending upon the period for which the asset has remained doubtful, provision on the secured portion to be made on the following basis: - Upto 1 year 25% 1 to 3 years 40% - Over 3 years 100%	It has all the weaknesses inherent in that of a sub- standard asset with the added characteristic that the weaknesses make the collection/ liquidation in full, highly questionable and improbable, on the basis of current known facts, conditions and values

Category	Conditions to be satisfied	Provision Amount	Remarks
Loss Assets	Loss asset is one where loss has been identified by bank, external or internal auditors or RBI inspectors, but 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 the asset should be straightaway classified as loss asset

Bank Branch Audit Program for the year ended March 31, 2016

Name of the Bank and Branch:

Region/ Zone in which the Branch is located:

Details of the Authorised Persons of the bank-Branch Head

Others (Specify):

Sanction Limit of Authorised Person

Advances as on 31st March,2016

NPA as on 31st March,2016

Deposits as on 31st March,2016

Audit Aspects	Covered By Whom	Extent of Check
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General		
1. Engagement letter to the appointing authority and letter of requirement to the Branch.		
2. Letter for NOC to previous auditors		
3. Meeting and discussion with the bank branch management and understanding the profile of the bank and its business.		
4. Review of: • previous year's audit report/ LFAR, • current period's Internal Audit/concurrent Audit Report • Revenue Audit Report/ • IT/Systems Audit Report / • RBI Inspection Report • Reply of the branch to any of the above and • any other special review report and their compliance.		
5. Physical verification of: • cash, • stationery, • unused DD etc • and valuable securities.		
6. Understand the system in CBS Branch a) verify controls b) start of day and end of day report c) verify exceptional report d) understand the editable & uneditable fields, e) creation & entries in Masters, f) Various short-cut keys for checking the accounts g) system of downgrading & upgrading of accounts, h) interest calculations etc.		

7. Compliance of instructions issued by bank's year end closing circular, other relevant internal instructions/circulars, Master circulars and other notifications issued by RBI, significant accounting policies of the bank, Mandatory Accounting Standards/Auditing Standards and other notifications.		
8. Prepare a list of various closing returns to be verified and certified, and then checking of the same.		
Checking of Balance Sheet Items		
1. Checking of the advances:		
I. General		
i) Critical review of all large advances and their reporting as per prescribed norms .		
ii) Classification of advances as per IRAC norms.		
iii) Latest valuation of security given against advances.		
iv) Provisions on NPA as per IRAC norms.		
II. Loan Accounts (Performing)		
i) Review of all large advances with balance as per the LFAR requirement .		
ii) Review of loans sanctioned during the year..(specifically those that have been sanctioned by the BM and are within his power as per delegation of authority)		
iii) Review of other advances on test check basis.		

iv) Review of adverse comments by Concurrent auditors, RBI/internal inspectors and the reply given and corrective actions taken by the branch.		
v) Review of suit filed and decree accounts with respect to provision thereon and progress of recovery thereof and Classification as per IRAC norms		
vi) Review of accounts upgraded during the year from NPA to standard and ensure full recovery of total overdues.		
vii) Review of all accounts frequently exceeding limits/DP and watch-list accounts		
viii) Also verify all the credit card dues which are overdue & debit balances in SB A/c		
III. Loan Accounts (Non Performing)		
(i) Review the accounts which are classified as NPA during the year w.r.t Security Value, Interest Reversed, Date of NPA, provisioning thereon etc.		
(ii) Review the annual stock audit report for the NPA with balance of Rs.5 cr. and above & latest valuation report for the immovable properties in case the valuation is older than 3 years.		
NOTE: (i) Following aspects of the advances to be verified:		
Pre sanction: System of credit Appraisal and review/renewal.		
Post sanction: Compliance of terms of sanction, documentation, end use of funds.		
Monitoring: Stock and Book statements, drawing power, insurance, inspection of stock/security, operations in the account, etc.		
(ii) All the accounts verified in category (i) to (vi) should be documented.		

2. Verify controls in respect of the following important items of assets. (i) Dual custody of cash (ii) Custody and issue of /pay orders/other stationery items etc (iii) ATM cash as per books and actual balance tallied at year end.		
3. Fixed Assets		
(i) Checking of additions/deduction/transfers of fixed assets, supported by proper bills/invoices and confirmation of date put to use. Compliance of Accounting Standard (AS)-6, AS10,,AS 26 and AS28 related to fixed assets		
(ii) Checking of Depreciation on additions, deduction during the year and on existing assets as per the policy of the bank.		
(iii)Verification of Fixed Assets Schedule for furniture & fixtures and other assets and reconciliation with figures appearing in the Balance sheet and FA management software used by the bank (if any) .		
4. Deposits		
i) that overdue deposits, matured time deposits, cash certificates and certificates of deposits are shown in Demand deposits.		
ii) Check TDS compliance on the interest paid and on test check basis checking of Form 15G & 15H.		
iii) Movement of Deposit vis-à-vis movement in interest expense.		
iv)Verify the compliance of Deposit “Depositor Education and Awareness Fund Scheme, 2014”.		
5. Inter-Office & Suspense A/c :		

i) Reconciliation of accounts with other banks, head office and inter branch adjustment accounts.		
ii) Old un reconciled entries are being provided/ reported to HO for provision		
iii) Detailed checking of suspense accounts – credit as well as debit schedules. i.e., Nominal ledger.		
iv) Debit entries outstanding for more than six months in suspense account should be provided for		
6. Balance Sheet finalization		
Scrutiny of Balance sheet, particularly –		
i) that all the balances are shown in proper heads and broadly compare previous year figure to understand material variance		
ii) check in case of advances:		
a) that interest accrued but not due on loans is not included in advances.		
b) that credit balances in O/D, C/C in-operative current accounts should not be netted off with advances and the same should be shown under demand deposits.		
iii) Check in case of deposits		
a) that overdue deposits, matured time deposits, cash certificates and certificates of deposits are shown in Demand deposits.		
b) Interest accrued but not due should not be included in deposits but, should be shown under other liability.		
iv) Others:		

a) Liability under Bank Guarantee/ L/C and effects of expired BGs.. b) Reconciliation of General Ledger and Subsidiary Ledger		
7. Checking of Profit and Loss Items		
i) Test checking of interest on deposits. Ensure that interest provision on overdue F.D. has been made as per latest RBI guidelines.		
ii) Test checking of interest/commission on various advances, bills, L.C., Guarantees, etc.		
iii) Test checking of discount/commission on bills discounted and other income like commitment charges, processing fees, recovery of insurance/ legal fees etc.		
iv) Derive various ratios of items of income with comparable and related assets (like Avg. Interest Income to Average Advances etc.) and verify major movements or variances.		
v) Critical scrutiny of the Expenses/Income accounts and checking of important vouchers, including proper accounting for outstanding and prepaid expenses.		
vi) Provision for expenses, accrued interest on deposits and advances. (Particularly check whether or not interest has been provided/charged on all types of deposits/ advances),		
vii) Checking of interest in NOSTRO Accounts debit balances.		
viii) Verification of recovery on account of locker rent, staff accommodation, etc., with details of arrears, if any.		
ix) Commission income on account of Government Business, i.e., collection as well as remittance of Income tax, sales tax, excise duty, etc.,		

x) Details of Prior Period items of Income as well as expenses and complete details of provisions to be made, if any.		
xi) Rebate on Bills discounted.		
xii) Booking of Interest Income on account of partial recovery in NPA's		
xiii) Verification of accounting of service tax collected and paid, Cenvat and reverse charge		
xiv) Ratio analysis with previous years figures.		
8. Others		
i) Checking of statement of frauds, adequacy of provision, timely reporting to competent authority, recovery and movement in balances.		
ii) Checking of statement of claims against the bank not acknowledged as debt.		
iii) Checking of Foreign Currency forward exchange contracts showing sales and purchase separately. Review of NRE and FCNR accounts, if any.		
iv) Checking of Guarantees given on behalf of Constituents.		
v) Checking of Acceptance, endorsements and other obligations, i.e., L/C and bills accepted by the bank on behalf of customers.		
(Particularly check in case of Clause iv and v above, whether the above guarantees and L/C issued are within the powers of the authorised person and proper procedures have been followed for issuing the same. Review the position of the above as at the year-end .Also verify reversal of expired guarantee)		
vi) Other contingent liability, if any.		

vii) Checking of and preparation of Interest Subsidy certificate (as per various RBI & Government schemes), correct accounting & whether the same are given to the eligible borrowers .		
viii) Checking of LFAR schedules and preparation of LFAR. (Detailed planning for preparation of LFAR be done at the time of commencement of audit and detailed guidance be sought from the chapter on LFAR in this guidance note).		
ix) Checking of Tax Audit annexures and preparation of Tax Audit Report.		
9. Final Audit and Reporting		
i) Preparation of Audit Report as per format prescribed under SA-700, ICAI and under any other regulatory authority ..		
ii) Preparation of memorandum of changes for changes to be made in classification of advances and in any item of asset/liability and profit and loss account with other remarks and/ or information which requires further attention at Regional/Zonal Office level.		
iii) Preparation of Tax Audit Report.		
iv) . Preparation of Long Form Audit Report (by giving annexures where ever necessary).		
10. To Collect the following:		
i) . Physical verification of the fixed assets carried out on March 31, 2016/During the year		
ii) Physical verification of the cash & other items as on March 31, 2016.		
iii) Physical verification of cash periodically by officers of the bank.		
iv) Certificate from the branch for the persons attended the audit.		

v) Management Representation Letter.		
11. To verify and issue the certificates (as applicable) :Illustrative list		
i) Certificate of Ghosh and Jilani committee Recommendations.		
ii) Cash on 12 odd dates.		
iii) Risk weighted assets as per the capital adequacy report (BASEL II & III)		
iv) Subsidy claim under Prime Minister Rojgar Yojna. Or any other scheme of the Central/State Government		
v) Certificate for Interest Subvention		

Prepared by:

Reviewed by:

Note :The audit program is illustrative and you are advised to modify the same suitably to suit your requirement.

An Illustrative Format of Report of the Branch Auditor of a Nationalised Bank

Independent Bank Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank

Report on Financial Statements

1. We have audited the accompanying Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, Profit and Loss Account for the year then ended, and other explanatory information.

Management's Responsibility for the Financial Statements :

2. Management of the Branch is responsible for the preparation of these Financial Statements that give true and fair view of the financial position and financial performance of the Branch in accordance with the Banking Regulation Act, complying with Reserve Bank of India Guidelines from time to time. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility :

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Audit opinion.

Opinion

6. In our opinion, and to the best of our information and according to the explanation given to us, read with the Memorandum of Changes mentioned in paragraph 11 below, the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Branch as at March 31, 20XX; and
 - (b) in the case of Profit and Loss Account, of the Profit / Loss for the year ended on that date;

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;
8. Subject to the limitations of the audit as indicated in Paragraphs 3 to 5 above and paragraph 10 below, we report that:
 - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.
 - b. The transactions of the branch which have come to my/our notice have been within the powers of the Bank.
9. We further report that:
 - a. the Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of account and returns;
 - b. in our opinion, proper books of account as required by law have been kept by the branch so far as appears from our examination of those books;

Other Matters

10. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- (b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 –Employee Benefits' issued by the Institute of Chartered Accountants of India;
- (c) Arrears of salary/wages/allowances, if any, payable to staff;
- (d) Staff welfare contractual obligations;
- (e) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments;
- (f) Interest on overdue term deposits;
- (g) Depreciation on fixed assets;
- (h) Auditors' fees and expenses;
- (i) Taxation (Current Tax and Deferred Tax).

11. The following is a summary of Memorandum of Changes submitted by us to the branch management [1]

Memorandum of Changes (summary)				
		No.	Increase	Decrease
a. In respect of Income				
b. In respect of expenditure				
c. In respect of Assets				
d. In respect of Liabilities				
e. In respect of Gross NPAs				
f. In respect of Provision on NPAs [2]				
g. In respect of Classification of Advances				
h. In respect of Risk Weighted Assets				
i. Other items (if any)				

For ABC and Co.

Chartered Accountants

Signature

(Name of the Member Signing the Audit Report)

Membership Number

Firm registration number

Place of Signature

Date

Engagement Letter to be sent to the Appointing Authority of the Bank

March 20, 2016

The Zonal/ Regional Manager

_____ Bank

_____ Zone/ Region

Dear Sirs:

Re.: Engagement Letter

You have requested that we audit the balance sheets of _____ Branch & _____ Branch of _____ Bank as at March 31, 2016 and the related profit and loss account for the year ended on that date. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements

We will conduct our audit in accordance with the auditing standards generally accepted in India and with the requirements of the Banking Regulation Act and the Reserve Bank of India Act and the guidelines issued under the said statutes from time to time. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation

However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which might come to our notice in the form of a Long Form Audit Report

The responsibility for preparation of financial statements on a going concern basis is that of management. Management is also responsible for selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period

Responsibility of management also includes maintenance of adequate accounting records and internal controls for safeguarding of the assets of the branch and for the preventing and detecting fraud or other irregularities. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We also wish to invite your attention that our audit process is subject to 'Peer Review' under the Chartered Accountants Act, 1949. The reviewer may examine our working papers during the course of the peer review

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records; documentation and other information are requested in connection with our audit

Our fees will be billed upon completion of our audit assignment

Kindly acknowledge receipt

For ABC & Co

Chartered Accountants

Draft Letter of Requirements to be sent to the Branch

March 20 2016

The Branch Head,

XYZ Bank,

Dear Sir,

Sub: **Audit of your Branch for the year 2015-16**

You have already been informed by your Head Office that we have been appointed as the auditors to report on the accounts of your Branch for the year 2015-16.

In order to enable us to finalise the audit programme and furnish our report on the audit of the accounts of your Branch for the year ended 31st March 2016, we request you to keep the following information/details ready:

- a. the Balance Sheet as at 31.03.2016
- b. the Profit and Loss Account for the year ending on 31.03.2016;
- c. the statements relating to the particulars of Advances; and
- d. Other supporting returns/statements (including LFAR requirements)
- e. Other certificates required to be certified by us

Please ensure that all the returns, statements and schedules are complete in all respects and are authenticated by the authorised signatories.

Please provide us the information/ clarifications as stated in Annexure to this letter. We would appreciate a written response (para-wise), to our audit requirements. Please ensure that all returns/statements/information given by the Branch is duly stamped and signed by the designated authority indicating the date on which it is prepared.

We shall be grateful if you could confirm the name(s) of the Officer(s) nominated by the Bank to comply with our requirements in connection with the audit, so that our reports are expedited.

We look forward to your co-operation in the matter.

Thanking you,

Yours faithfully,

For ABC & Co.

Chartered Accountants

INFORMATION / REQUIREMENTS IN CONNECTION WITH THE AUDIT OF ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2016

1. Latest Reports:

For our scrutiny, the following **latest reports** on the accounts of your Branch, and compliance by the Branch on the observations contained therein:

- a. Branch Statutory Audit Report and LFAR for year ended 31st March 2015;
- b. Internal Inspection Report;
- c. Internal/Concurrent Audit Report(s) & Income and expenditure audit report
- d. RBI Inspection Report, if such inspection took place;
- e. Any other report/s relevant for audit of your branch for the year ended 31st March 2015.
- f. Computer/EDP Systems Audit if any

2 . Accounts in CBS environment :

- a. Please furnish your reply to the questionnaire as per Annexure 1
- b. **Please keep ready for our examination, the daily exception reports on the “system” as well as “transactions”, to enable us to examine the manner of disposal of the reports generated; as also the report for the day-end procedures as at the year-end.**

3. Deposits

a. Overdue/matured Term Deposits:

- i. Please let us have interest structure , applicable for the current year ,for all the type of deposits accepted by the Branch
- ii. Please confirm the basis of computation of the amount of interest on overdue deposits up to 31.03.2016, .

b. Inoperative Deposit Accounts:

- i. Please confirm the procedure followed at the Branch with regard to identification of Inoperative Accounts and safeguards as to operations therein; and whether the identified accounts are maintained in separate distinct ledgers.
- ii. **Please confirm the compliance of Depositor Education and Awareness Fund Scheme 2014 and how the compliance has been done ?**

4. Advances:

- a. New advances sanctioned during the year with name, amount sanctioned and balance outstanding as at 31-3-2016. Are there any sanctions during the year to associate concerns, directors of the existing borrowers? If yes, details thereof.
- b. Are there any advances which are adversely commented by RBI in their annual Risk Based Supervision of the Bank for the year ended 31st March 2016 or there after. If yes, please furnish details of such accounts.
- c. We may be informed of the year-end status of the accounts each with out standings above 5% of the total Advances Portfolio of the Branch or ₹200 lakhs whichever is lower, particularly those which have been adversely commented upon in the latest reports on the Branch and in respect of which provisions are required, or have been made/recommended as at the previous year-end.

The year-end Status Report on each large borrower may be given as per the format of annexure (in respect of large borrower) to LFAR.

The aforesaid information, which must also cover accounts adversely commented upon by Bank's internal/ concurrent auditors/ RBI inspection/ special audit/ previous statutory auditors, may please be prepared keeping in view the applicable RBI circulars, and kept ready and be made available to us along with the Branch returns.

d. Besides providing us above information, may we request you to provide us with a list of the:

- i. NPAs and their status as at 31.03.2015 AND 31.03.2016;
- ii. Borrowers classified during the period 1.04.2015 to 31.03.2016 as NPAs;
- iii. List of Borrowers, where one time settlement was sanctioned, but there is a default;
- iv. NPAs upgraded to Standard during the period 01.04.2015 to 31.03.2016, including reasons for the same; also indicating the amount of any unapplied interest in such accounts;
- v. Accounts where there was rehabilitation/ reschedulement/ restructuring, indicating in each case, the number of times the same has been done, and accounts in which the Bank needs to exercise its right to recompense, indicating the amount, also giving reasons for non-recovery thereof;
- vi. Cases where pursuant to restructuring, borrowers were granted FITL facilities or where the interest unrealized was converted to investments by the Bank.
- vii. Details of accounts for which a) applications have been received for restructuring during the year and pending restructuring and b) accounts which have been restructured during the year.
- viii. Borrowal accounts (in standard category), which have not been reviewed/ renewed for 180 days since the due date of their last renewal, or where there is a default on the part of the borrower in submission of stock statements, for a period of 90 days and if so, whether such borrowers are classified as NPAs.
Particulars of accounts overdue for review/renewal between 6 months and 1 year, and those over 1 year may be provided.
- ix. Accounts in which the Bank, or the Branch has itself recommended legal or other coercive action for recovery of dues and, where no such action has been taken against the borrowers. A list of such borrowers' accounts may be furnished to us, particularly if such accounts are in standard or sub standard category.
- x. borrowal accounts in the "Standard" category which are the subject matter of reference to BIFR/ DRT or in litigation.
- xi. Please let us know how you have complied with Frame work for Revitalisation (Part C of Master Circular on IRAC Norms)

e. **Valuation/market value of tangible Assets:**

Please confirm whether:

- in case of NPAs, the periodicity of valuation and the basis on which valuation is arrived at in respect of advances for the year under audit, particularly in case the valuation reports are older than one year in respect of securities.

- in respect of facilities of Rs.5.00 crores and above, or as per the policy of the bank whether stock audit got conducted. and copy of reports for our verification.

List of accounts where stock audit was required, but not conducted may please be furnished.

Please let us know whether any adverse features noticed pursuant to the Stock audit have been addressed and whether it has any effect on classification of any borrowers; and whether the same has been duly considered.

f. Devolved Letters of Credit (LCs)/ co-acceptances, and guarantees:

Please confirm:

- whether there are any devolved LCs upto the year-end. Please also confirm whether the debits have been raised in separate distinct accounts of the borrowers or to the normal cash credit/overdraft accounts of the borrowers.

Please let us have, as per the format in Para 5(e) of Part 1 of the LFAR questionnaire, information on guarantees invoked, and outstanding LCs/ co-acceptances.

g. Please confirm:

- i. the particulars of any borrowal accounts with working capital limits of Rs.10.00 lacs and above, where the latest audited accounts are not on record, as also in case where audit is compulsorily required as per any statute.
- ii. whether there are any accounts which are prudentially written off. If yes, furnish details.

4. Outstandings in Suspense/Sundries:

(Information may please be provided in the formats as per the LFAR).

5. Inter-branch/Office Accounts/Head Office Account:

- a. Are there any entries which are not responded by the Branch. If yes, please furnish the details.
- b. Date-wise details of o/s entries of debits 30 days and above in various sub-heads relating to Inter-branch transactions, and reasons for large outstanding amounts,
- c. Please confirm the period upto which the IBTA Reconciliation Cell has sent the statements of unmatched entries (Schedule-wise).

6. Foreign Currency outstanding transactions:

- i. Please confirm whether all balances (including off-balance sheet items) outstanding in foreign currencies as at the year-end have been converted as at the year-end rates as applicable;

Evidence/basis of the rates as applied may be made available.

7. Contingent Liabilities etc.:

Please confirm whether:

- Other than for advances, there are any matters involving the Branch in any claims (both statutory and contractual) in litigation, arbitration or other disputes in which there may be some financial implications, including from customers, fraud cases, for staff claims, 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 in the Branch financial statements

(Reference may also be made to the LFAR Para II.3).

- guarantees are being disclosed in the Branch Balance Sheet, net of cash margins and term deposits, or otherwise; and whether, and the extent to which, expired letters of credit, and guarantees where the claim period has also expired, continue to be disclosed in the Branch returns.

8. Interest Income/Expenditure:

Please let us have information about the rates of interest applicable during the year on various

- a. Advances Accounts
- b. Deposits Accounts

giving reference of the relevant circulars of the Head Office, and indicating the effective dates and periodicity of application of the interest rates; and evidencing that the computer programme was modified from such effective date(s).

Please confirm whether the changes are reflected in the contracted rates as per documentation.

9.. Commission on Govt. Business

Please confirm whether at the Branch, income is being accounted on cash basis or on accrual basis. Income accrued up to 31.03.2016 but not claimed/ recorded/ received may please be confirmed to us, together with computation thereof. .

Income Receivable based on business done up to 31.03.2016 may be got computed and made known.

10. Investments:

In case the Branch holds any investments on behalf of the Bank:

- a. these may be produced for physical verification and/or evidence of holding the same be made available.
- b. stock of unused security paper stationery/numbered forms like B/Rs, SGL Forms etc. may please be produced for physical verification.
- c. it may be confirmed whether income accrued/collected has been accounted as per the laid down procedure, and is not reckoned as the Branch income.

The procedure may please be confirmed to us.

11. Frauds etc. :

Please confirm:

- a. whether there are any frauds reported/recorded up to 31.03.2016 which may require to be provided for; and whether the same have been reported as per the reporting formats of RBI.
- b. whether there are any cases of vigilance or similar enquiry, or claims from customers in respect of the Branch. The relevant records of these may please be made available.
- c. whether any enquiries have been initiated for any suspected frauds/aberrations. If so, particulars thereof may be furnished.

12. Asset Liability Management:

Please let us have, duly authenticated, the financial information regarding the additional disclosures to be made as at 31.03.2016, as required by the Reserve Bank of India, indicating the procedure followed to arrive at the financial data.

Instructions from the Controlling Authority, in this behalf, may be made known to us.

13. Basel-II/ Basel III Norms:

Please give us a brief note on manner in which the data is generated for the purpose of disclosures in

the financial statements as per Basel II/Basel III norms.

14. Long Form Audit Report-Branch response to the Questionnaire:

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

15. Tax Audit in terms of section 44AB of the Income-Tax Act,1961:

- a. Please let us have the information required for 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.
- b. are there any cases where the Branch has not deducted TDS on interest paid on any deposits? If yes, please furnish such cases.

16.. Other Certification

Please let us have, duly authenticated, information as regards other matters which, as per the letter of appointment, require certification/validation.

17. Compliance of Ghosh and Jilani Committee Recommendations

Please confirm whether the Branch has duly complied with the requirements of the Ghosh and Jilani Committee and whether such compliance has been got verified from the Bank's Inspection Division and/or the Concurrent Auditors. Any adverse observations in respect of any requirements may please be made known to us.

ABC & Co.

Chartered Accountants

Annexure 1

Sub: Statutory Audit for Financial Year 2015-16

Dear Sir,

With reference to the above, we have mentioned our remarks against each checklist point as under.

Checklist	Remarks
Whether the server room is locked and access is restricted?	
Whether control of visitors is restricted to internal area?	
Whether smoke / heat-rise detectors installed and tested periodically?	
Whether security guard has been appointed and license of his gun is valid?	
Does the software display the password as it is keyed in?	
Does the software lock the user-ID if it is used for 3 unsuccessful times to logon to the system?	
Does the software force the User to change the password at set periodical intervals?	

Does the configuration of password is defined in the system?	
Does the passwords shared among staff?	
Are the User-IDs reflected in the contents of the report printed?	
Whether access rights are allotted as per authorization matrix?	
Whether corrections are approved by higher authority?	
Does the software have adequate controls to ensure that, data have been accurately input (e.g. range checks, validity checks, control totals, etc.)	
Whether software enforces maker checker for all transactions?	
Whether exception reports are generated on daily basis and reviewed by Branch Head?	
Whether application is able to handle processing at peak times?	
Whether software maintains audit-trail to uniquely trace any modification/deletion/addition while processing with user-ID.	

We confirm that our remarks are correct and IT security policy of the bank is strictly adhered in the branch.

Thanking You,

Yours Faithfully

Draft of Management Representation Letter to be obtained from the Branch Management

April 10, 2016

M/s ABC & Co

Chartered Accountants

Mumbai

Dear Sirs,

Sub.: Audit for the year ended March 31, 2016

This representation letter is provided in connection with your audit of the financial statements of _____ branch of _____ BANK for the year ended March 31, 2016 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 March 31, 2016 and of the results of operations for the year 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 held by Branches have been properly accounted and have been physically verified at the year end. No discrepancies are noticed on such verification. Depreciation on these assets have been adequately provided as per the policy of the Bank.

4. CAPITAL COMMITMENTS

At the balance sheet date, there were no outstanding commitments for capital expenditure

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 March 31, 2016 is Rs. _____

7. LIABILITIES

The branch has 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:

- a. transactions of a nature not usually undertaken by the branch;
- b. Circumstances of an exceptional or non-recurring nature;
- c. Charges or credits relating to prior years;
- d. 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 2015-2016

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 accounts 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 March 31, 2016 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 extant instructions of the Head Office

17.2 Any amount recorded as income upto 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 upto the previous year end; and the amount reversed during the year under audit i.e. income of earlier years de-recognised 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 accounts

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 23. 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 1 USD. 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 mis-statements, 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 March 31, 2016

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 44 AB of Income Tax Act, 1961 of _____ branch of _____ *BANK* for the year ended March 31, 2016, we certify the following:

PART – A

29.1 Our Permanent Account No. is _____

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 accounts maintained by us have been correctly disclosed in clause 9(b) of Form 3CD

29.6 Our Profit & Loss account does not include profits and gains assessable on presumptive basis under section 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 super annuation 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

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

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

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

29.11 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.

29.12 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

29.13 No loans or deposits of Rs.20,000 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 Rs.20,000 or more given in the said statement of particulars is true and correct

29.14 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

29.15 Details of 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 delay in payment of Tax Deducted at Source

29.16 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

Yours faithfully

For & on behalf of _____ branch of _____ *BANK*

Authorised Signatory

We have examined the attached Format of compliance/ implementation by _____ (*name of bank/ bank branch*) with the recommendations of the Ghosh Committee relating to Frauds and Malpractices in Banks and Fomat of Progress in Implementation of Jilani Committee recommendations, as prepared by the management. The responsibility for compliance with/ implementation of the recommendations of the Ghosh and the Jilani Committees is that of the management of the _____ (*name of the bank/ bank branch*). Our responsibility is to examine the report on the status of compliance therewith as contained in the attached Formats, as prepared by the management, thus far and no further.

We have not carried out an investigation into the status of compliance by/ implementation of the management with the recommendations of the Ghosh and Jilani Committees. Our examination is limited to inquiries and obtaining confirmations from the management and other appropriate persons and test checks of the attached status of recommendations.

Based on our above examination, subject to the matter highlighted below, we certify that to the best of our knowledge and belief and according to the information and explanation given to us and as shown by the records examined by us, the attached Formats of compliance with the recommendations of the Ghosh and Jilani Committees, as prepared by the management is correct.

1.

2.

Date:

For and behalf of
Chartered Accountants

Place:

.....

(Name and Designation)
(Membership Number)

checklist for verification of advances & reporting in 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	Sanctioning Authority	Facil-ity	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 4, under the head “**Item**” below should be given for the irregularity applicable to respective borrower

In case the auditors feel that inspite 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

Item	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
1.11	The opinion reports of the associate and/ or sister concerns of the borrower are not scrutinised
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 procedure/ instructions of head office regarding preparation of proposals for grant not followed

Item	REMARK
1.16	The procedure/ instructions of head office regarding preparation of proposals for renewal of advances not followed
1.17	The procedure/ instructions of head office regarding preparation of proposals for enhancement of limits, etc. not followed
1.18	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	Ad-hoc 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
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

Item	REMARK
2.15	Term loan was disbursed by creating the cash credit or savings account of the borrower
3	Documentation
3.1	330 The security against which the advance was sanction 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
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 of the 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

Item	REMARK
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
3.23	"Nil Encumbrance Certificate/s" or "No Dues Certificate/s" or "No lien Letters" not obtained for the mortgage/s
3.24	Advances for vehicle loans, Registration certificate, transfer certificate, etc. not obtained
3.25	Work completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans
3.26	Documents are not duly attested/ signed by concerned officials/not renewed
3.27	The agreements for hypothecation do not contain details regarding goods hypothecated
3.28	Copy of Bills/ receipts, on the basis of which the amount was disbursed not found on record. For e.g. Vehicle Loans, Plant & Machinery
3.29	Charge on main &/ or collateral securities not created in terms of sanction letter
3.30	Original security papers/ sale deed/ lease deed/title deed/ agreement of sale not available on record
3.31	TDR are not discharged or renewed
3.32	Control returns not sent to the H.O.

Item	REMARK
3.33	The branch has not taken any action for not compliance with terms of agreement
3.34	No documents executed for enhancement of limit/document not on record
3.35	ECGC Post shipment policy not obtained
3.36	Credit facility released without execution of all necessary documents
3.37	Common Seal not affixed on Letter of Comfort
3.38	Confirm orders for export credit not found on record for facilities released
4	Review/ Monitoring/ Supervision
4.1	The account is frequently overdrawn
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

Item	REMARK
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 the 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
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 Rs.10 lacs 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

Item	REMARK
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, which are 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 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 the consortium are not advised about the quarterly operating limits/ D. P. allocated to each one 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	The drawing power is calculated wrongly and/or hence the borrower is 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 the borrower/No commitment charge is levied for the limit not fully utilised by the borrower

Item	REMARK
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 approved valuer have not been obtained
4.45	Guarantees, Opinion Reports Financial statements, IT assessment orders and etc. of the guarantor are 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 wilful default from the borrower. Either establishment was closed or security was disposed off 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 off/ 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

Item	REMARK
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
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	Instalments 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 and payable on demand
5.9	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 local government/ outside agencies are involved as guarantors
5.12	Copy of Search Report not on record

Item	REMARK
5.13	Decree awarded but no further steps taken for recovery
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

IMPORTANT MASTER CIRCULARS ISSUED BY RESERVE BANK OF INDIA ON 1st July 2015

- Master Circular on Housing Finance
- Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002
- Master Circular - Interest Rates on Advances
- Master Circular – Foreign Contribution (Regulation) Act, 1976 – Obligations of Banks in Regulating Receipt of Foreign Contributions by Associations / Organizations in India
- Master Circular - Guarantees and Co-acceptances
- Master Circular – Exposure Norms
- Master Circular- Loans and Advances – Statutory and Other Restrictions
- Frauds – Classification and Reporting
- Master Circular - Lending to Priority Sector
- Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
- Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - Implementation of the New Capital Adequacy Framework (NCAF)
- Master Circular on Wilful Defaulters
- Master Circular - Disclosure in Financial Statements - Notes to Accounts
- Master Circular - Prudential Norms on Capital Adequacy-Basel II Framework
- Master Circular - Guidelines for Relief Measures by Banks in Areas affected by Natural Calamities
- Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks
- Circular on Depositor Education and Awareness Fund Scheme, 2014.
- Circular reference DBOD.No.BP.BC.85/21.06.200/2013-14 dated January 15, 2014 and DBOD.No.BP.BC.116/21.06.200/2013-14 dated June 3, 2014 in respect of unhedged foreign currency exposure

[1] Where applicable.

[2] Applicable in cases where banks determine provision at Branch level.

