

*

*

BANK AUDIT MANUAL

:
0
: : : : :
000
: : : : :
0
:

2021-2022

--- BE HAPPY MAKE HAPPY ---

PREPARED BY A DEDICATED TEAM COMPRISING OF



SANJAY K AGARWAL
FCA, FCS, CPA(USA)

S Mahendra & Co
615 Diamond Heritage
16 Strand Road
Kolkata-700001
Ph: 46026342, 46026750
Mobile: 9331023275
Email: sanj1088@gmail.com

TULSI RAM TIBREWALA
FCA, FCS, DISA

T R Tibrewala & Associates
P-41 Princep Street
6th Floor, Suite: 603 & 619
Kolkata-700072
Mobile: 9830080444
Ph: 22362218
Email: taxcoach1@hotmail.com

BHARAT GOEL
FCA

KASG & Co
Gajraj Signature, Suite: 5C
5A Sadananda Road
Kolkata-700026
Mobile: 9836751088
Ph: 40068520
Email: diamondbharat@gmail.com
Website: www.kasgca.com



Published by:
Corporate Lex Publishers
#E, B/6 Bapuji Nagar, Regent Estate,
Kolkata-700092
www.corporatelex.com



Index of Pages:

Particulars	Page Nos
Key Points	3
Asset Classification & Provisioning – a ready reckoner	4
Income Recognition & Asset Classification Norms - at a Glance	5-6
Important Points	7-10
Asset Classification – at a Glance	11-12
Important Audit Checks	13-15
Draft Management Representation Letter	16-18
Format of Letter to Branch	19-22
Checklist for Audit of Advances accounts	23-25
Checklist for Audit of LFAR	26-31
Remuneration to Auditors	32-34
Overall Audit Plan- Audit Programme	35-36
Format of Certificate from Bank Branch	37
Audit Program for Branch Audit of a Bank	38
Other Charts / Formats (including Audit Report Format) which may be used during Audit	39-45
Prudential Guidelines on Restructuring of Advances by Banks	46-50
Relief for GST Registered MSME Borrowers	51-53
List of Important Circulars	54-56

KEY POINTS

- Break Even Date for NPA is **01.01.2022** for the year 2021-2022
- **LFAR (Long Form Audit Report) Format revised** from the year 2021-2022 [Reserve Bank of India - Notifications \(rbi.org.in\)](https://www.rbi.org.in/Press/Other/audit/audit%20report%20format%202021%202022.pdf)
- 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).
- Overdue period starts immediately on expiry of due date, concept of 'past due' has already been dispensed with in past years.
- Stock statements older than 3 months should not be considered
- Interest on advances (accrued and outstanding) should be calculated as on 31st March (few banks charges interest on advances few days prior to 31st March which should not be considered)
- Long outstanding entries (unexplainable and where there is no movement at all) in suspense account should be suggested for provisioning.
- MOC should also be countersigned by Branch Manager (views of the BM if any has to be attached on a separate sheet duly signed by him)
- Submit all the REPORTS including TAX AUDIT REPORTS & LFAR immediately on completion of Audit and before leaving the branch
- Make a columnar list of documents to be submitted to branch/regional/zonal/other office before commencement of Audit. (it is advisable to get all documents in your custody duly signed by the Branch Manager at the beginning of Audit)
- Must get CERTIFICATE OF ATTENDENCE signed by Branch Manager in duplicate before leaving the branch
- Availability of security or net worth of borrower/guarantor should not be considered for the purpose of NPA recognition – it should always be based on recovery
- 100% provision is required for assets which has become doubtful for more than 3 years i.e. NPA date on or before 31.03.2018.
- To specifically report simultaneously to the CEO of the bank (and Audit Committee or Board as per the requirement of the Companies Act, 2013) and regional office of the Dept of Banking Supervision RBI where the HO of the bank is situated, any matter susceptible to be fraud or fraudulent activity or any foul play in any transactions. Any deliberate failure on part of the Auditors should render himself liable for action. If amount of fraud involve Rs 1 Crore or more – central office of the Dept of Banking Supervision, RBI, Mumbai (and Central Govt in Form ADT-4 as per the requirements of section 143(12) of the Companies Act, 2013 and Rules thereon) to be reported immediately.

Asset Classification & Provisioning as on 31.03.2022 – A Ready Reckoner

Quarter of NPA		ASSET CLASSIFICATION					Provision for 2021-2022
Year	Quarter	March 2018	March 2019	March 2020	March 2021	March 2022	
2018	Mar	SST	D1	D2	D2	D3	100 % of outstanding for all NPAs on or before 31.03.2018, irrespective of securities available
	Jun		SST	D1	D2	D2	40 % of Secured portion of outstanding and 100% of Unsecured portion of outstanding for NPAs from 01.04.2018 to 31.03.2020
	Sep		SST	D1	D2	D2	
	Dec		SST	D1	D2	D2	
2019	Mar		SST	D1	D2	D2	
	Jun			SST	D1	D2	25 % of Secured portion of outstanding and 100% of Unsecured portion of outstanding for NPAs from 01.04.2020 to 31.03.2021
	Sep			SST	D1	D2	
	Dec			SST	D1	D2	
2020	Mar			SST	D1	D2	
	Jun				SST	D1	General – 15% of outstanding (25% of outstanding if ab-initio unsecured) for NPAs on or after 01.04.2021
	Sep				SST	D1	
	Dec				SST	D1	
2021	Mar				SST	D1	
	Jun					SST	General – 15% of outstanding (25% of outstanding if ab-initio unsecured) for NPAs on or after 01.04.2021
	Sep					SST	
	Dec					SST	
2022	Mar					SST	

INCOME RECOGNITION AND ASSET CLASSIFICATION NORMS - AT A GLANCE

1. An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.
2. Banks should, classify an account as NPA only if the **interest due and charged** during any quarter is not serviced fully within 90 days from the end of the quarter.

3. FACILITY WISE CHART:

Credit Facility	Basis for treating a Credit Facility as NPA	Remarks
Term loans	Interest and/or instalment of principal remain overdue for a period of more than 90 days. <u>Agricultural Advances: Position upto 29th Sept 2004:</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 harvest seasons but for a period not exceeding two half years, the advance should be treated as NPA. <u>Position wef 30th Sept 2004:</u> A loan granted for short duration crops will be treated as NPA, if the instalment of principle or interest remain overdue for two crop season and a loan granted for long duration crops will be treated as NPA, if the instalment of principle or interest remain overdue for one crop season Long duration crops means crops with crop season longer than one year Short duration crops are those other than long duration crops	<u>Overdue:</u> 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. <u>Crop Season:</u> The crop season for each crop, which means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State.
Cash Credits and 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, generally stock statements older than three months would be deemed irregular and the working capital borrowal 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. Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc

		sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.
Bills Purchased and 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 realised.
Securitisation Transaction	The amount of liquidity facility remains outstanding for more than 90 days	Securitisation Transaction undertaken in terms of guidelines dated 01.02.2006.
Derivative Transactions	the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.	
Other Accounts	Any amount to be received in respect of that facility remains overdue for a period of more than 90 days.	
Government guaranteed advances	As on 31.03.2022, State government guaranteed advances and investment in State government guaranteed Securities would attract asset classification and provisioning norms if interest and/or principle or any other amount due to the bank remains overdue for more than 90 days.	The credit facilities backed by guarantee of Central government though overdue may be treated as NPA only when the government repudiates its guarantee when invoked. However, income shall not be recognised if the interest or instalment has remained overdue or the account has remained continuously out of order or the bills or any other facility has remained overdue for a period of more than 90 days.

Important Points

Key Words	Particulars
Exclusion	Undernoted categories of advances should be excluded, as NPA norms are not normally applicable to them: • Advances granted on or after 01.01.2021; • All staff loans sanctioned under various staff loan schemes including housing loans; • Project Finance (within Moratorium), Education Loan, Agriculture Loan etc. wherein moratorium period is not completed and interest/installment have not fallen due; • Advances against Banks deposits, NSC, IVP, KVP and LIP etc provided adequate margin is available to cover the unrealized interest; • Relief granted to the Agricultural borrowers affected by natural calamities in the form of conversion of short term loan or re-schedulement of term loan; • Credit facilities backed by Central Govt Guaranteed (if not repudiated) ; • Restructured accounts under Standard category; • Credit facilities backed by State Govt. Guarantees where the default does not exceed 90 days as on 31.03.2022; • All Standard and Regular Advances.
All Facilities	Once an account has been classified as NPA, all the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI except in respect of advances granted under on-landing facility to 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
Adequate Margin	Interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.
Reversal of Income	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. Banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account. This will apply to Government guaranteed

	accounts also. In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected. <u>Leased Assets</u> The <i>finance charge</i> component of finance income [as defined in 'AS 19 Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became nonperforming, and remaining unrealised, should be reversed or provided for in the current accounting period.
Regularised before balance sheet date	The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.
Upgradation of loan accounts classified as NPAs	If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard' accounts. With regard to upgradation of a restructured/ rescheduled account which is classified as NPA contents please check master circular of RBI at the end of this booklet.
Fees and commissions (re-negotiations)	Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covered by the re-negotiated or rescheduled extension of credit.
LOC or guarantees	If the debits arising out of devolvement of letters of credit or invoked guarantees are parked in a separate account, the balance outstanding in that account also should be treated as a part of the borrower's principal operating account for the purpose of application of prudential norms on income recognition, asset classification and provisioning.
Appropriation of recovery in NPAs	Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned. In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.
Income recognition	Income on NPA accounts to be recognized on realisation basis (conservative approach). However, banks may recognise income on accrual basis in respect of the projects under implementation, which are classified as 'standard'. Funded Interest: Income recognition in respect of the NPAs, regardless of whether these are or are not subjected to restructuring/ rescheduling/ renegotiation of terms of the loan agreement,

	should be done strictly on cash basis, only on realisation and not if the amount of interest overdue has been funded. If, however, the amount of funded interest is recognised as income, a provision for an equal amount should also be made simultaneously. In other words, any funding of interest in respect of NPAs, if recognised as income, should be fully provided for.
Loans with moratorium for payment of interest	i. In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected. ii. In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.
Credit Card Accounts	In credit card accounts, the amount spent is billed to the card users through a monthly statement with a definite due date for repayment. Banks give an option to the card users to pay either the full amount or a fraction of it, i.e., minimum amount due, on the due date and roll-over the balance amount to the subsequent months' billing cycle. A credit card account will be treated as non-performing asset if the minimum amount due, as mentioned in the statement, is not paid fully within 90 days from the next statement date. The gap between two statements should not be more than a month. Banks should follow this uniform method of determining over-due status for credit card accounts while reporting to credit information companies and for the purpose of levying of penal charges, viz. late payment charges, etc., if any.
Signs of Stress	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 Illustrative list of signs of stress for categorising an account as SMA-0 - Delay of 90 days or more in - submission of stock statement / other stipulated operating control statements or - credit monitoring or financial statements or - Non-renewal of facilities based on audited financials. - Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review. - Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days on grounds of non-availability of balance/DP in the

	account or return of 3 or more bills / cheques discounted or sent under collection by the borrower. 4. Devolvement of Deferred Payment Guarantee (DPG) instalments or Letters of Credit (LCs) or invocation of Bank Guarantees (BGs) and its non-payment within 30 days. 5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or for compliance with any other terms and conditions of sanction. 6. Increase in frequency of overdrafts in current accounts. 7. The borrower reporting stress in the business and financials. 8. Promoter(s) pledging/selling their shares in the borrower company due to financial stress.
Wilful Defaulters	The provisioning in respect of existing loans/exposures of banks to companies having director/s (other than nominee directors of government/financial institutions brought on board at the time of distress), whose name/s appear more than once in the list of wilful defaulters will be 5% in cases of standard accounts; if such account is classified as NPA, it will attract accelerated provisioning. This is a prudential measure since the expected losses on exposures to such borrowers are likely to be higher. It is reiterated that no additional facilities should be granted by any bank/FI to the listed wilful defaulters, in terms of paragraph 2.5 (a) of Master Circular of RBI on Wilful Defaulters dated July 1, 2014. With a view to discouraging borrowers/defaulters from being unreasonable and non-cooperative with lenders in their bonafide resolution/recovery efforts, banks may classify such borrowers as non-cooperative borrowers, after giving them due notice if satisfactory clarifications are not furnished. Banks will be required to report classification of such borrowers to CRILC. Further, If any particular entity reported as non-cooperative, any fresh exposure to such a borrower will by implication entail greater risk necessitating higher provisioning. Banks/FIs will therefore be required to make higher provisioning as applicable to substandard assets in respect of new loans sanctioned to such borrowers as also new loans sanctioned to any other company that has on its board of directors any of the whole time directors/promoters of a non-cooperative borrowing company or any firm in which such a non-cooperative borrower is in charge of management of the affairs. However, for the purpose of asset classification and income recognition, the new loans would be treated as standard assets. This is a prudential measure since the expected losses on exposures to such non-cooperative borrowers are likely to be higher.

ASSET CLASSIFICATION – AT A GLANCE

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	Agriculture/SME Adv – 0.25% Commercial Real Estate (CRE)- 1% CRE-Residential Housing Sector – 0.75% HL (teaser rate period) – 2% Other Loan & Advances – 0.4% [Special rates for restructured advances as mentioned in remarks column]	Such an asset is not a NPA. [Provision requirement in case of <u>Restructured account from Standard</u> – 4.25% for 2014-15 (for two years from restructuring /moratorium date), <u>Restructured (upgraded from NPA to Standard)</u> – as prescribed from time to time (for one year from the date of upgradation)]
Sub-Standard Assets	Classified as NPA for a period not exceeding Twelve months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected. 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% on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available. - Additional provision of 10% on unsecured exposure. Unsecured Exposure means exposure where realizable value of security is not more than 10%, <i>ab-initio</i>, of the outstanding exposure.	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 12mths from the date the account has become sub-standard. Such accounts should be straightaway classified as doubtful or loss asset, as appropriate, irrespective of the period for which it has remained as NPA. a. Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straightaway classified under doubtful category. b. If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored and the asset should be straightaway classified as loss asset.
Doubtful Assets	Remained Substandard for a period of Twelve months.	100% to the extent to which the advances are not covered by the realisable value of the security to which the bank has	It has all the weaknesses inherent in that of a sub-standard asset with the added characteristic that the

		a valid recourse and the realizable value is estimated on realistic basis. 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: 1. Up to 1 year 25% 2. 1 to 3 years 40% 3. Over 3 years: 100%	weaknesses make the collection / liquidation in full, highly questionable and improbable, on the basis of current known facts, conditions and values. Stock Audit required in cases involving NPAs balances above 5 Crores. Valuation of Security to be done every three years.
Loss Assets	Loss asset is one where loss has been identified by the bank, external or internal auditors or the RBI inspection, but the amount has not been written off (wholly/partly).	100% of the outstanding should be provided for/written off.	Such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recoverable value.

IMPORTANT AUDIT CHECKS	
Deposit (Term/Saving /Current /FCNR/NRE/NRNR)	
• Verify transactions during the year relating to: New Accounts opened; Accounts closed; Dormant Accounts; Interest calculations; Scrutiny of account statements for unusual/large/overdraft transactions; Overdue Term deposits & its policies and practices of renewal; Accrual of interest; RBI Norms for Non-resident deposits & its operations - giving due importance to opening and operation of accounts like NRE, NRNR, FCNR, RFC, etc.; interest on various types of deposits; Tax Deducted at Source. • Large deposits placed at the end of the year (<i>probable window dressing</i>). • Examine unusual trend in account opening or account closing, dormant accounts that have suddenly been reactivated by heavy cash withdrawals or deposits, overdrawings, etc. • Examine interest trends as compared to average annual deposits (monthly average figures).	
ADVANCES	
• Review monitoring reports (irregularity reports) sent by the branch to the controlling authorities in respect of irregular advances. • Review appraisal system, Files of large as well as critical borrowers, sanctions, disbursement, renewals, documentation, systems, securities, etc. • Review on test check basis operations in the Advances Accounts. • Compliance of sanction terms and conditions in the case of new advances. • Whether the borrower is regular in submission of stock statements, book debt statements, insurance policies, balance sheets, half yearly results, etc. and whether penal interest is charged in case of default/delay in submission of such data. • Charge of interest and recovery for each quarter or as applicable to be verified. • Review the monitoring system, i.e. monitoring end use of funds, analytical system prevalent for the advances, cash flow monitoring, branch follow-up, consortium meetings, inspection reports, stock audit reports, market intelligence (industry analysis), securities updation, etc. • Check classification of advances, income recognition and provisioning as per RBI Norms/Circulars. • Examine interest trends as compared to average annual advances (monthly average figures). • Scrutinize the final advances statements with regard to assets classification, security value, documentation, drawing power, outstandings, provisions, etc. • Check whether Non-Fund based (Letter of Credits/Bank Guarantees) exposure of the borrowers is within the sanctioned limits. • Compare projected financial figures given at the time of project appraisal with actual figures from audited financial statements for relevant period and ascertain reasons for large variance.	
Profit & Loss Account	
• Income/Expenditure: Verify: □ Short debit of interest/commission on advances; □ Excess credit of interest on deposits; □ In case the discrepancies are existing in large number of cases, the auditor should consider the impact of the same on the accounts; □ Determine whether the discrepancies noticed are intentional or by error; □ Check whether the recurrence of such discrepancies are general or in respect of some specific clients; • Proper authority in sanction and disbursement of expenses as also the correctness of the accounting treatment given as to revenue/capital/deferred expenses. • Check accrual of income/expenditure especially for the last month 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.	

Balance Sheet

Cash & bank balances

- Physically verify the cash balance/ATM cash balance as on March 31, 2021 or reconcile the cash balance from the date of verification to March 31, 2021.
- Confirm and reconcile the balances with banks as on March 31, 2021.

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.

Advances provisioning

- As per RBI norms, unrealised interest on NPA accounts should be reversed and not charged to "Advance Accounts". Reversal of unrealised interest of previous years in case of NPA accounts is required to be checked.
- Partial recovery in respect of NPA accounts should be generally appropriated against principal amount in respect of doubtful assets.

Fixed assets

Check inter-branch transfer memos relating to fixed assets and whether they have been correctly classified in the accounts and depreciation accounting thereof.

Inter Branch Reconciliation (IBR)

- Understand the IBR system and accordingly prepare an audit plan to review the IBR transactions. The large volume of Inter Branch Transactions and the large number of unreconciled entries in the banking system makes the area fraud-prone.
- Check up head office inward communication to branch to ascertain date up to which statements relating to inter-branch reconciliation have been sent.

Check and report

- Reversal of any large/old/unexplained entries, which had remained outstanding in IBR.
- Items of revenue nature, cash-in-transit (for example, cash meant for deposit into currency chest) which remains pending for more than a reasonable period.
- Double responses to the entries in the accounts.
- Test check accuracy and correctness of "Daily statements" which are prepared by the branch and sent to IOR department.

The auditor should duly consider the extent of non-reconciliation in forming his opinion on the financial statements. Where the amounts involved are material, the auditor should suitably qualify his audit report. Attention is drawn on the paper on "Certain Significant Aspect of Statutory Audit of banks" issued by the Council of ICAI in March 1994, published in the C. A. journal.

Further, vide its circular No. BP.BC.22/21.04.018/99 dated March 24, 1999, the Reserve Bank of India (RBI) advised the banks to maintain category-wise (head-wise) accounts for various types of transactions put through inter-branch accounts so that the netting can be done category-wise. Further, RBI advised banks to make 100 percent provision (category-wise) for net debit position in their inter-branch accounts arising out of the unreconciled entries, both debit and credit, outstanding for more than two years.

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.

Auditors Report & Memorandum of Changes

- The Auditors Report should be a self-contained document and should contain no reference of any point made in any other report including the LFAR;
- Include Audit Qualifications in the Auditors Report and not in the LFAR;
- Quantify the Audit Qualifications for a better appreciation of the point 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. Summary of Memorandum of Changes (MOC) is required to be given in Auditors Report as per revised format as issued by ICAI.

Long Form Audit Report (LFAR)

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

System

- Review off-site backup and daily backup procedure of Bank
- Exception reports viz. password errors, limit verification, irregular advances
- Custodian of pass word and unauthorized access of password, computer room
- Periodical report to controlling authority on functioning of computerised system and compliance of controlling authority instructions in this respect

General

- Send a letter of your requirements to the branch before commencing the audit.
- Obtain the latest status of cases involving fraud, vigilance and matters under investigation having effect on the accounts and its reporting requirement.
- Obtain a Management Representation Letter (MRL)
- Obtain a certificate from Branch-in-charge on specific issues (format as per page **33**)

Date: _____

M/s. XYZ & Co.
Chartered Accountants
Mumbai

Dear Sirs,

Sub.: Audit for the period ended 31.03.2022

This representation letter is provided in connection with your audit of the financial statements of _____ branch of _____ *BANK* for the period ended 31.03.2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of _____ branch of _____ *BANK* as of 31.03.2022 and of the results of operations for the period then ended. We acknowledge our responsibility for preparation of financial statements in accordance with the requirements of the Reserve Bank of India and recognised accounting policies and practices, including the Accounting and Auditing Standards issued by the Institute of Chartered Accountants of India.

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

ACCOUNTING POLICIES

The accounting policies, which are material or critical in determining the results of operations for the period or financial position are set out in the financial statements and are consistent with those adopted in the financial statements for the previous period. The financial statements are prepared on accrual basis except as stated otherwise in the financial statements.

ASSETS

The branch has a satisfactory title to all assets and there are no liens or encumbrances on the company's assets.

FIXED ASSETS

- The net book values at which fixed assets are stated in the balance sheet are arrived at:
- . after taking into account all capital expenditure on additions thereto, but no expenditure properly chargeable to revenue;
 - a. after eliminating the cost and accumulated depreciation relating to items sold, discarded, demolished or destroyed;
 - b. after providing adequate depreciation on fixed assets during the period.

CAPITAL COMMITMENTS

At the balance sheet date, there were no outstanding commitments for capital expenditure excepting those disclosed in Note No. to the financial statements.

INVESTMENTS

The current investments as appearing in the balance sheet consist of only such investments as are by their nature readily realisable and intended to be held for not more than one year from the respective dates on which they were made. All other investments have been shown in the balance sheet as 'long-term investments'.

Current investments have been valued at the lower of cost or fair value. Long-term investments have been valued at cost, except that any permanent diminution in their value has been provided for in ascertaining their carrying amount.

In respect of offers of right issues received during the year, the rights have been either been subscribed to, or renunciated, or allowed to lapse. In no case have they been renunciated in favour of third parties without consideration which has been properly accounted for in the books of account.

All the investments produced to you for physical verification belong to the entity and they do not include any investments held on behalf of any other person.

The entity has clear title to all its investments including such investments which are in the process of being registered in the name of the entity or which are not held in the name of the entity. There are no charges against the investments of the entity except those appearing in the records of the entity.

LOANS AND ADVANCES

The following items appearing in the books as at 31st March, 2021 are considered good and fully recoverable with the exception of those specifically shown as "doubtful" in the Balance Sheet: Loans and Advances Rs.

OTHER CURRENT ASSETS

In the opinion of the Board of Directors, other current assets have a value on realization in the ordinary course of the company's business, which is atleast equal to the amount at which they are stated in the balance sheet.

CASH & BANK BALANCES

The cash balance as on 31st March, 2022 is Rs._____.
The bank balances as on_____is as under:

_____	Bank Rs._____
_____	Bank Rs._____
_____	Bank Rs._____

LIABILITIES

We have recorded all known liabilities in the financial statements.

We have disclosed in notes to the financial statements all guarantees that we have given to third parties and all other contingent liabilities.

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.

PROVISIONS FOR CLAIMS AND LOSSES

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

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

PROFIT AND LOSS ACCOUNT

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

- . Transactions of a nature not usually undertaken by the bank;
 - a. Circumstances of an exceptional or non-recurring nature;
 - b. Charges or credits relating to prior years;
 - c. Changes in accounting policies.

GENERAL

The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

. Losses arising from sale and purchase commitments.

- a. Agreements and options to buy back assets previously sold.
- b. Assets pledged as collateral.

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

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

The company 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 regularity authorities that could have a material effect on the financial statements in the event of non-compliance.

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

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

For & on behalf of

_____ branch of _____ Bank

Authorised Signatory

Draft Letter of Requirements to be sent to the Branch

April 1, 2022

The Branch Manager

_____ Bank

_____ Branch

Mumbai

Dear Sir:

Sub.: Statutory Audit of your branch for the year 2021-2022

As you are aware, we have been appointed as the Statutory Auditor to report on the accounts of your Branch for the year 2021-2022.

Our Tentative Program for Branch Visit is as below:

.....

In order to enable us to finalise the audit programme and furnish our report on the audit of the accounts for the year 2021-2022 of your branch, may we request you to keep ready the information/clarification as stated below and make the same available to our audit team at the earliest.

- a. **Latest Reports** The following latest reports on the accounts of your bank, and compliance by the bank on the observations contained therein may be kept ready for our perusal:
- a. Latest RBI Inspection Report;
 - b. Internal/Concurrent Audit Reports;
 - c. Previous Statutory Audit Report
 - d. Head Office Inspection Reports;
 - e. Internal Inspection Reports;
 - f. Revenue Audit Report (if any);
 - g. Income and Expenditure Control Report (if any);
 - h. Report on any other Inspection/Audit that may have been conducted during the course of the year relevant to the financial year 2021-2022.

b. Circulars in connection with accounts

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

c. Accounting policies

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

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

d. Balancing of books

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

e. Deposits

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

b. Advances

- a. Kindly confirm whether in respect of the advances against tangible securities, the branch holds evidence of existence and latest market value of the relevant securities as at the year-end.
- b. Kindly inform the year-end status of the accounts, particularly those which have been adversely commented upon in the latest reports of RBI/Internal Auditors/Concurrent Auditors/Statutory Auditors, etc. on the branch as also accounts in respect of which provisions have been made/recommended as at the previous year-end.

Information in relation to such advances accounts where provision computed/recommended may please be prepared indicating:

- a. Name of the borrower
- b. Type of facility
- c. * Total amount outstanding as at the year-end (both for principal and interest) specifying the date up to which interest has been levied and recovered.
- d. Particulars of securities and value on the basis of latest report/statement.
- e. Nature of default and action taken.
- f. Brief history and present status of the advance.
- g. * Provision already made/recommended.
- h. NPA since when (please specify the date)

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

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

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

- d. A list of all advances accounts which have been identified as bad/doubtful accounts and where pending formal sanction of the higher authorities, the relevant amount have not been re-classified/re-categorised in the book of the branch for provision/write off. This covers all account identified by the branch or internal/external auditor or by RBI inspectors but the amount has not been written-off wholly or partly. In case the bank has recommended action against the borrowers or for initiating legal or

other coercive action for recovery of dues, a list of such borrowers' accounts may be furnished to us.

- e. Please let us have a list of borrowers' accounts where classification made as at the end of the previous year has been changed to a better classification, stating reasons for the same.
- f. Kindly also confirm whether any income has been adjusted/recorded to revenue, contrary to the norms of income recognition notified by the Reserve Bank of India and/or Head Office circulars issued in this regards; and particularly where the chances of recovery/realisability of the income are remote.

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

c. Outstanding in Suspense/Sundry Account

Kindly let us have a year-wise/entry-wise break up of amounts outstanding in Suspense/Sundry accounts as on 31.03.2022. Kindly explain the nature of the amounts in brief. Supporting evidences relating to the existence of such amounts in the aforesaid accounts may be kept ready at the branch for verification. Reasons for non-adjustment of items included in these may be made known.

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

- a. Please let us have a statement of entries (head-wise) which originated prior to the year-end at other branches, but were responded during the period after 31.03.2022 at the branch.
- b. Date-wise details of debits in various sub-heads relating to Inter-Branch transactions and reasons for outstanding amounts particularly those, which are over 30 days as at the Balance Sheet date.

e. Contingent liabilities

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

f. Interest provision

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

g. Foreign currency outstanding transactions

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

h. Investment/Stationery

For Investment held by the branch:

- 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.
- d. It may be confirmed whether Investment Valuation has been done as per the extant RBI guidelines.

i. Long Form Audit Report - Branch response to the Questionnaire

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

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

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

k. Other certification

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

l. Bank reconciliation and confirmations

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

m. Books of account and records

Kindly keep ready all the books of accounts and other records like vouchers, documents, fixed assets register, etc. for our verification.

We shall appreciate your kind co-operation in the matter.

Thanking you,

Yours truly,

Chartered Accountants

Check-list for Audit of Advance Accounts

1. Name of the borrower
2. Address
3. Constitution
4. Nature of business/activity
5. Other units in the same group
6. Total exposure of the branch to the Group - Fund based (Rs. in lakhs) - Non-fund based (Rs. in lakhs)
7. Name of Proprietor/Partners/Directors
8. Name of the Chief Executive, if any
9. Asset classification by the branch
 - a. during the current year
 - b. during the previous year
10. Asset classification by the Branch Auditor
 - a. during the current year
 - b. during the previous year Are there any adverse features pointed out in relation to asset classification by the Reserve Bank of India Inspection or any other audit.

11. Date on which the asset was first classified as NPA (where applicable)

12. Facilities sanctioned:

Date of Sanction	Nature of facilities	Limit (Rs. in Lakhs)	Margin%	Balance outstanding at the year-end		Prime security	Collateral security
				Current Year	Previous Year		

Provision made: Rs. _____ lakhs

13. Whether the advance is a consortium advance or an advance made on multiple-bank basis

14. If Consortium,

- a. names of participating banks with their respective shares
- b. name of the Lead Bank in Consortium

15. If on multiple banking basis, names of other banks and evidence thereof

16. Has the Branch classified the advance under the Credit Rating norms in accordance with the guidelines of the controlling authorities of the Bank

17.
 - a. Details of verification of primary security and evidencethereof;
 - b. Details of valuation and evidence thereof

Date verified	Nature of security	Value	Valued by
---------------	--------------------	-------	-----------

Insured for Rs. _____ lakhs (expiring on _____)

18.
 - i. Details of verification of collateral security and evidence thereof
 - ii. Details of valuation and evidence thereof

Date verified	Nature of security	Value	Valued by
---------------	--------------------	-------	-----------

Insured for Rs. _____ lakhs (expiring on _____)

19. Give details of the guarantee in respect of the advance

- a. Central Government guarantee;
- b. State Government guarantee;
- c. Bank guarantee or financial institution guarantee;
- d. Other guarantee

Provide the date and value of the guarantee in respect of the above.

20. Compliance with the terms and conditions of the sanction
Terms and Conditions

Compliance

- i. Primary Security
 - i. Charge on primary security
 - ii. Mortgage of fixed assets
 - iii. Registration of charges with Registrar of Companies
 - iv. Insurance with date of validity of policy
- ii. Collateral Security
 - i. Charge on collateral security
 - ii. Mortgage of fixed assets
 - iii. Registration of charges with Registrar of Companies
 - iv. Insurance with date of validity of policy
- iii. Guarantees - Existence and execution of valid guarantees
- iv. Asset coverage to the branch based upon the arrangement (i.e., consortium or multiple-bank basis)
- v. Others:
 - i. Submission of Stock Statements/Quarterly Information Statements and other Information Statements
 - ii. Last inspection of the unit by the Branch officials: Give the date and details of errors/omissions noticed
 - iii. In case of consortium advances, whether copies of documents executed by the company favouring the consortium are available

21. Key financial indicators for the last two years and projections for the current year (Rs. in lakhs)

Indicators	Audited ended March _____	year 31st _____	Audited ended March _____	year 31st _____	Estimates for year ended 31st March _____
Turnover					
Increase in turnover % over previous year					
Profit before depreciation, interest and tax					
Less: Interest					
Net Cash Profit before tax					
Less: Depreciation					
Less: Tax/Net Profit after Depreciation and Tax					
Net Profit to Turnover Ratio					
Capital (Paid-up)					
Reserves					
Net Worth					

Turnover to Capital Employed Ratio (The term capital employed means the sum of Net Worth and Long Term Liabilities)

Current Ratio

Stock Turnover Ratio

Total Outstanding Liabilities/total Net Worth Ratio

In case of listed companies, Market Value of Shares

- a. High;
- b. Low; and
- c. Closing

Earnings Per Share

Whether the accounts were audited? If yes, up to what date; and are there any audit qualifications

22. Observations on the operations in the account:

	Excess drawing power	Excess over limit
1. No of occasions on which the Balance exceeded the drawing power/sanctioned limit (give details)		
Reasons for excess drawings, if any		
Whether excess drawings were reported to the Controlling Authority and approved		
	Debit summation (Rs. in lakhs)	Credit summation (Rs. in lakhs)
2. Total summation in the account during the year		
Less: Interest		
Balance		

23. Adverse observations in other audit reports/Inspection Reports/Concurrent Auditor's Report/Internal Audit Report/Stock Audit Report/Special Audit Report or Reserve Bank of India Inspection with regard to:

1. Documentation;
2. Operations;
3. Security/Guarantee; and
4. Others

24. Branch Manager's overview of the account and its operation.

25. 1. In case the borrower has been identified/classified as Non-performing Asset during the year, whether any unrealised income including income accrued in the previous year has been accounted as income, contrary to the Income Recognition Norms.
2. Whether any action has been initiated to recover accounts identified/classified as Non-performing Assets.

Date:

Signature and Seal
of Branch-in-
Charge

Advances checklist for LFAR

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

Name of borrower	Name of branch	Region	IRAC status	Sanctioning authority	Facility Limit		Amount o/s. as at the year end	Irregularity No.
1	2	3	4	5	6	7	8	9

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

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

For the aforesaid purpose, "appropriate number" would mean, for example, if the auditors feels that in case of "**Review/Monitoring/Supervision**", which has the number "4", any additional irregularity has to be incorporated, he may give a number after the last number appearing in the list such as "4.52", and onwards. Similarly in case of "**Credit Appraisal**" which has the number "1", any additional irregularity may be given "1.14", and so on.

- c) The borrower-wise details may be given in **descending** order based on the *Amount outstanding*.
- d) In addition to the above, auditors wanting to give notes in respect of Critical Advances (large or small) with gross irregularities should give the same as per the format given in "Point **6**" below.
- e) **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 opinion reports of the associate and/or sister concerns of the borrower are not scrutinised/called for/not updated/not satisfactory.
- 1.16 The procedure/instructions of head office regarding preparation of proposals for grant not followed.
- 1.17 The procedure/instructions of head office regarding preparation of proposals for renewal of advances not followed.
- 1.18 The procedure/instructions of head office regarding preparation of proposals for enhancement of limits, etc. not followed.
- 1.19 No exposure limits are fixed for forward contract for foreign exchange sales/purchase transactions.

2 Sanctioning and disbursement

- 2.1 Credit facility sanctioned beyond the delegated authority or limit of the branch
- 2.2 Certain proposals were sanctioned pending approval of higher authorities wherever required.
- 2.3 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.
- 2.15 Term loan was disbursed by creating the cash credit or savings account of the borrower.

3 Documentation

- 3.1 The security against which the advance was sanctioned was not available/was not on record.
- 3.2 Mortgage for the property given as security is not created.
- 3.3 Mortgage for the property given as security created, was inadequate, as compared to terms of sanction.
- 3.4 Second charge as required, on assets is not created in favour of the bank.
- 3.5 Documents of second charge on assets is not on the record.
- 3.6 Documents pertaining to registration of charges with ROC or any other concerned authority requiring charging of assets is not obtained.
- 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.
- 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 example Vehicle Loans, Plant and 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.
- 3.33 The branch has not taken any action for non-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.
- 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 and 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 lakhs 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 crystallised.
- 4.25 EBW statements on write-off of overdue export bills of ECM not found on record.
- 4.26 Confirmation as to genuineness of export transactions not obtained from Bank's foreign offices/correspondents/customs department.
- 4.27 Import credit, bill of entry evidencing import of goods not found.
- 4.28 Documents are not obtained for bills discounted under Letter of Credit.
- 4.29 Advances, 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 SBI 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.
- 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 of or no action taken by the branch.
- 4.51 Subsidy claim process was incomplete or subsidy was yet to be received or needs follow-up.
- 4.52 Security disposed of/entity closed by borrower and no action taken by the branch.
- 4.53 Irregularity not advised to controllers.
- 4.54 Letter of subordination of deposits not taken.
- 4.55 Secured and unsecured portion not segregated properly in advance return of the branch.
- 4.56 Renewal of limits was done before the receipt of financial statements.
- 4.57 Heavy cash withdrawal for which consent of corporate Guarantor is not taken.
- 4.58 Proper valuation of stock not done/needs critical scrutiny.
- 4.59 Security obtained is inadequate/lower as compared to amount of outstanding/no collateral security.
- 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 *vis-à-vis* 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.
- 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 finalised.

5.17 ECGC claim not submitted/lodged for recovery.

f) Format for reporting Large/Irregular Advances

Name of the Branch & Region:

Name of the Borrower:

Asset Classification (IRAC Status):

(Rupees in lakhs)

Facility	Sanctioned Limit	Drawing Power	Outstanding as on 31.03.2022
----------	------------------	---------------	---------------------------------

Fund based:

Non-Fund based:

g) Security:

h) Primary:

i) Collateral:

Financial performance:

Operational comments:

Other comments (if any):

Remuneration payable to the Statutory Central and Branch Auditors from the year 2012-2013 as per RBI circular No. DBS.ARS.No.BC. 08/ 08.92.001/ 2012-13 June 25, 2013

A. Remuneration for Branch Audit work of the Bank

Category of bank branch (on the basis of quantum of advances)	Rates of audit fees (Rs.)
Up to Rs.10 crore	40250/-
Above Rs.10 crore up to Rs.20 crore	57500/-
Above Rs.20 crore up to Rs.30 crore	79350/-
Above Rs.30 crore up to Rs.50 crore	120750/-
Above Rs.50 crore up to Rs.75 crore	138000/-
Above Rs.75 crore up to Rs.125 crore	182850/-
Above Rs.125 crore up to Rs.175 crore	228850/-
Above Rs.175 crore up to Rs.300 crore	287500/-
Above Rs. 300 crore up to Rs. 500 crore	324300/-
Above Rs. 500 crore up to Rs. 1000 crore	359950/-
Above Rs. 1000 crore up to Rs. 5000 crore	395600/-
Above Rs. 5000 crore	431250/-

The main operating office of the bank (irrespective of the fact whether it is attached to Head / Central Office of the bank or functions as a separate unit), CPUs/LPUs/and other centralized hubs by whatever nomenclature called which are taken up for the purpose of statutory branch audit during a particular year so as to cover 90% of advances of a bank will be treated as any other branch and the fees admissible for the audit work thereof will be on the basis of the above mentioned schedule.

For branches where there is no advances portfolio such as service branches, specialised branches etc., or those operating as NPA recovery branches the banks, in consultation with the Audit Committee of the Board, should propose the revised fees depending on the volume of business of the branches, existing fee, etc. for the approval of RBI on a case to case basis.

B. Fees for LFAR

Head Office / Controlling Offices	25% of the basic audit fee excluding fee for scrutiny and incorporation of branch returns.
Branches	10% of the basic audit fee payable for audit of respective branch.

In respect of branches below the cut-off point of the threshold limit of branches to be taken up for statutory audit, as stipulated from time to time, which may not generally be subjected to statutory audit but are subjected to concurrent audit by chartered accountants and where LFARs and other certifications done earlier by SBAs are required to be submitted by the concurrent auditors, the fees payable to the concurrent auditors may be based on the above prescription.

No separate TA/HA shall be payable for LFAR / Tax Audit of Head / Controlling Offices and branches.

C. Fees for additional certifications

It has been decided that an additional remuneration @ 12% of the basic audit fees shall be payable for the following certifications/validations required to be made in terms of various circulars/guidelines

issued by RBI and any other certification/validation included from time to time as per RBI requirements.

- i) Verification of SLR requirements under Section 24 of BR Act, 1949 on 12 odd dates in different months in a year, not being Fridays.
- ii) A certificate to the effect that the bank has been following RBI guidelines regarding (a) asset classification, (b) income recognition (c) provisioning, and also to the effect that the bank has followed RBI guidelines in regard to the investment transactions/treasury operations.
- iii) A certificate in respect of reconciliation of bank's investments (on own account as also under PMS).
- iv) A certificate for compliance in key areas by the banks.
- v) A certificate in respect of custody of unused BR forms.
- vi) Authentication of bank's assessment of Capital Adequacy Ratio in the 'Notes on Accounts' attached to the balance sheet and various other ratios / items to be disclosed in the 'Notes on Accounts'.
- vii) Certificate regarding loan portfolio review if the bank seeks World Bank assistance (Capital Restructuring Loan).
- viii) Certification regarding DICGC items.
- ix) Verification of SLR and CRR returns submitted by the bank to RBI during the period under audit and confirming the same to RBI and the bank under audit.

- x) To comment upon the status of compliance by the bank as regards the implementation of the recommendations of the Ghosh Committee and the Working Group on internal controls.
- xi) Commenting upon the credit deposit ratio in the rural areas as per the instructions of Government of India.
- xii) Reporting of instances of suspected fraud if any, noticed during the course of statutory audit as per Mitra Committee Recommendations.

As hitherto, no fee is payable to branch auditors for additional attestations.

D. Fees for additional certifications required by Securities and Exchange Board of India (SEBI)

As regards fee for additional certificates / attestations prescribed by SEBI and other regulators, the banks may decide in consultation with the Audit Committee of the Board/ Board.

E. Fees for auditing of consolidated financial statements

For this purpose banks may pay a maximum of Rs.20,625/- only per subsidiary / associate whose accounts are to be consolidated in the balance-sheet of a bank. The banks have freedom to offer lesser fee if the subsidiary / associate concerned is not active or is dormant.

F. Fee for quarterly / half yearly limited review

The fee for carrying out quarterly / half yearly limited review to be paid to statutory central auditors may continue to be 20% of the basic audit fee. It is further clarified that revised basic audit fee payable from 2012-13 will be applicable for computing the fee for limited review from the quarters ending June 30, 2013 onwards and not for the review carried out during the quarters ended June 30 / September 30 / December 31, 2012.

The concurrent auditors assisting the review process may continue to be paid a reasonable token fee as advised in our circular letter DBS.ARS.No.BC.17/ 08.91.001/2002-03 dated June 05, 2003.

H. Reimbursement of Travelling and Halting Allowances and Daily Conveyance Charges

1. For reimbursement of the lodging & boarding charges, travelling allowance and daily conveyance payable to statutory auditors, the banks are given the discretion to decide the same in a cost effective manner in mutual consent with the auditors. Further, in no circumstances should the rate exceed the IBA prescription for the respective ceiling. The categories of officers linked for the purpose of deciding the ceiling limits are given below:

Sl. No.	Category of Audit officials	Equivalent scale of Bank officials (as per IBA)
1	Partners/proprietors	VII – General Manager
2	Qualified Assistants	III – Senior Manager
3	Un-Qualified Assistants	I - Officers

2. With regard to the reimbursement of travelling, halting allowance and daily conveyance charges, following observations may be noted:

- i) Wherever banks have Guest House or Visiting Officers' Flats, the same may be utilized to cater to the needs of the auditors.
- ii) Banks should call for such details as are necessary for verification of bills in this regard and the statutory central auditors as well as branch auditors shall furnish such details for verification of the actual expenses.
- iii) Where the statutory central auditors have their headquarters at a place different from that where the Head/Central Office of the bank is situated, but have an office at the same place as the Head/Central Office of the bank, the TA/HA, if any, should be nominal for the central audit. However, to ensure the quality of audit, there should be no objection to the partners of the firm visiting the Head/Central Office of the bank as and when they deem it necessary.
- iv) Where the statutory central auditors or branch auditors have an office at the place where the branches/offices of the bank to be audited are situated, they will not be reimbursed TA/HA. However, local conveyance may be reimbursed.
- v) The TA/HA should be kept to the minimum.
- vi) In case of dispute between the auditors and the bank regarding settlement of their bills, the CMD/MD of the bank shall be the final authority to decide the claims. The CMD/MD has to satisfy himself that the actual expenses have been incurred by a particular auditor and the claims are settled keeping in view the aforesaid RBI guidelines.

Overall Audit Plan - Audit Programme

A. While drafting the audit programme, the type of reports to be submitted have to be

considered. There are four types of reports.

- a. Unqualified Report
- b. Qualified Report
- c. Disclaimer of Opinion
- d. Adverse Report

B. **Various types of reports include:**

- Jilani Committee Report
- Ghosh Committee Report
- Special Reports as applicable (Prime Minister Rojgar Yojana Scheme Report etc.)
- Long Form Audit Report
- Tax Audit Report
- Main Report (Sec. 30(3) of Banking Regulation Act, 1949)

C. **Accounting standards not applicable to bank**

Of the effective twenty eight standards, the following standards are not applicable to banks to the extent specified.

- (a) AS 13, Accounting for Investments, does not apply to investments of banks.
- (b) AS 11, "The Effects of Changes in Foreign Exchange Rates", does not apply to accounting of exchange difference arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction.

D. Considerations for overall audit Plan

1. The terms of his engagement and any statutory responsibilities
2. The nature and timing of reports or other communication
3. The applicable legal or statutory requirements
4. The accounting policy adopted by bank and changes in these policies
5. The identification of significant audit areas
6. The degree of reliance he expects to be placed on accounting systems and internal control
7. The nature and timing of audit evidence obtained
8. The work of internal auditors and extent of their involvement
9. The involvement of expert
10. The allocation of work to be undertaken between joint auditors and procedures for its control and review
11. Establishing and coordinating staffing requirements

E. Documentation

Following certificates should be obtained from management

- Cash Retention Limit duly certified by the Branch Manager

- A photo copy each of the confirmation certificates for Balances with RBI, SBI and other banks
- A copy of the reconciliation statement in respect of differences in such balances with RBI, SBI and other banks
- List of overdue or matured investments at the end of the year duly confirmed by the Branch Manager;
- A certificate stating that the Branch did not hold any investments on behalf of the Head Office (if there are no such investments held by the Branch)
- List of large advances i.e. those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the Branch or Rs.2.00 crores whichever is less duly certified by the Branch Manager
- A copy of the letter from Head Office regarding Sanction limit of the Branch Manager;
- List of cases where the Branch has not obtained stock/book debts statements at the end of the year;
- List of cases where insurance copies are yet to be received at the end of the year
- A copy of the Head office instructions for identification of NPAs and classification of advances
- List of major items pending for reconciliation under Inter-Branch Accounts;
- List of all fraud cases reported to RBI as fraud upto March 31st

F. Auditor should plan his work based on the client's business to enable him to conduct an effective audit in an efficient and timely manner as per AAS 8

G. Non applicability of CARO, 2020

Statement of companies (Auditor's Report) order 2020 is not applicable to banking company as defined in clause (c) of section 5 of Banking regulation Act, 1949 **Banking company** means any company, which transacts the business of banking in India;

Any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as such manufacturer or trader shall not be deemed to transact the business of banking

FORMAT OF CERTIFICATE FROM BRANCH MANAGER

Bank: XYZ Bank Branch:
Year: 2021-2022

To,

M/s **ABC & Co**

Chartered Accountants

Certified Date:

1	Our Cash Retention Limit is													
2	Our Balances with RBI, SBI and other Banks are													
3	List of accounts where Stock Statements are not received													
4	List of accounts where Insurance is pending or Insurance Policy not received													
5	List of accounts where Review / Renewal not Received													
6	List of accounts where Stock Audit Required													
7	List of accounts where Audited Financials not received													
8	Cases of Compromise / Settlement and write-off involving 50 Lakhs or more													
9	List of accounts where valuation report of security (every 3 years) not received / pending													
10	Status of our Lease Agreement for Premises													
11	My Sanction Limit is:													
12	Number of Fraud Cases													
	a) Detected in Branch during the year, and their current status													
	b) previous cases - disposal still pending													
13	Contingent Liabilities and details of all LOU/LOC and Foreign Currency Loan / Guarantee.													
14	Our Branch was covered with following audits during the year:													
	<table border="0"> <tr> <td>Inspection Audit</td> <td>Yes / No</td> </tr> <tr> <td>Revenue Audit</td> <td>Yes / No</td> </tr> <tr> <td>Concurrent Audit</td> <td>Yes / No</td> </tr> <tr> <td>Statutory Audit (last such audit)</td> <td>Yes / No</td> </tr> </table>	Inspection Audit	Yes / No	Revenue Audit	Yes / No	Concurrent Audit	Yes / No	Statutory Audit (last such audit)	Yes / No	<table border="0"> <tr> <td>Date of Report</td> <td>Status (open/closed)</td> </tr> <tr> <td></td> <td></td> </tr> </table>	Date of Report	Status (open/closed)		
Inspection Audit	Yes / No													
Revenue Audit	Yes / No													
Concurrent Audit	Yes / No													
Statutory Audit (last such audit)	Yes / No													
Date of Report	Status (open/closed)													
15	We further certify that, all payments relating to any expenditure covered under section 40(A)(3) of the Income Tax, 1961 were made by account payee cheques drawn on a bank or account payee bank draft, as the case may be.													

Specimen Audit Program**ABC & Co**

Chartered Accountants

Bank: **XYZ Bank**Date of
Commencement:

Branch

Date of Finalisation:

Audit ProgramAccounting Year: **2021-2022**

Sl.	Job	Performed By	Initials
1	B/S and P/L from Abstract		
2	Advance Ledgers (CC, TL, DL, BG, LOC/LOU)		
3	Advance Files		
4	Form - 3CA & 3CD		
5	LFAR		
6	Other Certificates		
7	Statutory Audit Report		
8	Records & Register		
9	TDS Challan/Returns		
10	Service Tax Challan/Returns		
11	Cash Verification		
12	Fixed Assets - Addition and Depreciation		
13	Expenses		
14	Interest Calculation on Deposits		
15	Unit Visit		
16	Stock Statement Analysis		
17	Previous Audit Reports (Revenue, Statutory, Inspection, Concurrent)		
18	Certificate to be obtained		
	Attendance Certificate		
	Cash Retention Limit etc		
	Cash Balance Certificate		
	Receipts for documents submitted		

TEAM:

ADVANCE DETAILS

ABC & Co
Chartered Accountants

XYZ Bank				Branch:		Year Ended: 31.03.2022			
Sl	Type	A/C No	Limit	Name	o/s as on 31st March	Date of NPA	Unrealised Interest	Provision Required	Remark

STOCK STATEMENT ANALYSIS

ABC & Co
Chartered Accountants

Bank: XYZ Bank Branch: Year: 2021-2022								Signature	
Sl	Account No	Type of Account	Name	Dec	Jan	Feb	Mar	BM	Party

Bank: XYZ Bank

Branch:

Year: 2021-2022

Account No	Type of Account	Name	Financials	Sanction	Valuation of Security	Insurance	Renewal / Review	Charge (ROC)	Stock Audit	Remarks

FORMAT OF CASH BALANCE CERTIFICATE

Bank:

XYZ Bank

Branch:

Date	Opening Balance	Total Receipt	Total Payment	Closing Balance
	(1)	(2)	(3)	(1+2-3)
31 st Mar 2022				
1st April 2022				
2nd April 2022				
3rdApril 2022				
4th April 2022				
5th April 2022				
6th April 2022				
7th April 2022				
8th April 2022				

FORMAT OF RECEIPT BY BRANCH (ON BRANCH'S LETTER HEAD)

Re: **ABC & Co, Chartered Accountants**

Year: **2021-2022**

We hereby certify that following representatives of above referred Chartered Accountants Firm Visited our Branch as given below for the purpose of Statutory Audit for the year

SI	Name& Designation	From		To	
		Date	Time	Date	Time
1					
2					
3					
4					
5					

We further certify that we have received following documents from them in respect of our statutory audit for the year:

SI	Particulars	No of Copies	Remarks if any
1			
2			
3			
4			
5			
6			
7			

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

Independent Branch Auditor's Report

To,
The Statutory Central Auditor
_____ Bank

Report on the Audit of the Financial Statements Opinion

1. We have audited the Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, the Statement of Profit and Loss for the year then ended and other explanatory information [*in which are included the Returns for the year ended on that date*].

2. In our opinion, and to the best of our information and according to the explanations given to us, read with the Memorandum of Changes (mentioned in paragraph 7 below), the aforesaid financial statements give the information required by the Banking Regulation Act, 1949, in the manner so required for bank and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs in case of the Balance Sheet of the branch as at March 31, 20XX and true balance of profit/loss for the year ended on that date.

Basis for Opinion

3. We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the bank in accordance with the code of ethics issued by the Institute of Chartered Accountants of India together with ethical requirements that are relevant to our audit of the financial statements, in [jurisdiction] and we have fulfilled our other ethical responsibilities in accordance with these requirements and the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the Financial Statements

4. The Bank's management is responsible with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards issued by ICAI, and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting

unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

5. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Report that the audit at branch level is not be able to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained at branch, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matter

6. 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 (Revised)– 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);
- (j) Any other provision made by Head Office.

7. The following is a summary of Memorandum of Changes submitted by us to the branch management¹.

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)			

Report on Other Legal and Regulatory Requirements

8. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;

9. Subject to the limitations of the audit indicated in paragraphs 4 to 6 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, and subject also to the limitations of disclosure required therein, 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 purposes of the audit and have found them to be satisfactory;
- b. The transactions of the branch which have come to our notice have been within the powers of the Bank.
- c. the returns received from the branch have been found adequate for the purposes of our audit

¹Where Applicable.

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

10. We further report that:
- a. in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
 - b. the Balance Sheet, and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - c. In our opinion, the Balance Sheet, and the Profit and Loss Account comply with the applicable accounting standards, to the extent they are not inconsistent with the accounting policies prescribed by RBI.

For ABC and Co. Chartered Accountants Firm
Registration No.

Signature (Name of the Member
Signing the Audit Report)
(Designation)³ Membership Number
UDIN.....

Place of Signature
Date

³Partner or proprietor as the case may be.

(RBI Master Circular No **RBI/2015-16/101** DBR.No.BP.BC.2/21.04.048/2015-16 dated 01.07.2015)

Link to download full text of circular https://rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9908

15. Background

15.1 The guidelines issued by the Reserve Bank of India on restructuring of advances (other than those restructured under a separate set of guidelines issued by the Rural Planning and Credit Department (RPCD) of the RBI on restructuring of advances on account of natural calamities) are divided into the following four categories :

- (i) Guidelines on restructuring of advances extended to industrial units.
- (ii) Guidelines on restructuring of advances extended to industrial units under the Corporate Debt Restructuring (CDR) Mechanism
- (iii) Guidelines on restructuring of advances extended to Small and Medium Enterprises (SME)
- (iv) Guidelines on restructuring of all other advances.

In these four sets of guidelines on restructuring of advances, the differentiations were broadly made based on whether a borrower is engaged in an industrial activity or a non-industrial activity. In addition, an elaborate institutional mechanism was laid down for accounts restructured under CDR Mechanism. The major difference in the prudential regulations was in the stipulation that subject to certain conditions, the accounts of borrowers engaged in industrial activities (under CDR Mechanism, SME Debt Restructuring Mechanism and outside these mechanisms) continued to be classified in the existing asset classification category upon restructuring. This benefit of retention of asset classification on restructuring was not made available to the accounts of borrowers engaged in non-industrial activities except to SME borrowers. Another difference was that the prudential regulations covering the CDR Mechanism and restructuring of advances extended to SMEs were more detailed and comprehensive than that covering the restructuring of the rest of the advances including the advances extended to the industrial units, outside CDR Mechanism. Further, the CDR Mechanism was made available only to the borrowers engaged in industrial activities.

15.2 Since the principles underlying the restructuring of all advances were identical, it was felt that the prudential regulations needed to be aligned in all cases. Accordingly, the prudential norms across all categories of debt restructuring mechanisms, other than those restructured on account of natural calamities which will continue to be covered by the extant guidelines issued by the RPCD, were harmonised in August 2008.

15.3 In the backdrop of extraordinary rise in restructured standard advances, these prudential norms were further revised by taking into account the recommendations of the Working Group (Chairman: Shri B. Mahapatra) to review the existing prudential guidelines on restructuring of advances by banks/financial institutions. These prudential norms applicable to all restructurings including those under CDR Mechanism are included in this circular. The details of the institutional / organizational framework for CDR Mechanism and SME Debt Restructuring Mechanism are given in Annex - 4.

15.4 The CDR Mechanism (Annex - 4) will also be available to the corporates engaged in non-industrial activities, if they are otherwise eligible for restructuring as per the criteria laid down for this purpose. Further, banks are also encouraged to strengthen the co-ordination among themselves in the matter of restructuring of consortium / multiple banking accounts, which are not covered under the CDR Mechanism.

16. Key Concepts

Key concepts used in these guidelines are defined in Annex - 5.

17. General Principles and Prudential Norms for Restructured Advances

The principles and prudential norms laid down in this paragraph are applicable to all advances including the borrowers, who are eligible for special regulatory treatment for asset classification as specified in para 20.

17.1 Eligibility criteria for restructuring of advances

17.1.1 Banks may restructure the accounts classified under 'standard', 'sub- standard' and 'doubtful' categories.

17.1.2 Banks cannot reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re- classification of an asset should not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. In case there is undue delay in sanctioning a restructuring package and in the meantime the asset classification status of the account undergoes deterioration, it would be a matter of supervisory concern.

17.1.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

17.1.4 No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the projects / activity financed by banks would be treated as an attempt at ever greening a weak credit facility and would invite supervisory concerns / action. Banks should accelerate the recovery measures in respect of such accounts. The viability should be determined by the banks based on the acceptable viability benchmarks determined by them, which may be applied on a case-by-case basis, depending on merits of each case. Illustratively, the parameters may include the Return on Capital Employed, Debt Service Coverage Ratio, Gap between the Internal Rate of Return and Cost of Funds and the amount of provision required in lieu of the diminution in the fair value of the restructured advance. As different sectors of economy have different performance indicators, it will be desirable that banks adopt these broad benchmarks with suitable modifications. Therefore, it has been decided that the viability should be determined by the banks based on the acceptable viability parameters and benchmarks for each parameter determined by them. The benchmarks for the viability parameters adopted by the CDR Mechanism are given in the Appendix to Part – B of this Master Circular and individual banks may suitably adopt them with appropriate adjustments, if any, for specific sectors while restructuring of accounts in non-CDR cases.

17.1.5 While the borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring, banks may review the reasons for classification of the borrowers as wilful defaulters, specially in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent, and satisfy itself that the borrower is in a position to rectify the wilful default. The restructuring of such cases may be done with Board's approval, while for such accounts the restructuring under the CDR Mechanism may be carried out with the approval of the Core Group only.

17.1.6 BIFR cases are not eligible for restructuring without their express approval. CDR Core Group in the case of advances restructured under CDR Mechanism, the lead bank in the case of SME Debt Restructuring Mechanism and the individual banks in other cases, may consider the proposals for restructuring in such cases, after ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

17.2 Asset classification norms

Restructuring of advances could take place in the following stages:

- (a) before commencement of commercial production / operation;
- (b) after commencement of commercial production / operation but before the asset has been classified as 'sub-standard';
- (c) after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

17.2.1 The accounts classified as 'standard assets' should be immediately re- classified as 'sub-standard assets' upon restructuring.

17.2.2 The non-performing assets, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repaymentschedule.

17.2.3 Standard accounts classified as NPA and NPA accounts retained in the same category on restructuring by the bank should be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (Annex - 5), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period.

17.2.4 In case, however, satisfactory performance after the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule.

17.2.5 Any additional finance may be treated as 'standard asset' during the specified period (Annex – 5) under the approved restructuring package. However, in the case of accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

17.2.6 If a restructured asset, which is a standard asset on restructuring in terms of para 20.2, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion maybe allowed to be upgraded to standard category after the specified period (Annex-5) in terms of the current restructuring package, subject to satisfactory performance.

17.3 Income recognition norms

Subject to provisions of paragraphs 17.2.5, 18.2 and 19.2, interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the accounts classified as 'non-performing assets' will be recognized on cash basis.

17.4 Provisioning norms

17.4.1 Provision on restructured advances

- (i) Banks will hold provision against the restructured advances as per the extant provisioning norms.
- (ii) Restructured accounts classified as standard advances will attract a higher provision (as prescribed from time to time) in the first two years from the date of restructuring. In cases of moratorium on payment of interest/principal after restructuring, such advances will attract the prescribed higher provision for the period covering moratorium and two years thereafter.
- (iii) Restructured accounts classified as non-performing assets, when upgraded to standard category will attract a higher provision (as prescribed from time to time) in the first year from the date of upgradation.
- (iv) The above-mentioned higher provision on restructured standard advances (2.75 per cent as prescribed vide circular dated November 26, 2012) would increase to 5 per cent in respect of new restructured standard accounts (flow) with effect from June 1, 2013 and increase in a phased manner for the stock of restructured standard accounts as on May 31, 2013 as under :

- ☐ 3.50 per cent - with effect from March 31, 2014 (spread over the four quarters of 2013-14)
- ☐ 4.25 per cent - with effect from March 31, 2015 (spread over the four quarters of 2014-15)
- ☐ 5.00 per cent - - with effect from March 31, 2016 (spread over the four quarters of 2015-16)

17.4.2 Provision for diminution in the fair value of restructured advances

(i) Reduction in the rate of interest and / or reschedulement of the repayment of principal amount, as part of the restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the bank and will have impact on the bank's market value of equity. It is, therefore, necessary for banks to measure such diminution in the fair value of the advance and make provisions for it by debit to Profit & Loss Account. Such provision should be held in addition to the provisions as per existing provisioning norms as indicated in para 17.4.1 above, and in an account distinct from that for normal provisions.

For this purpose, the erosion in the fair value of the advance should be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR or base rate⁵ (whichever is applicable to the borrower) as on the date of restructuring plus the appropriate term

premium and credit risk premium for the borrower category on the date of restructuring. Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR or base rate (whichever is applicable to the borrower) as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring. The above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently by banks in future. Further, it is reiterated that the provisions required as above arise due to the action of the banks resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

ii) It was observed that on a few occasions, there were divergences in the calculation of diminution of fair value of accounts by banks. Illustratively, divergences could occur if banks are not appropriately factoring in the term premium on account of elongation of repayment period on restructuring. In such a case the term premium used while calculating the present value of cash flows after restructuring would be higher than the term premium used while calculating the present value of cash flows before restructuring. Further, the amount of principal converted into debt/equity instruments on restructuring would need to be held under AFS and valued as per usual valuation norms. Since these instruments are getting marked to market, the erosion in fair value gets captured on such valuation. Therefore, for the purpose of arriving at the erosion in the fair value, the NPV calculation of the portion of principal not converted into debt/equity has to be carried out separately. However, the total sacrifice involved for the bank would be NPV of the above portion plus valuation loss on account of conversion into debt/equity instruments.

Banks are therefore advised that they should correctly capture the diminution in fair value of restructured accounts as it will have a bearing not only on the provisioning required to be made by them but also on the amount of sacrifice required from the promoters (Ref. para 20.2.2.iv). Further, there should not be any

effort on the part of banks to artificially reduce the net present value of cash flows by resorting to any sort of financial engineering. Banks are also advised to put in place a proper mechanism of checks and balances to ensure accurate calculation of erosion in the fair value of restructured accounts.

5 This change has been introduced as a result of the introduction of Base Rate System w.e.f. July 1, 2010 vide circular DBOD.No.Dir.BC.88/13.03.00/2009-10 dated April 9, 2010 on 'Guidelines on the Base Rate'.

(iii) In the case of working capital facilities, the diminution in the fair value of the cash credit / overdraft component may be computed as indicated in para (i) above, reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taking the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (Working Capital Term Loan and Funded Interest Term Loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.

(iv) In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1/- till maturity of the security. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

(v) The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR or base rate (whichever is applicable to the borrower), term premium and the credit category of the borrower. Consequently, banks may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

(vi) If due to lack of expertise / appropriate infrastructure, a bank finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, banks will have the option of notionally computing the amount of diminution in the fair value and providing therefor, at five per cent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore.

17.4.3 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

17.5 Risk-Weights

a. Restructured housing loans should be risk weighted with an additional risk weight of 25 percentage points.

b. With a view to reflecting a higher element of inherent risk which may be latent in entities whose obligations have been subjected to restructuring / rescheduling either by banks on their own or along with other bankers / creditors, the unrated standard / performing claims on corporates should be assigned a higher risk weight of 125% until satisfactory performance under the revised payment schedule has been established for one year from the date when the first payment of interest / principal falls due under the revised schedule.

c. For details on risk weights, Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015 on 'Basel III Capital Regulations' may be referred.

Relief for GST Registered MSME Borrowers

RBI/2018-19/125

FIDD.CO.MSME.BC.No.14/06.02.031/2018-19

February 21, 2019

The Chairman/Managing Director & CEOs
All Scheduled Commercial Banks
(including Regional Rural Banks)

Madam/Dear Sir,

Interest Subvention Scheme for MSMEs

As you are aware, Government of India, on November 2, 2018, has announced 'Interest Subvention Scheme for MSMEs 2018'.

2. A copy of the salient features and operational guidelines for implementation of the captioned scheme, released by the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, is [enclosed](#). Small Industries Development Bank of India (SIDBI) is the single national level nodal implementation agency for the scheme.
3. You are requested to take appropriate action as envisaged for banks in the said operational guidelines and issue necessary instructions to your branches /controlling offices for successful implementation of the scheme.
4. Kindly acknowledge receipt.

Yours faithfully,

(Sonali Sen Gupta)
Chief General Manager

Encl. as above

Interest Subvention Scheme for MSMEs 2018

1. Background:

The Micro, Small and Medium Enterprises [MSME] sector is a significant contributor towards building up of a strong and stable national economy. Hon'ble Prime Minister while launching outreach initiative for MSME sector on November 2nd, 2018 highlighted that access to credit, access to market, technology upgradation, ease of doing business and a sense of security for employees are five key aspects for facilitating MSME sector. Twelve announcements have been made to address each of these five categories. As part of access to credit, Prime Minister announced 2% interest subvention for all GST registered MSMEs, on fresh or

incremental loans.

Ministry of MSME (MoMSME) has decided that a new scheme viz. “Interest Subvention Scheme for Incremental credit to MSMEs 2018” will be implemented over 2018-19 and 2021-2022.

2. Salient Features of the Scheme

2.1 Purpose, Scope and Duration

The Scheme aims at encouraging both manufacturing and service enterprises to increase productivity and provides incentives to MSMEs for onboarding on GST platform which helps in formalization of economy, while reducing the cost of credit. The Scheme will be in operation for a period of two financial years FY 2019 and FY 2020.

2.2 Eligibility for Coverage

(i) All MSMEs who meet the following criteria shall be eligible as beneficiaries under the Scheme:

a. Valid Udyog Aadhar Number [UAN]

b. Valid GSTN Number

(ii) Incremental term loan or fresh term loan or incremental or fresh working capital extended during the current FY viz. from 2nd November 2018 and next FY would be eligible for coverage.

(iii) The term loan or working capital should have been extended by Scheduled Commercial Banks.

(iv) In order to ensure maximum coverage and outreach, all working capital or term loan would be eligible for coverage to the extent of ₹100 lakh only during the period of the Scheme.

(v) Wherever both the facilities working capital and term loan are extended to a MSME by an eligible institution, interest subvention would be made available for a maximum financial assistance of ₹100 lakh.

(vi) MSME exporters availing interest subvention for pre-shipment or post-shipment credit under Department of Commerce will not be eligible for assistance under Interest Subvention Scheme for Incremental credit to MSMEs 2018.

(vii) MSMEs already availing interest subvention under any of the Schemes of the State / Central Govt. will not be eligible under the proposed Scheme.

2.3 Operational formalities

1. The interest relief will be calculated at two percentage points per annum (2% p.a.), on outstanding balance from time to time from the date of disbursement / drawal or the date of notification of this scheme, whichever is later, on the incremental or fresh amount of working capital sanctioned or incremental or new term loan disbursed by eligible institutions.

2. The interest rates charged to MSMEs shall conform to Code of Ethics and Fair Practices Code as published by respective institutions (as per extant RBI guidelines) and linked to the respective internal /

external rating of the MSME as per applicable interest rate guidelines of the institution.

3. The loan accounts on the date of filing claim should not have been declared as NPA as per extant guidelines in force. No interest subvention shall be admissible for any period during which the account remains NPA.

2.4 Claim Submission

1. Nodal office of eligible lending institutions should submit their half yearly claims to SIDBI as per the format given in [Annex I](#). Information with respect to loans disbursed and interest relief claimed (branch-wise) shall be submitted in soft copy in excel in the format given in [Annex II](#).

2. The format for compilation of data by branches of eligible institutions is given in [Annex III](#). The same may be submitted by the branches to their Controlling Offices / Head Offices.

3. All claims have to be duly certified by the statutory auditors of the eligible institutions. The certificate shall include statement on verification of individual accounts with regard to amount, incremental / fresh lending, interest charged and amount claimed. Lending institutions shall ensure that total relief claimed as indicated in Annex I, II and III are matched.

4. The Half Yearly claims shall be submitted to the Chief General Manager, Institutional Finance Vertical, SIDBI, Mumbai.

5. Disbursement against each claim to individual institution shall be only after release of funds from MoMSME.

2.5 Other covenants

1. SIDBI shall act as a Nodal Agency for the purpose of channelizing of interest subvention to the various lending institutions through their Nodal office.

2. All lending institutions shall be responsible for submission of the accurate data and monitoring of the scheme.

3. The interest subvention would be released only on the basis of claim duly certified by the Statutory Auditors of the eligible institutions. SIDBI shall not be liable for any inaccurate submission of data by lending institutions.

4. Interest subvention amount shall be released by SIDBI subject to availability of funds from GOI. Also, MoMSME, GOI will be the final authority for all interest subvention related matters and their decision would be final and binding. Receipt of funds by the eligible institutions would be treated as Utilization Certificate of the Fund.

List of Important Circulars <https://www.rbi.org.in/scripts/NotificationUser.aspx>

Financial Inclusion and Development Master Direction – Reserve Bank of India (Relief Measures by banks in areas affected by Natural Calamities) Directions 2018 RBI/FIDD/2018-19/64 Master Direction FIDD.CO.FSD.BC.No.9/05.10.001/2018-19 October 17, 2018
Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector RBI/FIDD/2017-2018/56 Master Direction FIDD.MSME & NFS.12/06.02.31/2017-18 July 24, 2017 (Updated as on April 25, 2018)
Master Directions – Priority Sector Lending (PSL) – Targets and Classification RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 Sept 4, 2020
Master Circular-Kisan Credit Card (KCC) Scheme RBI/2018-19/10 FIDD.CO.FSD.BC.No.6/05.05.010/2018-19 July 4, 2018
Kisan Credit Card (KCC) Scheme: Working Capital for Animal Husbandry and Fisheries RBI/2018-19/112 FIDD.CO.FSD.BC. 12 /05.05.010/2018-19 February 04, 2019
Interest Subvention Scheme for Short Term Crop Loans during the year 2017-18 RBI/2017-18/48 FIDD.CO.FSD.BC.No.14/05.02.001/2017-18 August 16, 2017
Continuation of Interest Subvention Scheme for short-term crop loans on interim basis during the year 2018-19 RBI/2017-18/190 FIDD.CO.FSD.BC.No.21/05.04.001/2017-18 June 7, 2018
Master Circular – Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NULM) RBI/ 2021-22/12 FIDD.GSSD.CO.BC.No.03/ 09.16.03/2021-22 April 05, 2021
Master Circular – Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM) RBI/ 2021-22/05 FIDD.GSSD.CO.BC.No.04/ 09.01.01/2021-22 April 01, 2021
Interest Subvention Scheme for MSMEs RBI/2018-19/125 FIDD.CO.MSME.BC.No.14/06.02.031/2018-19 February 21, 2019
Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit (MSME) RBI/2018-19/81 DBR.Dir.BC.No.09 /04.02.001/2018-19 November 29, 2018
Interest Equalisation Scheme on Pre and Post Shipment Rupee Export Credit RBI/2018-19/107 DBR.Dir.BC.No.22/04.02.001/2018-19 January 11, 2019
Master Circular - Lead Bank Scheme RBI/2021-22/04 FIDD.CO.LBS.BC.No.02/0 2.01.001/2021-22 April 01, 2021
Master Direction - Amalgamation of Urban Cooperative Banks, Directions, 2020 - RBI/DOR/2020-21/75 Master Direction DOR.MAM.No.49/09.16.901/2020-21 March 23, 2021
Master Direction – Financial Statements - Presentation and Disclosures - RBI/DOR/2021-22/83 DOR.ACC.REC.No.45/ 21.04.018/2021-22 August 30, 2021 (updated as on November 15, 2021)
Master Direction – Reserve Bank of India [Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)] Directions – 2021 - RBI/DOR/2021-22/80 DOR.No.RET.REC.32/1 2.01.001/2021-22 July 20, 2021
Circulars on loans and advances
PART-A (Other circulars)
Master Circular-Guarantees and Co-acceptances RBI / 2021-22/121 DOR.STR.REC.66/13.07.0 10/2021-22 November 09, 2021
Master Circular Loans and Advances – Statutory and Other Restrictions RBI/2015-16 /95 DBR.No.Dir.

BC.10/13.03.00/2015-16 dated July 1, 2015
Master Circular on Wilful Defaulters RBI/2015-16/100 DBR.No.CID.BC.22/20.16.003/2015-16 July 1, 2015
Legal Audit of title documents in respect of large value loan accounts RBI/DBS.FrMC.BC.No.7/23.04.001/2012-13 dated June 07, 2013
Master Direction - Interest Rates on Advances RBI/DBR/2015-2016/20 Master Directions DBR.Dir.No.85/13.03.002015-2016 dated March 03, 2016 (Updated as on Sept 04, 2019)
Credit Flow to Agriculture- Collateral free agricultural loans RBI/2018-19/118 FIDD.CO.FSD.BC.No.13/05.05.010/2018-19 February 7, 2019
Filing of Security Interest relating to Immovable (other than equitable mortgage), Movable and Intangible Assets in CERSAI RBI/2018-19/96 DBR.Leg.No.BC.15/09.08.020/2018-19 December 27, 2018
Guidelines on Loan System for Delivery of Bank Credit RBI/2018-19/87 DBR.BP.BC.No.12/21.04.048/2018- 19 December 5, 2018
Master Circular – Credit Facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs) RBI/2021-2022/06 FIDD.CO.GSSD.BC.No.03/09.09.001/2021-2022 July 01, 2019
Master Circular – Credit Facilities to Minority Communities RBI/2021-22/06 FIDD.GSSD.BC.No.01/09. 10.01/2021-22 April 01, 2021
Master Circular – Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) RBI/2021-2022/105 FIDD.GSSD.CO.BC.No.15/0 9.01.01/2021-2022 November 26, 2019
Master Direction on Digital Payment Security Controls - RBI/2020-21/74 DoS.CO.CSITE.SEC.No.1852/ 31.01.015/ 2020-21 February 18, 2021
Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 - BI/DOR/2021-22/86 DOR.STR.REC.51/21.0 4.048/2021-22 September 24, 2021
PART-B (IRAC norms and provisioning)
Master Circular- Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances RBI/2021-2022/104 DOR.No.STR.REC.55/21.0 4.048/2021-22 October 01, 2021
Discount Rate for Computing Present Value of Future Cash Flows RBI/2015-16/111 DBR.No.BP.BC.27/21.04.048/2015-16 July 2, 2015
Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Credit Card Accounts RBI/2015-16/126 DBR.No.BP.BC.30/21.04.048/2015-16 July 16, 2015
Provisioning pertaining to Fraud Accounts RBI/2015-16/376 DBR.No.BP.BC.92/21.04.048/2015-16 April 18, 2016
Resolution of Stressed Assets – Revised Framework RBI/2017-18/131 DBR.No.BP.BC.101/21.04.048/2017- 18 February 12, 2018
Relief for MSME Borrowers registered under Goods and Services Tax (GST) RBI/2017-18/129 DBR.No.BP.BC.100/21.04.048/2017-18 February 07, 2018
Encouraging formalisation of MSME sector RBI/2017-18/186 DBR.No.BP.BC.108/21.04.048/2017-18 June 6, 2018
Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances RBI/2018-19/100

DBR.No.BP.BC.18/21.04.048/2018-19 January 1, 2019
Micro, Small and Medium Enterprises (MSME) sector- Restructuring of Advances RBI/2018-19/127 DBR.No.BP.BC.26/21.04.048/2018-19 February 22, 2019
Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Refinancing of Exposures to Borrowers RBI/2014-15/539 DBR.No.BP.BC.85/21.04.048/2014-15 April 6, 2015
Master Direction – Priority Sector Lending – Small Finance Banks – Targets and Classification RBI/FIDD/2021-2022/70 Master Direction FIDD.CO.Plan.BC No.08/04.09.01/2021-2022 Jul 29, 2019 (updated on Mar 12, 2020)
Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 - BI/DOR/2021-22/85 DOR.STR.REC.53/21.0 4.177/2021-22 September 24, 2021
PART-C (Diligence reports for banks)
Lending under Consortium Arrangement/Multiple Banking Arrangement RBI/2008-2009/183 DBOD No. BP. BC.46/ 08.12.001/2008-09 September 19, 2008
Lending under Consortium Arrangement/Multiple Banking Arrangements RBI/2008-2009/313 DBOD.No.BP.BC.94 /08.12.001/2008-09 December 08, 2008
Lending under Consortium Arrangement , Multiple Banking Arrangements RBI/2008-2009/379 - DBOD.No. BP.BC.110/08.12.001/2008-09 dated February 10, 2009
Second Quarter Review of Monetary Policy 2012-13 – Non-Performing Assets (NPAs) and Restructuring of Advances RBI/2012-13/304 DBOD.BP.BC.No. 62 /21.04.103/2012-13 November 21, 2012
Transfer of Borrowal Accounts from One Bank to Another RBI/2011-12/551 DBOD.No.BP.BC- 104/21.04.048/ 2011-12 dated May 10, 2012
Other Important circulars
Master Directions on Frauds – Classification and Reporting by commercial banks and select FIs RBI/DBS/2016-17/28 DBS.CO.CFMC.BC.No.1/ 23.04.001/2016-17 dated July 01, 2016.(Updated as on July 03, 2017)
Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016 RBI/DBR/2015-16/19
Master Direction DBR. Dir. No.84/13.03.00/2015-16 March 03, 2016 (updated as on February 22, 2019)
Master Direction - Know Your Customer (KYC) Direction, 2016 RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 February 25, 2016 (updated as on Apr 01, 2020)
<u>COVID-19</u>
COVID-19- Operational and Business Continuity Measures RBI/ 2021-2022/ 172 DoS.CO. PPG.BC.01/ 11.01.005/ 2021-2022 Mar 16 2020
COVID-19 – Regulatory Package (Revised) RBI/2021-2022/186 DOR.No.BP.BC.47/21.04.048/2021-2022 Mar 27 2020