

# COMPILATION FOR STATUTORY AUDIT OF BANK BRANCHES (2019-20)

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## I. Finacle Commands for Auditors

S.No	Commands	Functions Of Finacle Menu
1.	AALI	A/c Abnormal Limits/Details Inquiry
2.	ABMR	Report of Accounts Below Min Balance
3.	ACCBAL	Components of Account Balance Inquiry
4.	ACDET	Account Balance Details
5.	ACI	Customer Accounts Inquiry
6.	ACLI	Account Ledger Inquiry
7.	ACLPCL	Customer Account Ledger Print
8.	ACLPOA	Office Account Ledgers Print
9.	ACMP	Account Master Print
10.	ACSP	Account Selection Print
11.	ACTI	Account Turnover Inquiry
12.	ACTODI	Account TOD Inquiry
13.	ADVC	Print DR/CR Advice to Customer
14.	AFI	Audit File Inquiry
15.	AFINQU	Audit File Inquiry
16.	AFP	Audit File Print
17.	AICR	Advanced Interest Collected Report- Bills
18.	AINTRPT	Interest Report For Accounts
19.	AITINQ	Account Interest Details Inquiry
20.	ALMSP	Agricultural Loans Master Sheet Print
21.	ASTI	Amount-slab Table Inquiry
22.	ATI	Abnormal Transactions Inquiry
23.	ATMBRPT	Balances outstanding in MBBCASH001, ATMCASH001, ATMTEMP001 where balance not equal to ZERO.
24.	BDTR	Bills due Today report.
25.	BEHI	Bills Events History Inquiry
26.	BGCLOSE	Guarantee close register printing
27.	BGPRINT	Guarantee printing
28.	BI	Bills Inquiry
29.	BICR	Bills Interest Collected Report
30.	BICS	Bills Collection Schedule
31.	BKTI	Bank Table Inquiry
32.	BR	Balancing Report
33.	BRBPR	Balancing report bills purchased
34.	BRCR	Balancing report bills collection
35.	BRRBPR	Bills Register Report - Bills Purchased
36.	BRRCR	Bills Register Report - Collection Inward/Outward
37.	BRTI	Branch Table Inquiry
38.	CALLRPT 1	Call over Report for SB and CA Accounts
39.	CALLRPT 11	Payslip reconciliation/outstanding Report
40.	CALLRPT 12	Interest certificate Only for TDR for a givencust_id.
41.	CALLRPT 14	Inward Clearing File Generation

Compilation for Statutory Audit of Bank Branches 2019-20

Compiled & Prepared by CA Atul Agrawal, NOIDA

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42.	CALLRPT 15	Statement of Service Tax
43.	CALLRPT 16	Statement of PPF Transactions
44.	CALLRPT 17	BCTT Download for a Branch
45.	CALLRPT 18	BCTT Consolidation for Zonal Offices
46.	CALLRPT 2	Call over Report for CC and OD Accounts
47.	CALLRPT 3	Call over Report for Loan Accounts
48.	CALLRPT 4	Call over Report for TDA Accounts
49.	CALLRPT 5	Call over Report for DD
50.	CALLRPT 6	Call over Report for office Accounts
51.	CALLRPT 7	Accounts with interest table code Zero/ZeroL
52.	CALLRPT 8	TDS details for a given Cust-Id
53.	CALLRPT 9	Interest details for a given Sol-Id.
54.	CBM	Customer Becoming Major
55.	CHGIR	Charges Income Report
56.	CHRGADV	Charge Advice Printing
57.	CTI	Calendar Table Inquiry
58.	CUACLI	Inquire on Your Account Ledger Entries
59.	CUBI	Bills Inquiry
60.	CULAC	Customer Accounts List
61.	CULI	Customer Unutilized Limit Inquiry
62.	CUMI	Customer Master Inquiry
63.	CUS	Customer Selection
64.	CUSTBALP	Printing of Customer Balances
65.	DCEXPLST	Report on DC Expired
66.	DCLIABRG	DC Liability Register
67.	DCQRY	Document credit Query
68.	DCQRYP	Documentary Credits Query Printing
69.	DCREG	Documentary Credits Register Printing
70.	DCRPTS	DC Reports and Advices
71.	DDIC	DD Credits Inquiry
72.	DDID	DD Debits Inquiry
73.	DDII	Specific DD Issued Inquiry
74.	DDIP	Specific DD Paid Inquiry
75.	DDIR	DD Issue Reports
76.	DDP	A-> DD Issued Summary
77.	DDP	B-> DD Issued Register
78.	DDP	C-> DD Paid Summary
79.	DDP	D-> DD Paid Register
80.	DDP	E-> DD Cancellation & Rectification Summary
81.	DDP	F-> DD Cancellation & Rectification Register
82.	DDP	G-> DD Consolidated Summary
83.	DDP	H -> All SummaryA,C,E,G
84.	DDP	I -> All Registers B,D,F
85.	DDP	J -> All Summaries & Registers
86.	DDP2	A -> Drafts Issued Schedule
87.	DDP2	B -> Drafts Issued Register

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88.	DDP2	C -> Drafts Paid Schedule (other than Ex-advice)
89.	DDP2	D-> Drafts Paid Register (other than Ex-advice)
90.	DDP2	E-> Drafts Paid Ex-advice Schedule
91.	DDP2	F-> Drafts Paid Ex-advice Register
92.	DDP2	G-> Drafts Reversing Debits Schedule
93.	DDP2	H-> Drafts Reversing Credits Schedule
94.	DDP2	I-> Drafts A/c Schedule
95.	DDP2	J-> All Schedules A,C,E,G,H,I
96.	DDP2 K	All Registers B,D,F
97.	DDP2 L	All Schedules & Registers J,K
98.	DDPALL	Print all unprinted DDs
99.	DDPRNT	Print a DD
100.	DDREPRNT	Reprint a DD/ Print advice
101.	DDXFER	Advice of Drawing Printing
102.	DEPINT	Interest calculator for deposits
103.	DEPMOD	Deposit Modeling
104.	DRP	Deposits Receipt Print
105.	DTCS	Display Tran Code Summary
106.	DTR	Deposit Transactions Report
107.	DUDRP	Deposits Receipt Print [Duplicate]
108.	ECGCRPC	ECGC PREMIUM REPORT FOR RPC
109.	EFI	Employee File Inquiry
110.	EXCPRPT	Exceptions Report
111.	FBADVP	FOREIGN BILLS ADVICE PRINT
112.	FBBR	FOREIGN BILLS BALANCING REGISTER
113.	FBCS	Foreign Bills Covering Schedule
114.	FBECGC	ECGC PREMIUM REPORT FOR BILLS
115.	FBHI	Foreign Bills History Inquiry
116.	FBI	Foreign Bills Inquiry
117.	FBP	Foreign Bills Printing
118.	FBRPR	Reserve Payment Register
119.	FI	Fate Inquiry
120.	FOIQ	FAB Outward Clearing Instrument Inquiry
121.	FTI	Financial Transactions Inquiry
122.	FTR	Financial Transactions Inquiry & Report
123.	FTR	Financial Transactions Inquiry & Report
124.	FWCHI	Forward Contract History Inquiry
125.	FWCLIAB	Forward Contract Liability Register
126.	FWCODLST	List of Overdue and Matured FC
127.	FWCQRY	Query on FC
128.	GDET	General Deposits Details
129.	GDET	General Deposits Details
130.	GI	Guarantee Inquiry
131.	GILR	Guarantees Issued cum Liability Register
132.	GP	Guarantee Printing
133.	GPI	Guarantee Parameters Inquiry

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134.	GSPI	General Scheme Parameters Inquiry
135.	GURFIMU	Reference File Inquiry Menu
136.	HACCBAL	Balance details of an Account
137.	HACCBAL	Balance details of an Account
138.	HACCDDET	General Details
139.	HACCDDET	General Details
140.	HACIMU	CRV - Account Level Menu
141.	HACLHI	Limit Details
142.	HACLI	Transactions Inquiry
143.	HACS	Account Selection
144.	HACTI	Account turnover details
145.	HADVC	Print DR/CR Advice to Customer
146.	HAITINQ	Account Interest Details Inquiry
147.	HBKQRY	Bank Level Query Option
148.	HCELI	Collateral Entity Linkage Inquiry
149.	HCRVMU	Customer Relationship View- Main Menu
150.	HCUACC	Accounts of Customer
151.	HCUCA	Current Account of Customer
152.	HCUCC	Cash Credit of Customer
153.	HCUDET	General details of Customer
154.	HCUIMU	CRV - Customer Level Menu
155.	HCULA	Loan Accounts of Customer
156.	HCUMAT	Forthcoming Maturities of Customer
157.	HCUOD	Overdraft Accounts of Customer
158.	HCUPSD	Portfolio details of Customer
159.	HCUS	Customer Selection
160.	HCUSB	Savings Account of Customer
161.	HCUSEL	Customer Selection
162.	HCUSUM	Summary details of Customer
163.	HCUSWP	Sweep details of Customer
164.	HCUTD	Term Deposits of Customer
165.	HCUTI	Turnover Summary of Customer
166.	HDCDET	Delivery Channel transaction details
167.	HFTI	Financial Transactions Inquiry
168.	HICI	Inward Cheques Inquiry
169.	HII	Hot Items Inquiry
170.	HINTCI	Interest Table Code Inquiry
171.	HINTTI	Interest Rate Details Inquiry
172.	HIOGLT	Inquire on GL Transactions
173.	HIOT	Inquire on Transactions
174.	HLAGI	Loan Account General Inquiry
175.	HLAI	Loan Inquiry
176.	HLAMOD	Loan Modeling
177.	HLAOPI	Loans Overdue Position Inquiry
178.	HLAPSP	Loan Account Pass Sheet Print
179.	HLARSH	Loans Repayment Schedule Report

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180.	HM	Help Maintenance
181.	HOCI	Outward Cheques Inquiry
182.	HOCIP	HOC Inquiry cum BA(R) Print
183.	HOCIP	HOC Inquiry cum BA(R) Print
184.	HODBCH	Bill and Collection History Details
185.	HOIQ	Outward Clearing Instrument Inquiry
186.	HOPQ	Outward Clearing Ptran Inquiry
187.	HPARTINQ	Inquiry on Partitioned Account
188.	HPBP	Passbook Print
189.	HPSP	Pass Sheet Print
190.	HRTHQRY	Ratelist History Query
191.	HTD	Term deposit transaction details
192.	HTDINT	Term deposit interest details
193.	HTDSIP	TDS Inquiry & Printing
194.	HTDSIP	TDS Inquiry & Printing
195.	HTDTAX	Term deposit tax deduction details
196.	HTFIN	Customer Trade Finance Inquiry
197.	HTINQ	Hot Items Lookup
198.	HTODCS	TOD Criteria and Selection
199.	IBADV	Customer Advice Inland Bills
200.	IMI	Inventory Movement Inquiry
201.	IMR	Inventory Movement Report
202.	INQACHQ	Inquire Account Number for a Cheque
203.	INTCERT	Interest Certificate Print
204.	INTSI	Interest Slab Inquiry
205.	INTTI	Interest Table Inquiry
206.	IOCLS	Inquire On Clearing Transaction Sets
207.	IOGLT	Inquire on GL Transactions
208.	IOT	Inquire on Transactions
209.	ISAR	Inter Sol Audit Report
210.	ISI	Inventory Inquiry Split and Merge-EM
211.	ISIA	Inventory Inquiry Split and Merge
212.	ISTR	Inter Sol Transaction Report
213.	ITCI	Interest Table Code Inquiry
214.	ITI	Instruments Table Inquiry
215.	LAGI	Loans General Inquiry
216.	LAITCI	Loan Interest Table Code Inquiry
217.	LAOPI	Loans Overdue Position Inquiry
218.	LAPSP	Loan Account Pass Sheet Print
219.	LLIR	Limit Liability Inquiry/Report
220.	LLIR	Limit Liability Inquiry/Report
221.	LNDI	Limit Node Details Inquiry
222.	LNHTIR	Limit Node History/Tran Inquiry/Report
223.	LNHTIR	Limit Node History/Tran Inquiry/Report
224.	LNI	Limit Node Inquiry
225.	LVSI	Loan Interest Version Slabs Inquiry

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226.	MNTPST	Maintain PST Table (Modify & Inquiry)
227.	NEWOLDAC	New Old Account
228.	OIQ	Outward Clearing Instruments Inquiry
229.	OPQ	Outward Clg Part Tran Inquiry
230.	OTRINQ	Offline Transaction Inquiry
231.	PARTINQ	Inquiry on Partitioned Account
232.	PBP	Pass Book Print
233.	PCLSO	Print Clearing Schedule
234.	PDADI	Past Due A/c Details Inquiry And Report
235.	PDML	Print/Display Media List
236.	PENDDRP	Pending Deposits Receipt Print
237.	PHINQ	Inquiry on History of Partition A/c
238.	PICS	Print Inward Clearing Schedule
239.	PICW	Print Inward Clearing Waste
240.	PLIST	Pending Installments List - Recurring Deposits
241.	PLIST	Pending Installments List
242.	PLR	Party-wise Liability Register for PC
243.	PRR25	PRR25 Report of rejected cheques
244.	PRR38	Statement of Daily Cash Position
245.	PRRTL	Ratelist Printing
246.	PRTINQ	Print Queue Inquiry
247.	PSR32	Sanction Limits For Accounts based on Sector &Sub-sector codes
248.	PTW 1	Full Transfer Waste
249.	PTW 12	System Generated Transactions
250.	PTW 2	Only Verified Transaction
251.	PTW 3	Only Unposted Transaction
252.	PTW 4	Only Unverified Transaction
253.	QBR	Quick Balancing Report
254.	RBTI	Register Table Balance Inquiry
255.	RDD	Rate-wise Distribution of Deposits
256.	REDRP	Reprint Deposits Receipt
257.	REJREP	Rejected Instruments Report/Advice
258.	RENHIST	TD Renewal History Details
259.	RINTINQ	Interest Inquiry For RPC Accounts
260.	RINTRPT RPC	Account Interest Report
261.	RPCRPT RPC	Account Report
262.	RRCDI	Reference Code Inquiry
263.	RTHQRY	Ratelist History Query
264.	RTHQRY	Ratelist History Query
265.	SCWRPT	Shroff Cash Report
266.	SCWRPT	A Shroff Cash Rpt-All
267.	SDD	Scheme-wise Distribution of Deposits
268.	SEL	Superseding Expired Limits
269.	SEL	Superseding Expired Limits
270.	SIETR	SIs Executed Today Report

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271.	SII	Standing Instructions Inquiry
272.	SIRP	Standing Instructions Register Printing
273.	SMI	Swift Messages Inquiry
274.	SPRG	Stop Payment Register
275.	TCPI	Teller Wise Cash Position Inquiry
276.	TCPIA	Teller Wise Cash Position Inquiry / All
277.	TDSIP	TDS Inquiry & Printing
278.	TEI T	Transactions Exceptions Inquiry
279.	TI	Transactions Inquiry
280.	TODCS	TOD Criteria and Selection
281.	TODRP	TOD Register Printing
282.	TRANINQ	Tran Inquiry
283.	TRANLIST	Tran list display
284.	TRTRI	Treasury Transaction Report and Inquiry
285.	TVSI	Term Deposits Interest Slabs Inquiry
286.	VCHR	Print DR/CR Voucher

## II. General Information

Branch Audit is a stepping stone to Final Audit of the Bank which culminates into generation of Annual Reports.

The Bank's financial statements are prepared under the historical cost convention, on the accrual basis of accounting ongoing concern basis, unless otherwise stated and conform in all material aspects to Generally Accepted Accounting Principles (GAAP) in India, which comprise applicable statutory provisions, regulatory norms/ guidelines prescribed by the Reserve Bank of India (RBI), Banking Regulation Act, 1949, Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), and the practices prevalent in the banking industry in India.

With respect to PSBs and other Private Banks which are listed on stock exchanges, there could be a possibility that the partner and/or his relatives are shareholders of such PSBs and other Private Banks. Care should be taken to dispose of the shares held or take corrective action, as per the code of conduct of the ICAI, SEBI regulations, Companies Act and the firm's internal policies, prior to acceptance of the Statutory Audit.

## III. APPOINTMENT OF AUDITOR

### **COMMUNICATION WITH THE PREVIOUS AUDITORS**

- As per Clause 8 of the Part I of the first schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice cannot accept position as auditor previously held by another Chartered Accountant without first communicating with previous auditor in writing.
- Therefore auditor should communicate with the previous auditor in this regard and mere posting of letter under certificate of posting is not sufficient to establish communication with the previous auditor unless there is some evidence to show that the letter has in fact reached to the previous auditor.
- The incoming auditor should, therefore, communicate with the previous auditor in such a manner as to retain in his/her hands positive evidence of the delivery of the communication to the addressee.
- In the opinion of the Council of the Institute, communication by a letter sent 'Registered Acknowledgement Due' or by hand against a written acknowledgement would in the normal course provide such evidence.
- Further it is seen, nowadays, that auditors communicate with each other electronically by email and often soft copies are used, it is advisable to ensure that the proof of delivery is obtained and kept in the audit file, however it is also advisable to subsequently procure the hard copies of the letters and proof of delivery and file the same in the audit files.

### **ACCEPTANCE OF ENGAGEMENT BY THE AUDITOR**

- On receipt of engagement letter from Head Office of the concerned bank for conducting Statutory Audit of the specific branches mentioned therein, the Auditor should immediately convey his consent or otherwise to the designated authority mentioned in the engagement letter.
- While sending acceptance letter, care should be taken to forward the necessary documents mentioned in the offer of engagement duly signed by the authorized partner/ proprietor to avoid inconvenience and delay subsequently.

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## **IV. AUDIT PLANNING**

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### **AUDIT PLAN**

- Next comes to Planning and chalking out suitable strategy to set the scope, nature, timing, extent of resources required for the audit.
- The audit plan needs to be discussed with the audit team. In fact, the audit team should be involved from the first day to make them realize their responsibility and their area should be clearly demarcated keeping in view of skill, past experience and educational qualification.
- This audit plan should be properly documented with respect to timing, extent of checking, audit procedures to be followed at assertion level and should be flexible and updated or changed as and when necessary.
- The selection of the engagement team is a key activity in the development and execution of an effective and efficient audit plan.
- The assignment of qualified and experienced professionals is an important component of managing engagement risk.
- The size and composition of the engagement team would depend on the size, time available to complete the assignment, nature, and complexity of the bank's operations.
- In order to update himself the auditor can obtain knowledge of the level of operations and the special type of business e.g. Foreign Exchange, Govt. Business, Large Advances, Agriculture Advances etc. being conducted by the branch by talking direct to the branch manager or the previous auditor.
- Discussion with internal/concurrent/other audit personnel regarding the nature, timing and extent of work done by them and review of their audit reports, especially how issues raised are closed will help the auditor to carve out a suitable audit team.

- Thus, this understanding of the business and using this information appropriately assists the auditor in assessing risks and identifying problems, planning and performing the audit effectively and efficiently, evaluating audit evidence, and providing better services to the bank.
- The auditor should communicate the concerned Branch Managers freely to assess the stage of preparation of statements by the branch which are required to be examined and signed by the auditor.

### **PRE-AUDIT PLAN**

- This can be handed over personally in advance or sent by email so that by the time audit team reaches the branch, the required files, records and information are ready. It will save time and improve the efficiency and quality of audit.
- Please note that by the time you commence the branch audit, consolidation of all the unaudited returns of branches is already completed at the Head Office level.
- Branches are accordingly not allowed to alter any of the branch statements after the EOD is done at the branch as at 31st March. In case any changes are required to be made in the figures, the same may be done through Memorandum of Changes (MOC) only.
- If the branch is handling large portfolio of advances a pre-audit visit is solicited but this should be done only after having discussions with the branch manager.
- The Auditor may arrange a preliminary meeting with the Branch Manager of the auditee branch to discuss the plan to complete audit in time. The meeting should cover:
  - Introducing the designated staff members who would be responsible for different auditable areas
  - Format of the reports/certificates to be issued by the auditors. Discuss and explain various returns required to be audited.
  - Provide the accounting policies of the bank - Designated staff should be provided with the accounting policies and internal circulars issued by the Bank from time to time.
- Reconciliation process- The reconciliation process under various accounts head- Suspense account, Inter office account, bank accounts etc. should be understood properly to avoid any misunderstandings.
- It will be better if a list of items required during audit is given to the branch manager in this meeting inter-alia containing the following:
  - RBI inspection report, Management Audit report, Credit audit report, Branch inspection report, Concurrent audit report, Risk focused internal audit report, LFAR, Statutory Audit Report and Audited accounts - Last report wherever applicable. Tax Audit Report although not to be audited Branch has to submit the same in time.

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- Status List of All the LCs, BGs (Inland and Foreign)- Soft copies(Print if needed)
- Details of guarantees invoked as shown below:-
  - Guarantees invoked and paid by the branch but not settled by client
  - Guarantees invoked but not paid by the branch to the beneficiary.
- Details of outstanding amounts of letters of credit and co-acceptances funded (devolved but not yet fully recovered)
- Details of guarantees expired and not cancelled
- Details of guarantees reversed/cancelled during March without receipt of original guarantee / without following procedure of cancellation.
- Details of expired LCs and not cancelled.
- Details of suits filed by the bank for recovery of dues.
- Bank Reconciliation statement (including NOSTRO, RBI).
- Details of fraud discovered during the year.
- Details of borrower accounts written off during the year.
- Details of overdue/matured term deposits with age wise details.
- Age wise particulars of Suspense and Sundry Deposit account-

Particulars	Suspense Outstanding Rs.	Sundry Outstanding Rs.
0-90 Days		
91-180 Days		
181 – 365 Days		
More than 365 Days		

- List of accounts where permission granted for filing of suit but suit not filed till year end.
- Statement regarding recovery in written off account.
- List of Government Guarantee accounts/ Bank guarantee account.

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## **V      Items of Banks Financial Statements and Auditing Aspects**

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## 1. **CASH VERIFICATION**

- a) When audit team reaches the branch on the first day, one of the members should check the cash balance physically either opening balance or closing balance of that day and prepare the reconciliation statement to arrive at the correctness of balance held as on 31.03.2020 as reflected in the Balance Sheet of the branch of even date.
- b) The extent of verification would depend upon the auditor's assessment of the efficacy of internal control system including adherence to cash frequency of cash verification by branch officials and/or by internal or concurrent auditors. Normally, in a bank, 100 notes of each denomination and thereafter 10 packets of 100 notes each are bundled together.
- c) Wherever sample checking is conducted, it is advisable that number of bundles of 100's is fully counted. Besides, the number of notes in samples of bundles of old notes of different denominations may also be checked, the sample size for larger denomination notes being higher than that in the case of smaller denomination notes.
- d) The number of notes in a small sample of bundle of new notes of larger denominations (say, Rs. 100 or more) may also be counted. In any event, care should be taken to ensure that all bundles produced for audit verification are properly sealed. Loose/soiled notes should be counted in full. Coins may be counted, or weighed and converted into monetary value as per RBI guidelines.
- e) Here care should be taken that each bundle of 10 packets contains the notes of same denomination i.e. counting of just packets in a bundle is not sufficient.
- f) The physical verification of notes of various denominations done by the auditor must be tallied from the branch records for which a separate certificate may be obtained from the branch.
- g) Notes/coins in sealed packets may be accepted based on a written representation from the branch management and cross-checked with subsequent entries in the books of account.
- h) Foreign currency notes should also be verified at the time of physical verification of cash. The auditor should also ensure that these notes are converted at the market rate prevailing on the closing day as notified by the Foreign Exchange Dealers' Association of India (FEDAI) in accordance with the accounting policy followed by the bank.
- i) When such foreign currency notes are converted into INR as per rules as on Balance Sheet date the difference in value should be properly debited or credited to Profit and Loss Account before arriving at the final result of P & L of the branch otherwise it will be adjusted through MOC.
- j) Special care needs to be exercised in cases where the branch operates currency chest and/or small coin depot. In respect of currency chest operations, the branch merely acts as an agent of the RBI to facilitate the distribution of bank notes and rupee coins.

- k) The auditor may not count the balance in the currency chest physically, but should take sufficient safeguards to ensure that currency chest balance is not mixed up in the cash balances produced for physical verification.
- l) As per RBI Master Circular No. RBI/2018-19/3 DCM (NE) No.G-2/08.07.18/2018-19 dated July 02, 2018 on "Facility for Exchange of Notes and Coins" all designated bank branches should display at their branch premises, at a prominent place, a board indicating the availability of note exchange facility with the legend, "Soiled/Mutilated notes are Accepted and Exchanged Here".
- m) The auditor should enquire and ensure that this facility is provided at the branch. The auditor should also inquire about the service charges levied by the bank on Exchange of soiled notes as per RBI guidelines.
- n) While verifying ATM operations, in some branches such transactions are centralized. So, the auditor should understand the process of monitoring of balance, reconciliation etc. and satisfy him that the controls kept in place at the branch are proper and there is no risk to the bank.
- o) Where ATMs are operated by the branch itself, auditor should verify the cash at ATMs and tally the same with books of accounts. At each reporting period end, the auditor should obtain the reconciliation statement and should verify the reconciliation statement.
- p) Physical balance of Cash in ATMs/ADWMs, Gold Stocks (held for Sale or Gold Loans), Gold Coins, and gold held under Gold Deposit scheme has to be verified.

**ATM/ADWMS Cash Verification:**

- a) The ADMIN slip is pasted in the back up register duly signed by the ATM/ADWM Joint Custodians and duly countersigned Branch Manager.
- b) The excess/shortage found in the ATM/ADWM has been dealt with as laid down instructions in the ATM Manual.
- c) Gold Stock/Coins Verification:
- d) Physical stock at Designated Branch should tally with stock as per Metagrid.
- e) Tally physical stock balance with the Overall Saleable Stock Position Report in Metagrid, which in turn should agree with Overall Physical Inventory Position Report as per Metagrid.

**2. KEY AUDITING ASPECTS**

- a) The work of the team should be so divided that one person scrutinizes the all the items of liability side appearing in the Balance Sheet from the supporting statements drawn from the computer system.

- b) The aim is not only to verify the accounting accuracy but also the justification of parking long outstanding entries in those accounts for abnormal period particularly in inter-office or intra-office accounts.
- c) The auditor should himself go through various audit reports. He must call for reports of the monitoring /supervisory authority (Inspection /Concurrent Audit) in relation to the advances operated at the branch, to deal with any adverse observations therein, including on the appraisals, sanctions and documentation aspects at the centralized location.
- d) He should see the previous Statutory Audit report inter-alia the MOC, the internal audit report, RBI audit report if any, Govt. audit report if any, Revenue Audit Report, Stock Audit Reports etc. In nutshell, the control aspects are important and may be a major audit risk, which an auditor must not ignore.
- e) Examination of the daily exception reports, both as regards systems and transactions assumes significance and can be a source of critical inputs into the reports. So, this aspect must be taken care of.
- f) There are certain specific events or conditions, which the auditor should consider to assess the ability of the branch viz., substantial operating losses during the year, decline in the profitability, increasing level of non-performing assets, higher interest rates being paid on deposits and borrowing than circulated by the bank, high concentration of exposure to certain borrowers or industries showing credit weakness, increasing list of 'willful defaulters' at the branch. Here, a willful default would mean who has caused any of the following events:-
  - The unit has defaulted in meeting its payment / repayment obligations as set out in the sanction letter.
  - The unit has not utilized the finance for the specific purposes for which it was sanctioned in other words the funds have been diverted for other purposes.
  - The unit has disposed of or removed the movable fixed assets or immovable property financed by the bank or not purchasing the asset for which a term loan was sanctioned without the knowledge of the bank
- g) Further, the auditor may also examine the 'intent' to defraud, irrespective of whether or not actual loss takes place. Keeping these key factors in mind, any action taken in collusion to derive undue/ unjust benefit or advantage should be termed as fraud.
- h) Accordingly, once a fraud is detected, a report must be prepared and submitted to the "Competent Authority".
- i) The fraud report should be a diagnostic assessment, clearly bringing out the causes of the fraud and identify whether the fraud occurred due to 'system failure' or 'human failure'.



- j) The auditor's objective is to identify and assess the risks of material misstatement in the financial statements due to fraud. He should obtain sufficient appropriate audit evidence on those identified misstatements to respond appropriately.
- k) The attitude of professional skepticism should be maintained by the auditor to recognize the possibility of misstatements in such cases.
- l) The bank has been advised to categorize the accounts of bullion dealers (including sub dealers) and jewelers involving in cash intensive business as high risk requiring enhanced due diligence. Further, the banks are also required to subject these 'high risk accounts' to intensified transaction monitoring. The auditor has to satisfy himself that such High risk associated accounts are properly monitored at branch level or not, if not, then this should be reported appropriately to safeguard the bank's interest as well as to justify a true and fair audit of the branch.

### **3. BALANCE SHEET OF THE BRANCH**

- a) CBS generated copy of Branch Balance Sheet has to be audited by the Statutory Branch Auditors.
- b) The auditor should see that there is no Credit balances reported in Branch Cash Balance/ ATM Cash Balance/ Foreign Currency Notes/ DD Purchase (Bills/ Cheques)/ Bills Discounted/ Recalled Assets etc. Similarly there is no Debit Balances reported in STDR/ TDR/ RD/ Interest Accrued account etc. in the Branch Balance Sheet. Further the auditor should also see that-
  - Year-end revaluation of foreign currency assets and liabilities (including foreign currency notes) and foreign currency-wise LCs, BGs, Acceptances and Forward Contracts should not be carried out at Branches as the same would be carried out in Core Banking System (CBS). If not done, it will attract MOC.
  - No entries relating to payment of bonus should be outstanding in Suspense Account.
  - **If there is any outstanding in Cash Difference, System Suspense and Technical Suspense entries it will attract provisioning.**
  - Accounts maintained with other banks as on 31st March should be reconciled, and old entries should be duly accounted for.

### **Other Guidelines**

- c) Contra accounts, Constituents' Liability on risk participation with other banks reflects the contingent liability arising out of risk participation by our Branches in the funded facilities given to Project Exporters at the post award stage by EXIM Bank or any other bank. Under Contingent Liabilities, Risk Participation with Other Banks is to be shown as hitherto.

- d) A copy of the Balance Sheet, pertaining to the previous year, should be made available to the Auditors, along with the current year's Balance Sheet, for comparison and scrutiny.

#### **4. BRANCH PROFIT & LOSS STATEMENT**

- a) Profit and Loss Statement (P&L) generated by CBS has to be audited by the Branch auditors.
- b) The Branch auditors should have a cursory look at the P&L statement and take corrective actions (suggest MOC, if required) in case any exception has been observed. E.g. credit balance in expense A/Cs, debit balance in income A/Cs etc.

#### **Interest receivable and payables**

- a) Partial recovery of interest income in NPA accounts on actual realization basis should be booked provided the irregularity in the NPA has been reduced.
- b) Auditors should meticulously see that there is no income leakage as regards to processing charges at the time of sanction of advances as well as renewal of limits, wherever applicable. If any leakage is found, the income is to be booked through MOC. Similarly penal interest, wherever required, have been applied, if not it should be done through MOC.

#### **Commission on Deferred Payment Bank Guarantees**

- a) Branch auditors have to ensure that the Commission on Deferred Payment Guarantees is spread over the period of the Guarantees.
- b) Necessary entries should be passed through Adjusting Account as on the year end, only for the portion of commission relating to the subsequent year(s).
- c) These entries are to be reversed on the first day of the following accounting year. If it is not done by the branch then it should be corrected through MOC.

#### **Stationery**

- a) The Branch should ensure that all invoices for stationery received from Stationery Departments have been accounted for. Expenditure incurred during the current Quarter /FY should invariably be accounted for in the same Quarter / FY, in no case carry over should be allowed; in that case, necessary entry(s) in Adjusting Account should be passed.
- b) The Branch should pass entries for stationery consumed on the basis of valuation, as advised by the Stationery Department.

#### **Prepaid Expenses**

- a) All prepaid expenses, at the end of the accounting year, should be credited to Charges Account under the relative heads by debit to Adjusting Account. Entries in Adjusting

Account should be reversed on the first working day of the following year by debit to Charges Account.

### **Expenses Outstanding**

- a) Auditors have to ensure that the branch has booked all ascertainable expenses at the end of the accounting year.
- b) As regards non-ascertainable outstanding expenses like telephone/ electricity bills not received as at the end of the year should be estimated and debited to Branch Charges Account on estimated basis through Adjusting Account.
- c) Items of revenue nature like Short Provision for expenses, etc. should not be included in the Statement of "Provision Held for Other assets". Such items should be provided at Branch level through adjusting account and if any shortfall is there in provision, suitable MOC may be prepared, if material.

### **Depreciation on Fixed Assets**

- a) The depreciation of the fixed assets for the year will be computed and posted by the system. The Branches are not required to post the depreciation entry for the Fixed Assets.

### **Expenses on public relations/publicity**

- a) Expenses on public relations/publicity should be accounted for by debit to Charges Account (Public Relations/ Publicity/ Advertisements, etc.).
- b) Ensure that all the bills received are settled before the accounting year end and expenditure incurred taken into account properly.
- c) In cases where the outstanding expenditure particularly when the amount is large and requires approval of Head Office, such amount should be debited to Charges Account and credited to Adjusting Account and entry in Adjusting Account should be reversed on the first working day of the following year.

### **Expenditure**

- a) The auditor is required to check and satisfy himself that rent of the branch premises has been paid for the full year as applicable and as per agreement in force.
- b) Rent is paid in respect of all officers' accommodations and House Rent Allowance to employees is not included under this head.
- c) Auditor should also verify that all municipal rates/ taxes are duly paid/ adjusted for the year under audit.
- d) The Auditor should also verify that rent of premises where ATMs are installed has also been paid. Similarly, if any machine is taken on rent its rent has also been paid.

- e) The other items to be verified are electricity bill, telephone bill, generator bill, courier service bill etc. The auditor should see that TDS is deducted as applicable.
- f) The auditor should look into unusual / large debits in income accounts, to ensure that these have arisen due to genuine reversals required, including on account of Interest Suspense in NPAs identified during the year or due to wrong computation of interest earlier recorded.
- g) Similarly, attention needs to be paid to credits in the expenditure heads.

### **Income**

- a) Auditor may check the items of commission, exchange and brokerage on a test check basis. Such examination can be done for commission earned on bills sent for collection, commission on letters of credit, guarantees and letter of comforts.
- b) The auditor should examine whether the commission on non-fund-based business (e.g., letters of credit, guarantees and bills for collection) has been properly apportioned between the current year and the following year.
- c) The auditor should obtain details of loans sanctioned and disbursed during the period as well as verify the policy of the bank for booking the processing fee income on such loans.
- d) For corporate loans, the processing fee income for the material loans sanctioned and disbursed should be re-computed and verified on test check basis by obtaining the loan agreements, sanction letter, etc.
- e) Further, for loans sanctioned but not disbursed wherein the processing fee income has been booked on accrual basis, the auditor should verify the subsequent receipt of the same and enquire for subsequent reversals.
- f) For retail loans, the auditor should perform analytical procedures for computing the processing fee percentage for different ticket size loans.
- g) Processing fee is also required to be recovered on renewal of all Cash Credit Accounts/ OD accounts at the annual interval irrespective of the fact whether the limit is renewed or not.
- h) There is always a scope of income leakage under this head. There is a general tendency in the minds of branch staff that the system recovers the renewal charges automatically but in case of Packing Credit facilities such charges are invariably not recovered by the system.
- i) The auditor should verify that renewal charges on such advances are properly accounted for. Similarly, renewal charges are also recoverable on loans against property – OD Type.

### **Other Income**

- a) Recovery of income - Recovery of all revenue dues should be invariably done i.e. Commitment charges, Loan appraisal/ renewal fee, processing fee, etc.

### **Other aspects to be taken into consideration**

- a) The auditor should verify that the figures as shown in the year- end financial statements produced to him for audit are not changed at the branch level subsequently i.e. after freezing the data for yearly closing.
- b) These figures can be changed, if needed, through MOC only.
- c) The auditor should ask the branch manager to provide the items mentioned in Management Representation letter for smooth functioning.
- d) Overview of the financial statements: It is recommended that a comparison be made of the current year's figures in the branch financial statements with the corresponding comparative figures of the earlier year to see if there are any unusual or large variations that need to be enquired into /verified; and any unusual significant items, new heads of accounts, or prima facie, any divergent trends (advances and interest income; and deposits and interest expended) that may need to be covered in the audit procedures.
- e) Examination of the daily exception reports, both as regards systems and transactions assumes significance and can be a source of critical inputs into the reports.
- f) The auditor should make a mental study for Selection of accounts for audit coverage:
  - i. Priority should be given to examination of critical / adversely commented accounts and coverage of a representative number and quality of the portfolio. This will cover problem accounts and those in default in servicing.
  - ii. Reference may be made to the manner of selection of advances which inter alia includes each large borrower (where the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs. 2 crores, whichever is less), for which information is to be obtained in a structured format.
- g) The financial statements of the branches are drawn up virtually the same day at the year end and the unaudited figures are frozen.
- h) Based on the audit exercise carried out (generally subsequent to the year- end) as per the Audit Program, it is only through the Memorandum of Changes (MOCs), that the errors/ omissions are remedied at a centralized level to give effect to the accounting adjustments required but not made at the branch up to the year-end.
- i) The MOCs: will include changes in the classification status of the advances accounts, as compared to that determined by the branch management, to enable provisions to be made accordingly at the centralized level of the bank; and wherever such classification change involves downgrading of the advance to NPA, the MOC will also deal with the necessity of de-recognition / non recognition of income accrued but not realized.

- j) MOC will also require quantification to the extent possible and ascertainable; MOC will need to be given by nature, if not quantified; and the no. of the MOCs with quantification and the No. of the MOCs where quantification is not possible need to be given, along with the adjustments/provisions not dealt with at the branch level, as per the Bank's laid down instructions.
- k) Amount collected in respect of suit-filed accounts should not be adjusted against advances till final settlement. (However, for the purpose of provisioning against non-performing advances, such credit balances are taken into account for ascertaining net outstanding).

### **GST Procedure Adopted in Bank**

- a) From 1st April 2018 onwards, GST payable on commission and exchange is getting debited to the respective Branch where corresponding income has been booked.
- b) GST payable to vendors / service providers is accounted for as Branch expenditure in PL code 10243.
- c) Branch/BU should not take any actions for balance lying in PL code 9001 and 10243. Required compliance with GST will be done by FRT Department at Corporate Centre.
- d) GST Invoices for customers having GSTIN will be kept in Branch Report folder by the 15th of the succeeding month.
- e) Provision for contingent Liabilities for pending SCN/Appeals with respect to ST/GST will be taken care at CC level.

### **Interest Accrued**

- a) The auditor should examine whether the interest has been accrued and realized on the entire loans and advances portfolio of the bank. However, the interest on non-performing assets cannot be booked as per extant instructions (dealt with separately under advances).
- b) Special consideration should be given to the overdue bills purchased/discounted. Several times the interest accrued on such advances is manually computed by the Branch and the auditors should check the workings thoroughly so as to avoid any income leakages.
- c) As far as possible, the detailed breakup of the loan portfolio and the interest accrual should be obtained and the same should agree with the general ledger balance. This would ensure completeness of the interest accrual of advances.
- d) The auditor should also examine the interest accrued on advances by re-computing it on a test check basis by referring to the loan parameters like frequency of payment of interest amount, rate of interest; period elapsed till the date of balance sheet, etc., from the loan agreements.

- e) This would ensure the completeness of the interest accrual on advances. In the current banking scenario, the interest accrual setup is automated system driven for most banks and the auditor should verify the in-built logic and controls of the system.
- f) The auditor should examine that only such interest as can be realized in the ordinary course of business has been shown under this head. Interest accrued in the current year in respect of accounts identified as NPAs must be reversed to de-recognize the same.
- g) Similarly, the auditor should ensure that interest payable on various deposits has been provided adequately provided.
- h) The Interest due and payable and interest accrued but not due on deposits and borrowings are shown under this head.
- i) Such interest is not to be clubbed with the figures of deposits and borrowings shown under the head 'Deposits and Borrowings'.
- j) Further auditor should check provisioning of interest on Matured Term Deposits at random basis.
- k) As a measure of control and also to ensure that the legal remedies against defaulting borrowers are not adversely affected, banks commonly follow the procedure of recording interest on non-performing advances in a separate account styled as 'Interest Suspense' or other similar account.
- l) Amounts lying in Interest Suspense Account do not represent income of the bank and have also to be deducted from the relevant advances.
- m) The auditor should also check whether, in terms of the income recognition guidelines issued by the RBI, the bank has either reversed or made provision in respect of interest accrued and credited to income account, in respect of an advance (including bills purchased and discounted) that becomes NPA as at the close of any year.
- n) Income in case of NPA account should be recognized only on realization on cash basis as per circular RBI/2015-16/101DBR.No.BP.BC.2/21.04.048/2015-16 dated 01/07/2015. These norms are also applicable to Government Guaranteed Advances.

#### **Tax Paid in Advance/Tax Deducted at Source**

- a) The auditor should verify that tax deducted at source on fixed deposits and other products/services handled at the branch level is properly and timely deposited. For this purpose, the copy of challans and periodic relative returns should be verified.
- b) The auditor should also verify the online tax credit from the Income Tax website with the TDS/advance tax recorded in the books and ask for a reconciliation of the same. Income recognized in the books could also be cross verified by this analysis.

- c) If there is any TDS, the auditor needs to enquire as to the income to which it pertains so that the bank claims it in its assessments.

### **Stationery and Stamps**

- a) Internal controls over stationery of security items (like term deposit receipts, drafts, pay orders, cheque books, etc.) assume special significance in the case of banks as their loss or misuse could eventually lead to loss to the bank.
- b) The branch auditor should study and evaluate the existence, effectiveness and continuity of internal controls over these items in the normal course of his audit. It has to be commented in LFAR.
- c) In some branches non-judicial stamp papers are kept for use at the time of execution of various loan documents by the borrowers.
- d) Similarly, Revenue Stamps are sometimes purchased in bulk and kept for use in the bank. The auditor should physically verify such stamps held at the branch and tally the balance shown in the Balance Sheet.

### **Prepaid Expenses**

- a) The auditor should verify whether the expenses paid on account of AMC of various items etc., are properly shown as prepaid expenses for the period exceeding the current financial year.
- b) The auditor should particularly examine whether the allocation of discounting and rediscounting charges paid by the bank to different accounting periods is in consonance with the accounting policy followed for the bank as a whole.

## **5. FIXED ASSETS**

Policy for depreciation in few Banks including SBI:

- a) Fixed Assets are carried at cost less accumulated depreciation/ amortization.
- b) Cost includes cost of purchase and all expenditure such as site preparation, installation costs and professional fees incurred on the asset before it is put to use. Subsequent expenditure(s) incurred on the assets put to use are capitalized only when it increases the future benefits from such assets or their functioning capability.
- c) The rates of depreciation and method of charging depreciation in respect of domestic operations are as under:

Sl. No.	Description of Fixed Assets	Depreciation/ Amortization rate
1	Computers	33.33% every year, SLM (Straight Line Method)



2	Computer Software forming an integral part of the Computer hardware	<b>33.33% every year, SLM</b>
3	Computer Software which does not form an integral part of Computer hardware and cost of Software Development	<b>33.33% every year, SLM</b>
4	Automated Teller Machine/Cash Deposit Machine/Coin Dispenser/Coin Vending Machine	<b>20.00% every year, SLM</b>
5	Server	<b>25.00% every year, SLM</b>
6	Network Equipment	<b>20.00% every year, SLM</b>
7	<b>Other fixed assets</b>	<b>On the basis of estimated useful life of the assets</b> <b>Estimated useful life of major group of Fixed Assets are as under:</b> <b>Premises (un-revalued): 60 Years*, SLM</b> <b>Vehicles : 5 Years, SLM</b> <b>Safe Deposit Lockers : 20 Years, SLM</b> <b>Furniture &amp; Fixtures : 10 Years, SLM</b>

\*premises are held at circle.

- d) Revalued premises are depreciated on straight line method over revised useful life certified by valuer. The depreciation on enhanced portion on revaluation is recouped from Revaluation Reserve.
- e) In respect of assets acquired during the year (for domestic operations), depreciation is charged on proportionate basis for the number of days the assets have been put to use during the year.
- f) Assets costing less than Rs. 1,000 each are charged off in the year of purchase.
- g) In respect of leasehold premises, the lease premium, if any, is amortized over the period of lease and the lease rent is charged in the respective year(s).

## 6. GENERAL GUIDELINES

- a) The auditor should verify from the previous years' audited fixed assets statements that the original cost of fixed assets as on 31st March of the preceding year, inter-alia ensuring the effect of MOC of the previous year, if any, has been carried out, additions thereto and deductions there from during the year have been properly reflected in the current years fixed asset statement, and the depreciation has been correctly calculated.
- b) If any amount has been written off to date that has also been disclosed in the current financial years' statements.

- c) The rates of depreciation on fixed assets are circulated by bank's corporate office well in advance. The rates of depreciation in respect of computers and data processing equipment etc. are different.
- d) RBI has directed that depreciation on such items should be provided over three-year period. For this purpose, the auditor should peruse the instructions issued by the concerned bank and that these have been properly followed by the branch.
- e) In case any furniture and fixtures items and or any other fixed asset items have been transferred to or from the auditee branch, the auditor should ensure that the depreciation on such items has been properly accounted for as per bank's policy.
- f) If depreciation has not been accounted for on any such items, the same should be done now through MOC to rectify the position.
- g) Similarly, if any item of fixed asset has been written off or disposed of during the current financial year, the book value of that item minus the accumulated depreciation till date minus the sale value, if any, the difference of that must be booked through the Profit and Loss account.

#### **Title/Lease deed of the premises**

- a) In case the title deeds are held at the head office or some other location, the branch auditor should obtain a written representation to this effect from the branch management and should bring this fact to the notice of the statutory central auditor through a suitable mention in his report.
- b) This fact should also be brought in the Long Form Audit Report (LFAR).
- c) Where premises are under construction, it should be seen that they are shown under a separate heading, e.g., 'premises under construction'.
- d) Advances to contractors may be shown as a separate item under the head 'fixed assets' or under the head 'Other Assets'.
- e) It should be verified that where the branch has obtained the license to commence business and is ready for use then the same is not shown as "premises under construction".
- f) In such cases even if all the bills/ documents from the contractors/suppliers are not received, at the year end, an estimate of the expenditure thereon should be made and capitalized on a provisional basis.
- g) If the branch premises are rented, the auditor should verify the lease deed and ensure that the lease is in force i.e. it is not expired, the rent is being paid according to the settled terms and TDS is deducted at the appropriate rate and the same is deposited in Govt. account within the time frame.

### **Suspense Account**

- a) The auditor should pay special attention to old and unusual items appearing in suspense account.
- b) These are prone to fraud risk. This account is basically meant to park debit entries for short period which cannot be debited to the appropriate head due either time gap in submitting the Travelling Bills etc., or pending approval from the appropriate authority.
- c) If any old entry is found outstanding say for more than 3 months, the auditor should obtain logical explanation from the branch management.
- d) Sometimes suspected fraud entries are also parked in suspense account. The auditor should also verify the date of origin of such entries from the vouchers as sometimes branch may reverse and re-enter such entries to hide its age. If not satisfied the auditor may treat such amounts as non-performing asset through MOC.
- e) Where there has been delay, beyond the prescribed period, in reporting the fraud to the Reserve Bank, the entire provisioning is required to be made at once.

### **Miscellaneous Debit Balances on Government Account**

- a) Miscellaneous debit balances on government account in respect of pension, public provident funds, compulsory deposit scheme payments, etc., for which the branch obtains reimbursement from the government through a designated branch, are also included under the head 'others'.
- b) In many cases, the accounting for this is outside the core banking solution and needs the special attention of the auditor.
- c) The auditor should review the ageing statements pertaining to these items. He should particularly examine the recoverability of old outstanding items.
- d) The auditor should also examine whether claims for reimbursement have been lodged by the branch in accordance with the relevant guidelines, terms and conditions.
- e) In case of old outstanding balances without any confirmation or proper justification of the same, should be provided for /written off as the case may be in the accounts.

## **7. GOLD MONETIZATION SCHEME**

- a) The Gold Monetization Scheme, 2015 includes the Revamped Gold Deposit Scheme and Revamped Gold Metal Loan Scheme.
- b) The scheme was intended to mobilize gold held by households and institutions to facilitate its use for productive purposes, and to reduce country's reliance on the import of gold.

- c) The Designated Banks have authorized some of its branches to accept deposits, the principal and interest of which, under the scheme, shall be denominated in gold.
- d) Such deposits can be accepted from eligible persons viz., Resident Indians (Individuals, HUFs, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies.
- e) Joint deposits of two or more eligible depositors can be made on the same basis as other joint deposit accounts and with nomination facility.
- f) The auditor should see that if the auditee branch is authorized to handle such accounts, the relevant instructions are being complied with.

## **8. CONTINGENT LIABILITIES**

- a) The term 'contingent liabilities' means a liability which may arise from obligations of past transactions or other events or conditions, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
- b) A contingent liability may also take form of a present obligation that arises from past events or transactions but is not recognized due to the fact that either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a reliable estimate of the amount of obligation cannot be made.
- c) Thus, contingent liabilities may or may not crystallize into actual liabilities. If they do become actual liabilities, they give rise to a loss or an expense.
- d) In Branch Balance Sheet such items are shown as Letter of Credit, Bank Guarantees and Letters of Comfort, Letter of Undertaking.
- e) Based on the circumstances of each case, the auditor should verify whether the items shown in the branch Balance Sheet as contingent liability would remain a claim against the bank not acknowledged as debt or it would be a liability requiring provisioning.
- f) The auditor may ask for an opinion from empanelled lawyer of the Bank in respect of crystallization of claim against the Bank in case any such susceptible item comes across to his notice during the course of audit of the branch.
- g) The auditor should use professional judgment to determine as to which claims can be construed as a contingent liability and which needs to be provided.
- h) If Bank Guarantees Issued account shows expired Bank Guarantees say more than 6 months old that should be reported in LFAR.
- i) The Bank Guarantees invoked must be honored immediately as per RBI guidelines without waiting the customer's response. The auditor should see that the bank guarantees issued

by the branch does not contain any onerous clause and that it is not issued for unlimited period.

- j) Guarantees are issued on behalf of customers as part of the agency functions of the bank, and for which the bank charges commission.
- k) There is no outlay of the bank's funds till a claim arises from any claimant/beneficiary in whose favor guarantee is issued.
- l) Guarantees issued may be specific to particular transactions or a series of transactions involving assumption of obligations upto certain monetary limits.
- m) Guarantees are issued for certain specified time limits and have a claim obligation, unless the guarantee is renewed.
- n) Such obligations are assumed by issuance of a guarantee document normally signed by the authorized signatories; and the bank normally obtains as a security, either a cash margin based on a percentage of the obligation or holds fixed deposits and in some cases, marks a lien on the account of the customer.
- o) Bank also obtains counter-guarantee to be invoked in case the obligation devolves.
- p) Entries are made in the Bank Guarantee Issued Register for each guarantee issued. The entries are expected to be reversed upon expiry of the guarantee/claim period, though in practice the bankers wait even for return to it, of the relevant documents, out of abundant caution.
- q) While scrutinizing the Letter of Credit portfolio the auditor should see that no expired Letter of Credit is shown outstanding as on the balance sheet date.
- r) It must be crystallized or provided for. Similarly, no overdue export bill purchased should remain outstanding in the books of the branch as on the balance sheet date.
- s) Letters of comfort (LOCs), involving liability assumed must be treated as akin to guarantees issued. Obligations comprising Letters of Undertaking (LOUs), normally used for trade credits, are disclosed in the Notes in the manner required (by RBI), in foreign currency and Rupee equivalent, that should be at the year-end rates of exchange.
- t) The outstanding entries must be examined to determine whether these comprise any funded exposures by or on behalf of the bank, particularly if these are to overseas banks/ associates/ branches in foreign currencies, to fund suppliers in respect of purchases made by the bank's borrowers under Trade(Suppliers') Credit arrangements.

#### **9. CAPITAL ADEQUACY RETURN- CAR B II and CAR B III:**

- a) The branches should ensure the data accuracy in the CBS so that Basel-2 and Basel-3 returns generated from the system are accurate. The auditors should check the data at-random basis.

- b) In case any modifications are required in the system generated returns, the same will be carried out through consequential MOC.
- c) The system has been devised for compiling the MOCs in respect of Basel-2 and Basel-3 returns also.
- d) The MOCs in respect of Basel-2 and Basel-3 should be dealt in the same manner as the other MOCs.
- e) The Branches should pay special attention to all items reported there in CAR return to ensure accuracy of the data.
- f) The Branches are advised to follow up the check list meticulously. Needless to mention the thrust should be on accuracy of the data in the CBS. Auditors have to satisfy themselves to it.
- g) It should also be ensured that Accounts, which are showing NIL collaterals and insufficient collaterals or significantly HIGH collaterals, are looked into with care as this has an impact on the CAR. A check has been provided in the software to highlight these aberrations. Specific Care should be taken in case of Advances against TDR's, Gold and Housing Loans to ensure that correct values of the Collaterals are entered in CBS.
- h) Auditors should check at-random that Customer types like Central Government, State Government, and Foreign Sovereigns are corrected /rectified in CBS wherever warranted.
- i) The appropriate flag in CBS for all eligible accounts including staff advances is places to ensure "no requirement of capital" for undrawn commitments.
- j) Reversal of Guarantees and LCs in the system, where they have matured.
- k) Correct classification of Guarantees into Financial / Performance, to ensure correct CCF (financial guarantees entail a credit conversion factor of 100% while it is 50% for performance guarantees).
- l) Where credit protection is given by the following entities, ensure they are fed at the CBS level to bring down the risk weights to that extent:
  - Central / State Govt. guarantees (0/20% RW)
  - CGTMSE guaranteed accounts (0% RW)
  - ECGC guaranteed accounts (20% RW)
  - Guarantee cover provided by parent, subsidiary and affiliate companies when they have better ratings.

Efforts should also be made to cover maximum number of eligible accounts to save capital charge.

m) Loans sanctioned to retired staff not covered by superannuation benefits to be marked as non-staff loans.

h) Claims on Corporates', AFCs, NBFC-IFCs and PSEs having aggregate exposure from banking system of more than Rs.100 Crores which were rated earlier and subsequently have become unrated will attract a risk weight 150% instead of 100%, with immediate effect. Therefore, ensure to obtain ratings for all such borrowers and enter in CBS.

A simple look of the following system generated returns will help the auditors to locate the discrepancies:

S. No.	NAME OF THE UTILITY	IMPACT
01	List of CGTMSE Accounts	CGTMSE Guaranteed A/Cs attract 0% Risk weight to the extent of Guaranteed amount
02	List of ECGC Guaranteed Accounts	ECGC Guaranteed accounts attract 20% Risk weight to the extent Guaranteed
03	List of Central/State Govt. Accounts	As these accounts attract 0% RW, it is subjected to thorough scrutiny by Auditors
04	List of all advances to Banks	These accounts attract 20% RW for Sch. Indian Banks and Based on Rating for Foreign Banks
05	List of all advances to PSE's (along with its ratings)	These accounts attract RW Based on Rating entered.
06	Rated accounts other than PSEs	RW assigned depending upon the rating of the Corporates
07	Multiple ratings List of accounts with multiple ratings for the same customer	Data inconsistency leads to error in reporting and Central Statutory Auditor's objection
08	List of all Office Accounts	As these accounts attract 0 % RW; will be thoroughly scrutinized by Auditors.
09	LC/BG Margin Money Report	Margins are netted-off against exposure
10	Excess /Short margin Report – LC/BG	Margins are netted-off against exposure
11	List of all Financial Guarantees	Financial Guarantees carries 100% CCF whereas it is 50% for Performance Guarantees
12	Unhedged Foreign Currency Exposures (Exposures identified/ data input in CCDP with likely loss percentage of 75% and above)	All the accounts will attract additional 25% risk weight

13	Staff customers confirmed by the branch	Staff accounts covered by SA attracts 20%, where as non-staff retail attracts 75%. Will be scrutinized by Auditors
14	Unrated customers with banking exposure of above Rs.100 crores and were rated earlier	These accounts attract additional 50% risk weight
15	Expired LCs and BGs	These exposures carry capital charge which could have been avoided.

#### **10. UNHEDGED FOREIGN CURRENCY EXPOSURES (UFCE)**

- a) In terms of RBI Circular No. DBOD.No.BP.BC.116/21.06.200/2013-14 dated 03.06.2014, which contains guidelines on capital and provisioning requirements for exposures to entities with Un-hedged Foreign Currency Exposure (UFCE), the calculation of provision and capital requirements has to be done by obtaining the data from the entities on a quarterly basis.
- b) In order to ensure that the Annual Audit is conducted smoothly and in time, the operating units have to immediately identify customers with foreign currency exposure if not already done and start collecting requisite information.
- c) The list has all possible Foreign Currency Exposure customers. However, the Branches should include other customers where they know that the customer have Foreign Currency Exposure but not included in this list.
- d) Arrangements have been made to populate the list of Probable Unhedged Foreign Currency Exposure customers as per the following selection criteria;
  - i. For Circles, customers (Standard Category) having either Export or Import facilities like Import LC, Export LC, Foreign Bank Guarantees, FCNB Loans etc. or having exposure of Rs.10.00 crores and above from our Bank.
  - ii. For CAG, CCG all customers (Standard Accounts only)
- e) It is mandatory that audited data should be obtained at least once in a year.
- f) Branches are advised to obtain audited data from the borrowers for the FY 2018- 2019 by 31st March 2020, if it had not been obtained in the previous quarters.
- g) If audited Data is not available, the data should be self-certified by the customer. Self-certification cases have to be signed by;
  - Company Secretary or by Internal Auditor in case of companies;
  - Internal auditor or Managing partner in the case of Partnership firms;
  - Internal auditor or Proprietor in case of sole proprietorship.
  - Where customer does not have any foreign currency exposure, a "NIL" certificate has to be obtained from him.



## VI. Special Considerations

### 1. VERIFICATION OF LOANS & ADVANCES

#### a) Main Sectors considered as priority sectors:

The sectors mentioned hereunder are regarded as priority sectors:

1. Agriculture
2. Education
3. Housing
4. Exports credits
5. MSME
6. Social Infrastructure
7. Renewable Energy
8. Others

#### b) Types of Advances-

The loans and advances may be categorized into 2 parts namely:

- ✓ Fund based advances are those where there is an actual transfer of funds from the bank to the borrower. Examples: Cash credit, term loans, overdraft, bill discounting, export loans etc.
- ✓ Non fund based advances are those where there is no immediate involvement of transfer of funds from the bank to the borrower. Examples: Letter of credit, bank guarantees, co-acceptance of bill.

#### c) Major fund based credit facilities-

##### ✓ Cash Credit for financing working capital:

Important areas to be considered while auditing for cash credits are:

- Appraisal of Sanction limit- As per the Terms & Conditions mentioned in the sanction letter.
- Verification of drawing power – Drawing Power is the amount of working capital funds allowed to borrower to draw from working capital limit allotted to him calculated on the basis of stock statements submitted by the borrower.

There are 2 situations:-

- i. DP exceeds sanctioned limit
- ii. DP lower than sanctioned limit

In both the above cases amount allowed to withdraw can be either Sanction Limit or Drawing Power.

Where,

**Drawing Power = Paid Stocks + Debtors – Margin**

**\*\* Paid Stock are stocks less Trade Payables. (Method of each bank may differ)**

✓ **Insurance**

- Stocks should be fully insured for all risks including fire, earthquake, burglary, terrorism etc.;
- Stocks at all locations including stocks with processors need to be covered under insurance;
- Bank's clause in insurance policy;
- Validity period to be alive;
- Insurance policy to cover theft in addition to burglary risk in view of Supreme Court decision on Industrial Promotion Investment Corporation of Orissa Ltd (IPCOL) V/s New India Assurance Co Ltd.

✓ **Monitoring of accounts**

- Withdrawals from the account for purchase of material and meeting day to day operational expenses;
- Annual review of accounts – Non renewal for over 180 days amount to slippage of accounts to NPA.

✓ **Term Loan for financing fixed assets**

Audit Procedure regarding term loans includes-

- Granted for acquiring fixed assets like land and building, machinery;
- TEV study wherever applicable done;
- All project approval obtained and held in records;
- Satisfactory credit report of suppliers of machineries from the approved rating agency available;
- Funds released on basis of quotations available after keeping prescribed margin. Please ensure that margin is from own source of the borrower company and not through bank's own funds;
- Bills in support of assets acquired available in records;
- Insurance of machineries done;

- Post disbursement inspection made;
- DER (Debt Equity Ratio) and DSCR (Debt Service coverage Ratio) to be within acceptable norms as per Bank's credit policy. Any deviation to be approved by the competent authorities.

✓ **Retail Loans**

Some of the common retail loans advanced by banks now a day are:

- **Housing Loan:**

- i. Agreement to sell between buyer and seller;
- ii. Non Encumbrance Certificate (NEC) from panel advocate;
- iii. Valuation by approved valuer;
- iv. Creation of valid mortgage;
- v. CERSAI registration;
- vi. Insurance of house property;
- vii. As per RBI circular No. DIR.BC.13/08.12.001/2015-16 dated 1/7/2015, compliance of following guidelines;
  - Availability of sanction plan from the competent authority in the name of the applicant;
  - Submission of completion certificate within three months from the date of completion. Failure leads to giving right to the Bank to recall the loan.

- **Car Loan:**

- i. Proper KYC and due diligence;
- ii. Proper appraisal of limit;
- iii. Release of loan on basis of quotation of car;
- iv. Branch to confirm the authenticity of the quotation;
- v. Release of funds to the account of the dealer after keeping prescribed margin;
- vi. Bill and insurance of car to be obtained;
- vii. Joint RC to be submitted by the borrower;
- viii. Post disbursement inspection of the car.

- **Education Loan:**

- Proper KYC and due-diligence;
- Education from accredited Institution/University;
- Original payment receipts of fee paid;
- Periodic progress report of student borrower;
- Interest on interest collection flag to be marked as 'Y' after the start of EMIs;
- Repayment period: Course period + 1 year or 6 months after getting job, whichever is earlier;
- 1% int. concession if interest is serviced during moratorium period (concession available for moratorium period only).

- **Loan against FDR's:**

- No loans against other bank's deposits as per RBI's guidelines;
- No loan against third party deposits if prohibited by Bank's loan policy;
- Loan against FDR if in joint name- to be applied and documents to be executed by joint holders;
- Prescribed margin maintained;
- FDR discharged and bank's lien marked on FDR as well in system
- Correct rate of interest charged.

- **Loan against LIC Policies:**

- LIC Policy to be in the name of the applicant and it is alive;
- Surrender value obtained and advance granted on basis of surrender value after keeping prescribed margin;
- Up-to-date premium paid;
- Policy is assigned in favour of the Bank.

- **Loan against securities:**

- No loan against partly paid up shares allowed;
- Maximum amount of loan against shares to individuals :
  - Rs 10 lakhs if held in physical form
  - Rs. 20 lakhs if held in dematerialized form
- No loan to be granted to a proprietorship concern or a partnership firm against primary security of shares and debentures;
- Under Section 19(2) of the Banking Regulation Act 1949, a bank cannot hold shares more than 30% of the paid up capital of that company or 30% of its own paid up capital and reserves, whichever is less.

- **Personal Loans:**

- i. Clean loans granted on basis of taxable income of the borrower;
- ii. Salary to be cross verified with Bank statement and Form-26AS.

- **Gold Loan:**

- i. Loans against pledge of gold ornaments;
- ii. Banks required to maintain a minimum LTV (Loan to value ratio) of 75% of value of gold ornaments;
- iii. LTV to be maintained throughout the tenure of the loan and will be computed against total outstanding including interest;
- iv. Gold ornaments to be the approved valuers of the Bank;
- v. Complete detail of inventory in the Security register duly signed by the borrower;
- vi. Valuation of the Gold Loan on the basis of 22 Carat Gold prices as published by Indian Bullion and Jeweler Association, which should not be old than 30days.

- **Mudra Loans:**

- i. The aim is to provide easy access of bank loans to the weaker sections of the society.

- **Bills discounting for financing bills:**

- i. Bill discounting against sanctioned limit of the borrower;
- ii. Bills to represent genuine trade transaction- no accommodation bills;
- iii. Facility to be allowed to only customer availing regular credit facilities. Walk in customers to be avoided;
- iv. Bills to be accompanied by GRs of IBA approved transporters;
- v. Bills to be realized on due dates;
- vi. If bills are drawn under LC, ensure that LC is issued through SFMS (Structured Financial Messaging System - A secured messaging software developed for inter banks and intra bank applications).

- ✓ **Export credit facilities:**

- a) **Pre Shipment granted to acquire goods-**

- To be released against LC or confirmed order from the overseas buyer;
- Satisfactory credit report of overseas buyers from approved credit available;
- Packing credit utilized for purchasing goods for export purposes;
- ECGC coverage obtained. ECGC premium to be borne by the borrower;
- Packing credit granted for a maximum period of 270 days with further extension allowed upto 90 days with permission of higher authorities;
- Reporting to RBI case Packing Credit not adjusted within 360 days;
- In case of overdue Packing Credit, ECGC to be duly notified;
- If export does not take place, interest at commercial rate to be recovered from

the date of released;

- Interest subvention, if granted, to be duly claimed. No interest subvention on overdue packing credits;
- Monthly stock statements submitted and release restricted to allowable DP;
- To be liquidated out of proceeds of export bills. If liquidated from inland proceeds, commercial rate of interest from the date of release to be charged.

**b) Post Shipment granted to Finance Exports-**

- Extended in the form of discounting of export bills or advance against export bills for collection;
- Satisfactory credit report of overseas buyer available from the approved rating agency;
- No existing overdue export bills while discounting new bill. Fresh bills not to be discounted to adjust old overdue bills;
- Interest subvention claimed. No interest subvention on overdue bills;
- Overdue bills crystallized within 30 days from the due date;
- Bills liquidated from export proceeds;
- ECGC coverage available. Premium on post shipment to be borne by the bank;
- In case of extension of bills, ECGC to be duly notified;
- Timely submission of claim to ECGC in case of default by the borrower;
- Bills accompanied by export documents including shipping bill, bill of lading, invoice;
- Authenticity of Shipping Bill issued by the customs verified from the site "Icegate.gov.in".

**d) Non Fund Based Facilities:**

✓ **Letter of Credit**

- i. Issue of LCs through SFMS;
- ii. Satisfactory credit report of the beneficiary from the approved rating agency available;
- iii. LCs cover goods in which the customer deals;
- iv. Applicable commission charged;
- v. LC within the sanctioned limit. Prescribed margin maintained;
- vi. Goods transported through IBA approved transporters;
- vii. Expired LC reversed;
- viii. No fresh LC in case of existing devolved LC.

✓ **Bank Guarantees**

- i. Issue of Bank Guarantee through SFMS;
- ii. Bank guarantee issued within the sanctioned limit;
- iii. Prescribed margin maintained;
- iv. Application commission including commission for claim period recovered;
- v. In case of Performance Guarantee, periodical progress report from competent engineer obtained;
- vi. Expired Bank Guarantees reversed.

#### **RBI Guidelines for Bank Guarantees:**

Bank Guarantees exceeding Rs. 50000/- to be signed by two branch officials jointly. Bank Guarantees to Stock Exchange on share brokers- maintenance of minimum 50% margin out of which minimum 25% cash margin to be maintained.

#### **CGTMSE SCHEME**

Accounts covered under CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) scheme:

- Eligible accounts- only micro and small enterprises.
- No collateral and third party guarantee.
- Maximum finance Rs 2crore.
- Payment of annual guarantee fee.

#### **ECGC (EXPORT CREDIT GUARANTEE CORPORATION):**

- Coverage of export loans.
- Premium to be paid on monthly basis (In case of pre-shipment, to be borne by the borrower, in case of post shipment, to be borne by the Bank).
- Prior Permission to extend loan to an NPA account.
- Satisfactory credit report of overseas buyer not older than one year.

#### **e) Restructuring Of Advances :-**

- i. Granting concession in rate of interest in the stressed assets;
- ii. Granting extension of repayment period;
- iii. Converting overdue interest portion into a separate FITL (Funded Interest Term Loan ) account;
- iv. Converting overdue principal amount into WCDL (Working capital demand loan account);
- v. Granting any concession to the borrower which the bank would not have otherwise considered.

#### **f) Asset Classification :**

Any account restructured w.e.f.1st April 2015 to be classified as NPA. The following are

not considered as restructuring cases:

- i. Extension of DCCO in case of project loans.
- ii. Extension of repayment period of loans under floating rate on reset of interest rate to keep the EMI unchanged.

**g) Accounts ineligible for restructuring**

- i. Loss assets
- ii. Borrowers indulging in frauds
- iii. BIFR cases without specific approval of BIFR
- iv. Willful defaulter unless restructuring approved by the Board of Directors.

**h) Other Important points**

- i. No restructuring with retrospective effect.
- ii. No restructuring unless financial viability is established.

**i) Common audit process of loans & Advances:**

The common audit process of Loans & Advances consists of following three stages:

- ❖ *Pre sanction process*
- ❖ *Documentation*
- ❖ *Post sanction process*

**PRE SANCTION AUDIT PROCESS INVOLVES VERIFICATION OF THE FOLLOWING:**

Proper application and other relevant papers – KYC documents, ITR, Balance Sheet, License, Address Proof, Partnership Deed, proprietorship proof, IEC Registration, SSI registration, Memorandum and Articles of Association, Certificate of incorporation.

- Due diligence for identification of the borrower including pre sanction visit;
- Verification of KYC documents with the originals;
- Direct verification of Certificates/documents with third party;
- (RBI/2010-11/589DBS. CO. Fr MC. BC.No. 11/23.04.001/2010-11 Dated 30.6.2011);



- Generation of CIBIL reports, reference to RBI defaulters list, ECGC caution list, verification of Central Fraud Registry maintained by RBI and CRILIC (depository of loan accounts above Rs. 05crore);
- Satisfactory status report from the existing bankers;
- Credit risk rating;
- Site verification and valuation of immovable properties by approved valuer and branch official;
- CERSAI Verification for any existing charge on immovable property;
- ROC search;
- Assessment of limit as per the guidelines;
- Loan granted within the delegated power of the sanctioning authority;
- Compliance of Bank's lending policy stipulations;
- Compliance of take over norms;
- Issuance of sanction letter.

#### **DOCUMENTATION PROCESS INVOLVES:**

- Acceptance of terms of sanction by the borrower and guarantor;
- All required documents executed. Requisite stamp duty as per the state laws paid. Entry in document register made;
- Vetting of documents by panel advocate;
- Creation of Equitable Mortgage as per the guidelines;
- CERSAI registration in case of Equitable Mortgage of property;
- Charge registration with ROC in case of company.

#### **POST SANCTION PROCESS INVOLVES:**

- All terms of sanction duly complied with;
- Disbursement as per the terms of sanction. Special precautions against Shell entities and Window dressing;
- Prescribed margin obtained;
- Rate of interest correctly fed in system;
- Applicable charges recovered;
- Over-drawings in the account need based, properly reported, within discretionary power, adjusted in time;
- Primary securities created and necessary bills held as proof of purchase;
- Post disbursement inspection made;

- Submission of stock statement at prescribed interval, calculation of DP as per lending policy;
- Stock audit in applicable cases, not older than 01year;
- Balance confirmation letter at periodic intervals, not older than 03years;
- Monitoring of operations in account;
- Prompt action in case of early warning signals including frequent excess, frequent returning of cheques, huge cash deposits and withdrawals, frequent LC devolvement, low turnover in the account;
- Insurance of primary and collateral securities;
- Renewal of working capital limits on annual basis.

**Submission of statements of financial performance (QIS )based on the recommendations of Chore Committee(1979)**

- Form 1 – Estimates of ensuing quarter
- Form 2- Actuals of previous quarter
- Form 3- Half yearly performance

## **2. NON PERFORMING ASSETS:**

### **Accounts with Temporary Deficiencies-**

Classification of accounts with deficiencies which are temporary in nature such as non-availability of adequate drawing power based on the latest available stock statement, balance outstanding exceeding the limit temporarily, non-submission of stock statements and non-renewal of the limits on the due date, etc. please follow the following guidelines:

- i. Ensure that drawings in the working capital accounts are covered by the adequacy of current assets. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular.
- ii. A 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.

- iii. Regular and adhoc credit limits need to be reviewed / regularized not later than three months from the due date/date of adhoc sanction. An account where the regular/ adhoc credit limits have not been reviewed/ renewed within 180 days from the due date/ date of adhoc sanction will be treated as NPA.

### **De-Recognition Of Interest in a Loan Account on Its Identification as NPA**

- As per RBI guidelines, the unrealized interest in respect of fresh NPAs is required to be reversed to the borrowers' accounts.
- Such interest reversal is carried out in CBS on stamping of fresh NPAs. Therefore, it is imperative that the data accuracy is ensured in CBS with regard to Drawing Power, repayment schedules, date of stock statements, value of security etc., so that NPAs are correctly identified in CBS itself and un realized interest is derecognized/reversed by the system.
- However, if any account is classified as standard in CBS and subsequently identified as NPA, the unrealized interest should be worked out and reported to the respective HO for necessary adjustments at HO level.
- Interest earned on Standard restructured accounts should be booked (credited to Interest Account) on accrual basis (whether realized or not) and in respect of NPA Restructured Accounts on cash basis (only on realization) strictly in accordance with the RBI guidelines contained in RBI Master Circular RBI/2015-16/101 DBR No.BP.BC.2/21.04.048/2015-16 July 1, 2015.

### **Partial Recovery of Interest in NPA Accounts**

- RBI have clarified that it would be in order for the Bank to take to income account interest realized in NPA account provided the credits in the account towards interest are not out of fresh/additional credit facilities sanctioned to the borrower concerned. In other words there should be actual realization of interest in the NPA account.

### **When To Book Partial Recovery of Interest in NPA Account**

- The following conditions are required to be satisfied for provisioning of Partial Recovery of Interest as income in a NPA account.
- Actual realization of interest is measured by reduction in irregularity during the accounting year from 1st April to 31st March accompanied by actual credits received in the account at least to the extent of reduction in irregularity, and

- Such reduction in irregularity is not out of fresh/ additional facilities sanctioned to the borrower.

### **Appropriation of Recovery in NPAs**

- Interest realized 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.
- Appropriation of recoveries in NPAs (i.e. towards principal or interest due), as per the Bank's extant instructions is done in accordance with following priority:-
  - Charges
  - Unrealized Interest
  - Interest
  - Principal

### **Sequencing of Interest Realization**

- The interest is not debited to the account after an account is identified as NPA. While booking interest income in NPA account on realization basis, prioritization of the recovery of the elements of unrealized interest becomes necessary and the same is done as under:
  - The unrealized interest (of the previous years) reversed to borrower's a/c by debit to interest account, if any, will be realized first,
  - Thereafter, subsequent period interest (unrealized interest of the current year reversed to the borrower's accounts, if any and unapplied interest) should be booked by debit to the borrowal account where such recovery takes place.

### **Reporting of amount in TDR/STDR taken as margin would be as under:**

- If 100% of the amount of Deposit is taken as margin, this will be reported as margin money.
- If less than 100% of the amount of Deposit is taken as margin by marking lien for partial amount then it will be treated as lien on deposits (CA/TDR/STDR).

For example:

- If TDR/STDR amount is Rs. 1,00,000/- and margin requirement also is Rs. 1,00,000/- then this will be reported as margin money held in TDR/STDR as the case may be.
- If the margin requirement against the same TDR/STDR is less, say Rs. 60,000/-, and lien marked for that amount then this will be reported as lien on deposits (CA/TDR/STDR).

(For classification only principal amount should be considered, however, while reporting margin capitalized interest should also be included)

- Margins held in a Special Current Account is to be treated as Margin Money only & not as lien on deposit.

### **Instructions for making Provisions on NPA Accounts**

- Only the amount of claims received and held in 'DI&CGC/ECGC Claims Received Account' at the Branches should be reckoned for arriving at provisions. Claims pending with DI&CGC/ECGC (i.e. non-settled claims) should not be reckoned.
- The State Bank has joined the Credit Guarantee Scheme of CGTMSE. No provision needs to be made to the extent guarantee cover is available. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances. RBI Master Circular RBI/2015-16/101 DBR No.BP.BC.2/21.04.048/2015-16 July 1, 2015 –Prudential Norms on Income Recognition of an Asset.

## **3. NON PERFORMING ASSETS CLASSIFICATION& IRAC NORMS**

### **Classification and provisioning pertaining to Advances**

NPAs are classified into Sub-Standard, Doubtful and Loss Assets, based on the following criteria stipulated by RBI:

- i.Sub-standard: A loan asset that has remained non-performing for a period less than or equal to 12 months.
- ii.Doubtful: A loan asset that has remained in the sub-standard category for a period of 12 months.
- iii.Loss: A loan asset where loss has been identified but the amount has not been fully written off.

The classification of NPA into various categories i.e. Sub-standard, D-1, D-2, D-3 and loss based on NPA dates and the provision requirement for NPAs are as under:

Classification	NPA date between (both days inclusive)		Provisioning Norms	
	From	To	Secured	Unsecured,
<b>Substandard</b>	01-04-2019	31-03-2020	15%	25%*
<b>D-1</b>	01-04-2018	31-03-2019	25%	100%
<b>D-2</b>	01-04-2016	31-03-2018	40%	100%
<b>D-3</b>		31-03-2016	100%	100%
<b>Loss</b>	-	-	100%	100%

\*The 'ab-initio unsecured exposures' which are identified as 'sub-standard' would attract provision @ 25 per cent on the outstanding balance.

However, in respect of Infrastructure loan accounts (where escrow accounts are available), which are classified as sub-standard will attract a provisioning of 20% instead of the aforesaid prescription of 25 per cent.

- An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.
- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan, [Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank].
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In respect of Overdraft or Cash Credit advances, the account remains "out of order", i.e. if the outstanding balance exceeds the sanctioned limit/drawing power continuously for a period of 90 days or accounts where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period will have to be classified as 'out of order' as per the stipulation of Master Circular on IRAC Norms of RBI.
- Agricultural loan accounts, where there is no credit in the past 36 months will have to be classified as NPA in March 2020, if they are not renewed. There may be certain cases of exception which may be assessed properly.
- Where principal/ interest remains overdue for two crop seasons in respect of short duration crops and one crop season in respect of long duration crop. For long duration crop, the NPA date would depend on crop cycle, which is decided by State Level Bankers' Committee in each state. Short duration crop, depending upon

whether the land is cultivated for single crop or double crops, becomes NPA if the interest / principal remain unpaid as under:

Crop pattern	Kharif Season			Rabi Season		
	Cropping Pattern (Loan disbursement Period)	Due date	Date of NPA	Cropping Pattern (Loan disbursement Period)	Due Date	Date of NPA
Single	1st April-13 to 31st Sept -13	31-Jan-14	31-Jan-16	1st Oct 13 to 31st March 14	31-Jul-14	31-Jul-16
Double	1st April-13 to 31st Sept -13	31-Jul-14	31-Jul-15	1st Oct 13 to 31st March 14	31-Jul-14	31-Jul-15

\*The above table is only for understanding the concept. The actual due date and date of NPA may differ and be decided on the basis of due date fixed at the time of disbursal of loan.

### **VARIOUS TYPES OF NON-PERFORMING ASSETS**

<b>Sub Standard</b>	A sub-standard asset is one which has been classified as NPA for a period not exceeding 12 months. Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by a distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.
<b>Doubtful Asset</b>	A doubtful asset is one which has remained NPA for a period exceeding 12 months. Such an asset has all the characteristics of a sub-standard asset with the additional characteristic that, on the basis of currently known facts, conditions and values, the recoveries may be highly questionable and improbable. <b>In the case of erosion in the value of the security</b> where the assessed realizable value of the securities has a significant shortfall – 50% or more, the asset would necessarily have to be included as Doubtful and provided for – Refer Para 4.2.9 (i)(a) of the Master Circular dated 1.7.2015.
<b>Loss Asset</b>	A Loss Asset <i>(irrespective of the period elapsed since its sanction/disbursal)</i> , is one where loss has been identified by: a) the bank, or b) the internal or external auditors, or c) the RBI Inspection, But the amount has not been written off, wholly or partly; and 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 recovery value. <b>In the case of erosion in the value of the security or frauds committed by the borrowers</b> where the realizable value of the security as assessed by the Bank/approved valuers/RBI is less than 10% of the outstanding, the asset

	would be treated as Loss asset – Refer Para 4.2.9 (i)(b) of the Master Circular dated 1.7.2015.
<b>Upgrading the health classification</b>	<p><b>The health classification can be upgraded only on remedying the default that caused the account to be downgraded; the account may not be downgraded, only as permitted by the RBI Circulars.</b></p> <p>Temporary deficiencies in irregular/overdrawn accounts can also be cured if <b>all amounts in default</b> are paid out of genuine sources and not being stray instances of credits.</p>

### **IRAC NORMS FOR CATEGORIZATION OF ACCOUNTS**

<b>Monetary Defaults as per RBI IRAC Norms</b>	<p>Monetary defaults are time related and involve amounts that “<i>remain overdue</i>” for stipulated period, i.e., if an amount due to the bank under any credit facility is not paid on the <u>due date fixed</u>* by the bank;</p> <p>or</p> <p>“<i>become out of order</i>”, as stated hereunder, and applies to cash credit/overdraft accounts</p> <p>*Interest on various loan accounts is normally debited monthly, and interest should be considered as falling due for payment on the date of debit, <i>unless otherwise contractually agreed</i>. Where the due date is frequently changed to accommodate the borrower to avoid the account becoming NPA, the same needs serious consideration.</p> <p><u>*Installment</u> falls due for payment as per terms of sanction.</p> <p><i>In cases of loans to staff, education loans and certain other advances, the interest /installment amount falls due for payment only after the expiry of the stipulated period. In the cases where advances for industrial projects or for agricultural plantations etc. are sanctioned allowing moratorium for payment of interest, such interest though accruing contractually, is not due till the gestation /moratorium period is over).</i></p>
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<b>Non-Performing Advances Loan or Advance (Cash Credits, overdrafts)</b>	An account ( <i>Cash credit/overdraft</i> ) should be treated as 'out of order' and will be categorized as NPA, if any of the following conditions is satisfied: Where the outstanding balance remains <u>continuously</u> in excess of the sanctioned limit/drawing power; <i>OR</i> Even though the outstanding balance in the principal operating account is less than sanctioned limit/drawing power, but there are no credits <u>continuously</u> for more than 90 days as on the date of Balance Sheet, or The credits are not enough to cover the interest debited during <u>the same period</u> . <u>Exceptions</u> - Loans with moratorium for payment of interest - Housing Loan or similar advance to staff
<b>Bills Purchased and discounted</b>	Bill <u>remains overdue</u> for a Discounted period by more than 90days.
<b>Cash Credit Accounts</b>	If the account is 'out of order'.
<b>Derivative Transaction</b>	Overdue receivables representing positive mark to market value of a derivative contract remaining unpaid for a period of 90 days from specified due date.
<b>Liquidity facility</b>	Remains outstanding for more than 90 days in respect of Securitization transaction.
<b>Credit Card dues</b>	The minimum amount payable is not paid within 90 days from the next statement date
<b>Agricultural Advances</b>	Interest or installment <u>remains overdue</u> for two crop seasons for short duration crop, one crop season for long duration crop. <u>Definitions</u> Crop season – 'period up to harvesting of crops raised' as determined by SLBC Long duration crop – Crops wherein crop season is more than 12 months

### **NORMAL NORMS FOR PROVISIONS ON NPA ACCOUNTS**

<b>Sub Standard</b> (Accelerated Provisioning applicable for lending under Consortium and Multiple Banking Arrangements refer Para 25, Para 31 and Para 32 of the Master Circular dated 1.7.2015)	Secured: Provision (%) Up to 6 months @15% 6 months to 1 year @25%  Unsecured ab-initio
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	<p>- <u>Other than infrastructure loans</u> Up to 6 months @ 25% 6 months to 1 year @ 40%</p> <p>- <u>Infrastructure loans</u> Up to 6 months @ 25% 6 months to 1 year @ 40%</p>						
<p><b>Doubtful Assets</b> (will include advances where erosion in the realizable value of security is significant, <i>being less than 50 per cent of the value assessed</i> by the bank or accepted by RBI at the time of last inspection)</p>	<p><u>Unsecured portion</u> 100 % of the extent to which the advance is not covered by the realistically estimated realizable value of the security to which the bank has a valid recourse.</p> <p><u>Secured portion</u> <i>Period for which Provision(%) the advance has remained in the doubtful' category</i></p> <table> <tr> <td>Up to 1 year</td><td>25</td></tr> <tr> <td>1 to 3 years</td><td>40</td></tr> <tr> <td>More than 3 years</td><td>100</td></tr> </table>	Up to 1 year	25	1 to 3 years	40	More than 3 years	100
Up to 1 year	25						
1 to 3 years	40						
More than 3 years	100						

### **ACCELERATED PROVISION ON NPA ACCOUNTS FOR CURRENT YEAR**

Asset Classification	Period as NPA	Current provisioning (%)	Revised accelerated provision in g (%)
Sub-standard (secured)	Up to 6 months	15	No change
	6 months to 1 year	15	25

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Sub-standard (unsecured <i>ab-initio</i> )	Up to 6 months	25 (other than infrastructure loans)	25
		20 (infrastructure loans)	
	6 months to 1 year	25 (other than infrastructure loans)	40
		20 (infrastructure loans)	
Doubtful I	2nd year	25 (secured portion)	40 (secured portion)
		100 (unsecured portion)	100 (unsecured portion)
Doubtful II	3rd & 4th year	40 (secured portion)	40 (secured and unsecured portions)
		100 (unsecured portion)	
Doubtful III	5th year onwards	100	100

### **OTHER GUIDELINES FOR CLASSIFICATION OF NPAS**

In the following circumstances, the borrower's accounts should be classified as NPA:

- i. Stock statement not received as per the required validity (RBI Norms)
- ii. Limits have not been reviewed / renewed within a period of 180 days from the due date.
- iii. Adhoc credit limits have not been reviewed/ renewed within 180 days from date of adhoc sanction, should be treated as NPAs.
- iv. Term loans granted for project, the implementation of which is delayed by more than one year (as mentioned in the proposal at the time of financial closure) in case of non-infrastructure projects and for infrastructure projects for more than 2 years (except for 7 large projects notified by RBI in its circular no. 2008-09/283 dated 14th November 2008).
- v. Loan account is NPA at other Branch including foreign offices (borrower wise classification)
- vi. Loans classified as capital market exposure (like loan against shares, loan to stock brokers etc.) is restructured.
- vii. Frequent resorting to short review procedures rather than full review of borrowable accounts.
- viii. CASES OF QUICK MORTALITY WHERE ADVANCES BECAME NPA WITHIN 24 MONTHS OF SANCTION/APPRAISAL (Cases above Rs.10.00lakhs). This, prima facie,

reflects deficiencies in and faulty appraisal of the proposals, including on account of technical and financial viability not having been properly assessed or examined.

- ix. Based on a study of such cases, the incurrence of losses within a short time after sanction / disbursement of advances needs to be determined and action initiated to identify and address the deficiencies in the credit appraisal system and/or monitoring, that would require to be reviewed/ remedied, the objective being to minimize such occurrences in future; and may entail imparting appropriate staff training and equipping the personnel with the requisite skills.
- x. Considering the nature and risk of trade, the Management may need to assess generic provision, if any required, for cases of quick mortality, based on trends as may be reflected over a period of time.

#### **4. WILLFUL DEFAULTERS AND NON-COOPERATIVE BORROWERS**

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 willful defaulters, will be 5% in cases of standard accounts; if such account is classified as NPA, it will attract accelerated provisioning.

#### **5. EXCEPTION**

The classification of advances is borrower-wise and not facility-wise. Thus, if any advance/security of the borrower is classified as NPA/NPI, all advances/securities of the borrower would be classified as NPA/NPI. However, under the following circumstances, a facility of borrower can be standard despite other facilities being NPA:

- i. In respect of agricultural advances as well as advances for other purposes granted by banks to PACS/ (Farmers Service Societies) FSS under the on-lending system, only that particular credit facility granted to PACS/ FSS which is in default for a period of two crop seasons in case of short duration crops and one crop season in case of long duration crops, as the case may be, after it has become due will be classified as NPA and not all the credit facilities sanctioned to a PACS/ FSS.
- ii. Other direct loans & advances, if any, granted by the bank to the member borrower of a PACS/ FSS outside the on-lending arrangement will become NPA even if one of the credit facilities granted to the same borrower becomes NPA. The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income.

- iii. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization.
- iv. In respect of 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.
- v. Additional credit facilities granted to (i) a unit under rehabilitation package approved by BIFR/term lending institution (IRAC norms will become applicable after a period of one year from the date of disbursement) (ii) sick SSI units under rehabilitation/nursing program (IRAC norms will become applicable after a period of one year from the date of disbursement)
- vi. NPAs purchased by the bank for a period of 90 days and thereafter, if the recovery is, as estimated ab initio (at the time of purchase), then it should be continued as standard.
- vii. In respect of derivative transactions, the overdue receivable representing positive mark-to-market value of derivative contract, and overdue for more than 90 days is also to be classified as NPA. Principle of borrower-wise asset classification would be applicable only in respect of overdue arising from forward contracts and plain vanilla swaps and options. Thus, receivable in respect of other derivative instruments may be classified as NPA if overdue is for more than 90 days however, the other facility of the borrower need not be classified as NPA based on the borrower wise classification as per the existing asset classification norms.

## 6. **NPA –INCOME RECOGNITION**

Generally, income can be recognized and accrued on all performing accounts (generally classified as Standard Accounts (except Central Govt. guaranteed advances in default, where guarantee is not invoked). Income cannot be accrued or recognized on NPAs comprising “Sub-standard”, “Doubtful”, “Loss” Assets unless the same is actually realized / recovered. The auditor should pay special attention towards following aspects also relating to income recognition: -

- i. In respect of accounts identified during the year as NPA income already debited/applied to the borrower’s account, is derecognized, to the extent not realized (including for past periods).
- ii. Other income by way of charges, commission etc. to the extent not realized must also be reversed and derecognized. Such de-recognition is expected to be reversed to Income of the current period (and held in Interest Suspense or similar account); and not be credited to/reversed in the account of the borrower (as has become the practice in some banks).

- iii. Income contractually due after identification of the account as NPA (unless there are recovery proceedings in litigation), is computed in the normal course but not applied to the borrower's account, but kept in a separate Memorandum record (i.e. Unapplied interest).
- iv. Law charges incurred for recovering the amount of advance should be charged off and record maintained in the Memorandum books, to enable recovery in future.
- v. If recoveries are made subsequently, unless there are clear instructions from the borrower, these recoveries comprise income (first by realization of unrealized charges, thereafter reduction to the extent of interest Suspense Account and thereafter by application of unapplied interest).
- vi. Where one of the accounts of the borrower is NPA and the others are regular and are being serviced, while the borrower is NPA, realization in regular accounts can be considered as income.
- vii. As per RBI guidelines the amount received in NPA accounts should be treated as under:-
  - Amounts realized in NPAs can be appropriated to Income provided the credits are not out offresh/additional credit facilities sanctioned to the borrower.
  - In the case restructured accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance is to be recognized only on realization; and during the moratorium, if any, granted for payment of interest, income cannot be recognized/accrued.
  - In case of NPAs comprising Advances against gold ornaments, Govt. and all other kinds of securities, as well as those against the Bank's Term Deposit Receipts, Kissan Vikas Patras, IVPs, National Savings Schemes and Life Policies (which are not exempted from provisioning requirements), income may also be recognized on realization.
  - Recoveries in excess of total acquisition cost of NPAs purchased from other banks can only be appropriated as income.

## 7. **KCC ELIGIBILITY**

- i. If a farmer is eligible for a production credit of Rs.5000 or more, then he/she is eligible for a KCC.
- ii. As per the concerned bank's discretion, sub-limits may be fixed.
- iii. The facility of revolving credit is available for any amount of withdrawals and repayment made within the credit limit. The credit limit is fixed based on the individual's land holdings, scale of finance, annual production credit needs, etc.
- iv. Based on the annual review, the credit card can be valid up to 3years.

- v. Repayment for the amount borrowed can be made within a period of up to 12 months.
- vi. Credit limits will be increased to take care of change in cropping pattern, increase in costs, etc. as an incentive for good record on credit card usage.
- vii. Operations can be through PACS in the case of Cooperative Banks or issuing branch in case of other banks, at the sole discretion of the bank.
- viii. Conversion/rescheduling of loans also permissible in case of damage to crops due to natural calamities.
- ix. Security, margin, rate of interest, etc. will be applicable as per RBI norms.

### **Benefits of KCC cards**

- ✓ Flexible repayment options.
- ✓ Hassle-free disbursement procedure.
- ✓ Single credit facility/ term loan for all agricultural requirements.
- ✓ Dependable and easily available credit which enables a decrease in the farmer's interest burden.
- ✓ Assists in the purchase of fertilizers, seeds, etc.
- ✓ Assists in availing cash discounts from merchants/dealers.
- ✓ Credit is available for a period of up to 3 years, without any seasonal appraisals.
- ✓ Income from agricultural sources determines the maximum credit limit.
- ✓ There is no restriction on the cash withdrawals that can be made by the KCC holder, as long as it is within the credit limit set by the bank.
- ✓ Repayment can be made once the harvest season is over.
- ✓ Lower interest rates.
- ✓ Margin, security and documentation terms and conditions are similar to that applicable to agricultural advance.
- ✓ Credit is made available for annual agricultural requirements and expenses.
- ✓ Minimal documentation and maximum flexibility offered for withdrawal of the required funds from the Bank.
- ✓ Funds can be withdrawn from any of the Bank's branches, as per the sole discretion of the bank.

### **8. PROCEDURE FOR IDENTIFICATION OF TERM LOANS AS NPA-**

- i) Where the account has gone into default and is overdue as regards to principal (installments) for over 90 days during the year and the default is not cured up to 31 March; and /or- servicing of interest for the period of 90 days after it became due from the end of any quarter.
- ii) Loans restructured when these were in substandard category; except additional advance for a period of one year.
- iii) NPAs purchased from another bank, if not with satisfactory performance will be NPA, if substandard in the selling bank's books.

### **9. CASH CREDIT / OVERDRAFT/ OTHER LOANS REPAYABLE ON DEMAND**

Where the account is out of order for over 90 days i.e.

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- a) In case where the outstanding continuously exceeds limit/DP; Or
- b) Where the outstanding is less than limit/ drawing power, but
- If there are no credits continuously for more than 90 days as at 31.3.2020 (since 30-12-2019)or
- If the credits from 30-12-2019 are not adequate to cover interest debited for the same period.
- Renewal is pending for more than 180 days.
- Stock statement is older than 180 days.

### **Bills Purchased and Discounted**

If the bill has remained overdue for a period of more than 90 days i.e. overdue is prior to 30-12-2019, it will be treated as NPA.

Where bills discounted under LC are not accepted on presentation and amount remains in default, it will be treated as NPA.

## **10. RE-STRUCTURING OF AND REVISIONS IN THE SCHEMES FOR STRESSED ASSETS:**

- Attention is drawn to the asset classification and provisioning requirements related to the schemes of stressed assets; and Para 9 of RBI Circular DBR.No.BP.BC.103/21.04.132/2015-16 dated June 13, 2016 (repealed vide RBI Circular No. **DBR.No.BP.BC.101/21.04.048/2017-18 dated 12.2.2018**), dealing with the same. **Sub Para** A states that where there is a change of promoter the asset classification and provisioning requirement will be as per the 'SDR' scheme or 'outside SDR' scheme as applicable.
- As per RBI Circular DBR.No.BP.BC.33/21.04.132/2016-17 dated 10-11-2016 which had been repealed vide RBI Circular No. **DBR.No.BP.BC.101/21.04.048/2017-18 dated 12.2.2018** given hereunder:

RBI Circular DBR.No.BP.BC.103/21.04.132/2015-16 dated. 13-06-16(repealed vide RBI Circular No. <b>DBR.No.BP.BC.101/21.04.048/2017-18</b> dated 12.2.2018)	RBI Circular DBR.No.BP.BC.33/21.04.132/2016-17 dated. 10-11-16 (repealed vide RBI Circular No. <b>DBR.No.BP.BC.101/21.04.048/2017-18</b> dated 12.2.2018)
In respect of an account that is classified as non- performing asset on the date of this resolution, the entire outstanding (both Part A and part B) shall continue to be classified and provided for as a non- performing asset as per extant IRAC norms	In respect of an account that is classified as a non-performing asset as on the reference date, the Part B instruments shall continue to be classified as non-performing investment and provided for as a non-performing asset as per extant prudential norms, as long as such instruments remain in Part B. The sustainable portion (Part A) may optionally be treated as



	‘Standard’ upon implementation of the resolution plan by all banks, subject to provisions made upfront by the lenders being at least the higher of 50 percent of the amount held in part B or 25 percent of the aggregate outstanding (sum of Part A and part B). For this purpose, the provisions already held in the account can be reckoned.
Lenders may upgrade Part A and Part B to standard category after one year of satisfactory performance of Part A loans. In case of any pre- existing moratorium in the account, the upgrade will be permitted one year after completion of the longest moratorium, subject to satisfactory performance of Part A debt during this period. However, lenders will continue to mark to market Part B instruments as per the norms stated herein.	In all cases, lenders may upgrade Part B to standard category and reverse the associated enhanced provisions after one year of satisfactory performance of Part A loans. In case of any pre- existing moratorium in the account, this upgrade will be permitted one year after completion of the longest such moratorium, subject to satisfactory performance of Part A debt during this period. However, in all cases, the required MTM provisions on Part B instruments must be maintained at all times. The transition benefit available in terms of paragraph 9(B)(vi) can however be availed.
If the provisions held by the bank in respect of an account prior to this resolution are more than the cumulative provisioning requirement prescribed in the applicable sub-paragraphs above, the excess can be reversed only after one year from the date of implementation of resolution plan (i.e. when it is reflected in the books of the lender, hereinafter referred to as ‘date of restructuring’), subject to satisfactory performance during this period	

#### **11. MSME BORROWERS REGISTERED UNDER GOODS AND SERVICES TAX (GST)**

Please refer to the circulars DBR.No.BP.BC.100/21.04.048/2017-18 dated February 07, 2018 and DBR.No.BP.BC.108/21.04.048/2017-18 dated June 6, 2018. In this regard, with a view to facilitate meaningful restructuring of MSME accounts {MSME as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006} that have become stressed, it has been decided to permit a one-time restructuring of existing loans to MSMEs classified as ‘standard’ without a downgrade in the asset classification, subject to the following conditions:

- i. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹250 million as on January 1, 2019.
- ii. The borrower’s account is in default but is a ‘standard asset’ as on January 1, 2019 and continues to be classified as a ‘standard asset’ till the date of implementation of the restructuring.

- iii. The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration.
- iv. The restructuring of the borrower account is implemented on or before March 31, 2020. A restructuring would be treated as implemented if the following conditions are met:
  - All related documentation, including execution of necessary agreements between lenders and borrower / creation of security charge / perfection of securities are completed by all lenders; and
  - The new capital structure and / or changes in the terms and conditions of the existing loans get duly reflected in the books of all the lenders and the borrower.
- v. A provision of 5% in addition to the provisions already held, shall be made in respect of accounts restructured under these instructions. Banks will, however, have the option of reversing such provisions at the end of the specified period, subject to the account demonstrating satisfactory performance during the specified period as defined at paragraph 5 below.
- vi. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.
- vii. Banks and NBFCs shall make appropriate disclosures in their financial statements, under 'Notes on Accounts', relating to the MSME accounts restructured under these instructions as per the following format:

No. of accounts restructured	Amount (₹ in million)

- viii. All other instructions applicable to restructuring of loans to MSME borrowers shall continue to be applicable.

Banks and NBFCs desirous of adopting this scheme shall put in place a Board approved policy on restructuring of MSME advances under these instructions within a month from the date of this circular. The policy shall *inter alia*, include framework for viability assessment of the stressed accounts and regular monitoring of the restructured accounts.

It is clarified that accounts classified as NPA can be restructured; however, the extant asset classification norms governing restructuring of NPAs will continue to apply.

As a general rule, barring the above one-time exception, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per

extant IRAC norms. Such an account may be considered for up gradation to 'standard' only if it demonstrates satisfactory performance during the specified period.

'Specified Period' means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package. 'Satisfactory Performance' means no payment (interest and/or principal) shall remain overdue for a period of more than 30 days. In case of cash credit / overdraft account, satisfactory performance means that the outstanding in the account shall not be more than the sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days.

➤ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11216&Mode=0>

(Further details Refer RBI Circular No. DBR.No.BP.BC.100/21.04.048/2017-18 dated 07.02.2018) Branch auditor should ensure receipt of latest Stock Statement/ Financial Follow up Report (FFR) /QRR Statements as per stipulated periodicity.

- In government guaranteed accounts, Auditors should ensure that guarantees are current and in order. The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked.
- Inspection of borrowal units should be done at indicated periodicity, and Inspection register properly maintained
- Field staff should ensure obtaining of revival letters wherever required.
- Adequate insurance cover should be available on stocks, machinery etc. and Insurance Register kept up to date.
- Security Perfection should have been completed. Documentation formalities like creation of EM, Registration of charges with ROC, noting of RTO lien etc. should have been completed.
- Balance Confirmation to be obtained from borrowers should include unapplied interest in NPA accounts.
- Allocated Limits - In respect of allocated limits, allocating Branch should invariably advise the allocatee Branch by fax/telex, the asset classification assigned to the advance after examining the account position in any case by 31.03.2020 positively. The allocator Branch should furnish the complete details to allocatee Branch. Both the allocator and allocatee Branches should ensure that asset classification is communicated and received immediately after 31.03.2020.
- Credit official should ensure proper IRAC classification of assets based on conduct, recovery, and other factors and such decisions should be in conformity to regulatory prescriptions.

- All RFIA and other audit remarks should be attended and ensure that they do not recur in future.
- In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90days from the end of the quarter.

## 12. **OTHER GUIDELINES**

### **ADVANCES:**

Advances related Returns are automated and generated through the system.

### **EROSION IN VALUE OF SECURITY:**

When the realizable 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. If the realizable 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.

### **ADVANCES UNDER CONSORTIUM**

- i. The Bank is expected to obtain in respect of advances under consortium and multiple banking arrangements, due diligence certificates, duly certified by a qualified Cost Accountant, Company Secretary or a Chartered Accountant, in the form and manner specified by the Reserve Bank of India, as also reiterated vide RBI Circular No. DBOD. No. BP.BC.110/08.12.001/2008 -09 dated February 10, 2009.
- ii. While in the normal course, the classification of the advances is determined on the basis of the technical prudential norms of the RBI, the objective of the due diligence exercise in the manner required, will enable a view being taken as regards any adverse features that may need to be considered and having effect on the financial information/ statements, and the corresponding health classification of the related advances, particularly where there may be signals of intrinsic weaknesses/risks that need to be addressed [including advances in Special Mention Accounts(SMA) category.
- iii. In addition to the internal rating of the Borrowable accounts based on the audited accounts, Credit Rating of Corporate borrowers including PSUs (in case of individual exposure being above Rs. 5 crores) by any one of the domestic Credit Rating Agencies identified by RBI and approved by the Bank's Board, is required to be complied by the Bank as per the New Capital Adequacy framework.

- iv. The auditor should furnish the list of borrowers who have not obtained the external credit rating or the validity of credit rating has expired and fresh rating not obtained.
- v. Allocated Limits - The Asset Classification adopted by the Main branch should be adopted by all other branches. If a branch has got apportioned limit, the Asset Classification will be the same as advised by the Main branch.
- vi. Advances transferred from other branches- Where a borrowable account is transferred from another branch to another branch, the status and operations of the account in the pre-transfer period needs to be ascertained to determine the effect thereof on classification.
- vii. Loans Granted under Government Sponsored Schemes- For loans granted under Government sponsored schemes such as SEEUY, PMRY etc. the assets created out of Bank finance and the subsidy received from the Government and kept under Deposit/Sundry Liabilities are available as securities besides credit guarantee cover under DICGC/CGTMS wherever eligible.
- viii. Hence NPA, if any, under this category shall be either sub-standard (if adequate security cover is available including subsidy) or doubtful, and not a loss asset. Back-ended subsidies if received under certain schemes are expected to be treated not as Deposits, but as a liability under the head "Other Liabilities" till such time as these can be appropriated towards the last installment of the Term Loan, if in "Standard" category. If an NPA, the loan would have to suffer a provision at its gross value i.e. without adjustment of the subsidy or its being treated as a security. No interest can be charged on Advances to the extent of such subsidy received.
- ix. Post Shipment Credit- Where ECGC cover is available and any guarantee is invoked after the exporter files a claim with ECGC, EXIM Bank would pay to the Bank, the guaranteed amount within 30 days. The advance to that extent shall not be treated as NPA.
- x. Devolved LCs/Guarantees- In respect of LCs/Guarantees issued, where the beneficiary invokes the guarantee/LC, the Bank makes payment to the beneficiary, such amounts are due for payment immediately and the composite balance in the related facility should be considered for assessment of the status of the borrower. In case the amount is not recovered even after 90 days such accounts are to be classified as Non-performing assets.
- xi. Provisions in special circumstances- Once the health classification is determined for each category of advances, the rates of provision are applicable as per the prudential norms; and these are subject to the following considerations:
  - a. Where additional facilities are granted to a unit under rehabilitation packages approved by BIFR, term-lending institutions or the bank (on its own or under a consortium arrangement), provision should continue to be made for the dues

in respect of existing credit facilities (on existing asset classification as “sub-standard” or “doubtful”). As regards the additional facilities, provision need not be made for a period of one year from the date of disbursement in respect of additional facilities sanctioned under rehabilitation packages.

- b. Reclassification of advances on up-gradation- Generally accounts classified as doubtful or loss assets should not be upgraded other than by way of the remedying of the default and recovery of dues, from the borrower’s own funds and not arising out of fresh facilities sanctioned.
- c. However if the over dues (all amounts in default including those within 90 days prior to account becoming NPA, i.e., interest suspense and interest unapplied in full) are recovered and if accounts fall under the norms prescribed for Standard Asset then the asset can be reclassified as standard asset. Logically, there can be no Interest Suspense/unapplied interest in accounts classified as Standard/Non performing, other than in Central Govt. guaranteed accounts where guarantee is not invoked /repudiated.
- d. If the installments/interest is rescheduled for payment under nursing etc., the account should show satisfactory performance for a continuous period of 1 year and then only it can be classified as Standard Asset.

**BASIC VERIFICATION PROCEDURES AT THE BRANCH MAINTAINING A BORROWER’S ACCOUNT, BASED ON DOCUMENTS HELD AT A CENTRALIZED ADVANCES PROCESSING CELL/ CENTERS/ CLUSTERS:**

In case all or any of the loan procedures (whether in connection with grant or renewal of credit facilities) are not conducted at the Branch, but are centralized at any Loan Processing Cell/Centre (e.g., Retail Assets and Small & Medium Enterprises City Credit Centre, Retail Assets Credit Processing Centre, Retail Credit Processing Centre, or by whatever name called), involving appraisal, sanction, execution of documents, disbursements, collection and holding of post-dated cheques etc., and the documents are in the custody and control of the said centralized Cell/ office, the Auditor should seek confirmation, as to preview, if any, by the Branch, of the compliance of the applicable RBI prudential norms of asset classification, income recognition and provisioning, in so far as the advances at the Branch are concerned.

The auditor should be satisfied as to the compliance of the appraisal systems, completeness and accuracy of the original records/ documents in the custody and control of the centralized office, pursuant to which the Branch is maintaining the borrowable account; and in particular that confirmation is available from the said office as to the number and amount of the advances accounts, and whether these tally with the data in the Branch.

<b>Claims not acknowledged as debts:</b>	
1	Counter suits filed by borrowers against whom Bank has initiated legal action
2.	Suits filed against Bank in Customer Service Courts for deficiency in services
3	Suits filed against Bank for non-sanction of advances, non-issue of LC, BG
4	Delayed period interest claims in Government business
5	Suits filed against Bank by landlords for recovery of rent
6	Suits filed against Bank for misplacement / loss of documents sent for collection
7	Suits filed against Bank for failure of Bank to return forged bills
8	Suits filed against Bank for excess charge of interest/commission/exchange
9	Suits filed against Bank for misfeasance by the Bank staff
10	Suits filed against Bank against the Bank's right of set-offs
11	Demand Notice u/s 201 of Income Tax Act (relating to TDS) from Income Tax Department
12	Any other claims against the Bank not acknowledged as debt
Guarantees issued on behalf of constituents	
Acceptances, endorsements and other obligations	
Other items, for which the bank is contingently liable	

#### **OTHER ASSETS (NON ADVANCE RELATED):(FOR SBI)**

Provisioning requirement for following items at Whole Bank level will be taken care at Corporate Office.

- a) Inter Branch items in Transit (IBIT) Account
- b) National & Local Office Clearing Account ( NALCO)
- c) NALCO items in Transit account
- d) Local Office Clearing Account
- e) Local Office Items –in – Transit Account
- f) Suspense Account Total NPA
- g) System Suspense Account
  - i. Reconciliatory System Suspense Accounts
  - ii. Non Reconciliatory System Suspense Accounts
- h) DD Purchase (Cheque) account
- i) Switch excess account ATMSTEPS
- j) BGL – Difference Account
- k) ATM Core Transactions Account

#### **AUTHORITIES FOR ACCEPTANCE OF MOCs IN CASE OF CHANGE IN IRAC STATUS OF ADVANCE ACCOUNTS**

During the statutory audit process, Statutory Branch Auditors (SBAs) at times suggest to downgrade the IRAC status of few advance accounts from Standard to NPA. In few cases they also suggest down gradation of existing NPA accounts from Sub-standard to Doubtful and so on.

An authority structure for approving the acceptance of MOC for change in IRAC status of advance accounts has been approved as under:

<b>Borrower wise Fund Based Outstanding in accounts where MOC is being accepted</b>	<b>Authority of approval for acceptance of MOC</b>
<b>Up to Rs. 50.00 Lakhs</b>	AGM
<b>Above Rs. 50.00 Lakhs up to Rs.5.00 Cr</b>	DGM(B&O)
<b>Above Rs.5.00 Cr up to Rs.50 Cr</b>	GM network
<b>Above Rs.50.00 Cr</b>	CGM Circle

## **VII. PMAY Scheme**

### **PMAY SCHEME**

As per Government instructions certain facilities like subsidy and waiver of processing fee are given to beneficiaries eligible under Prime Minister's AvasYojna. The laid down instructions are given below to assess the eligibility of such prospective borrowers. The Auditors must satisfy at random basis whether branch has assessed the proposal correctly or not.

### **PMAY ELIGIBILITY CHECKPOINTS TABULAR SUMMARY**

<b>Criteria</b>	<b>Existing Instructions (CLSS - EWS +LIG)</b>	<b>Revised Instructions (CLSS - EWS +LIG)</b>	<b>CLSS (MIG-I)</b>	<b>CLSS (MIG-II)</b>
<b>Property should be Family's Household Income/annual (Rs)</b>	1st home Upto Rs. 6 lakhs	1st home Upto Rs. 6 lakhs	1st home Rs. 6.01-12.00 lakhs	1st home Rs. 12.01-18.00 lakhs
<b>Property Area (carpet)</b>	30/60 sqm*	30/60 sqm*	Upto 160 sqm	Upto 200 sqm
<b>Location</b>	Location List	Location List	Urban - 2011#	Urban - 2011#
<b>Max Loan Amt for Subsidy</b>	Upto 6 lakhs	Upto 6 lakhs	Upto 9 lakhs	Upto 12 lakhs
<b>Subsidy Amount (upto)</b>	Rs. 2.20 lakhs	Rs. 2.67 lakhs	Rs. 2.35 lakhs	Rs. 2.30 lakhs
<b>Fee Reimbursed by NHB to Bank</b>	Rs 1000 per loan application	Rs 3000 per loan application	Rs 2000 per loan application	Rs 2000 per loan application
<b>Validity</b>	2022	2022	31/03/2020	31/03/2020
<b>Applicability</b>	Loans approved on/after 17/06/2015	Loans approved on/after 01/01/2017	Loans approved on/after 01/01/2017	Loans approved on/after 01/01/2017



\* Applicable only in case of Repair and Renovation. For new house there is no limit for carpet area (details can be obtained from e-circular: RE/HL/AX23 dated 25th August, 2016)

## **VII. Long Form Audit Report**

### **1. GUIDELINES FOR PREPARING LFAR-**

**The auditor should mention the following types of common irregularities in LFAR giving specific account numbers and the irregularity relating thereto:**

#### **1) Sanction and disbursement-**

- a) Proposals sanctioned without the approval of the higher authority / signature of the concerned authority.
- b) Facilities disbursed before the completion of documentation and other sanction terms.
- c) Ad-hoc limits granted pending completion of appraisal/sanction of regular limits.
- d) Disbursement made without following procedures relating to confirmation of higher authority as regards completion of formalities.
- e) Sanctions in excess of delegated authority.

#### **2) Irregularities relating to documentation-**

- a) Documents on record are blank, all parts not filled up and / or without signatures of Branch Manager and witnesses.
- b) Documents signed by persons other than those authorized
- c) Inappropriate set of documents having no nexus to the status of the borrower or with the type of facility
- d) Signatures of the executants on all the pages of the documents not found and not obtained on all corrections / endorsements in the documents.
- e) Documents have become mutilated / soiled, or have expired and the bank is exposed to the risk of not enforcing the security.
- f) Consortium advances – documents not yet executed or not on record.
- g) Consent from other lenders for creation of security, not on record.
- h) Guarantee papers not on record / not renewed.
- i) Revival letters not received.
- j) Certification of Registration of charges with ROC / or evidence thereof not on record, in case of companies.

#### **3) Others irregularities-**

LIC Policies (together with evidence of surrender value), not obtained or not on record. Bank's FDRs (lien marked) not obtained or not on record, where FDRs are security KVPs not obtained or not on record. IVPs not obtained or not on record. Second charge on assets, as per terms of sanction, not created in favour of the bank. Under-stamping of documents, and Stamping not as per the latest Stamps Act (particularly for immovable properties), Completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans. Original Staff and other Housing loan documents not on record at the Branch.

Sales / search report / Title Clearance Report from advocate in respect of immovable property not obtained or on record. Mortgage for property not created, as required. Clearance not obtained from Authorities concerned to permit mortgage. Copies evidencing lodgment of the original conveyance / sale deeds with the sub-Registrars for registration, not found on record. Authority letter / Power of Attorney to the Bank to collect the original documents from the Sub-Registrar, not found on record.

**4) Irregularities relating to review/ monitoring and supervision:**

- A. Noncompliance of major / repeated adverse features in Audit reports / inspection in relation to borrowable accounts.
- B. Stock, book-debts statements / financial statements / other operational data etc., not received regularly, or belatedly received from the borrower.
- C. Stock Audit not got conducted and / or latest report not on record.
- D. Major discrepancies / variations in the stock and other securities (between the annual audited financial statements / stock audit report and the financial data / returns to the Branch).
- E. Non-movement of goods in pledge accounts (particularly perishable goods) and accumulation of old stocks.
- F. Drawing Power not properly worked out, based on non-deduction of: a) Non-moving/old /unsalable /ineligible stock, b) unpaid for stocks, c) old /ineligible book debts, and d) margins as stipulated.
- G. Statutory Liabilities not being paid, or being belatedly discharged, with constant fallback on the bank, Age-wise break-up of debtors not on record, Penal interest not charged for delay in submission of various statements, drawing power / limits not updated / revised, as per market value of securities where advances are against shares / securities.
- H. End use of funds not ensured; and diversion if observed, not attended to, Account is frequently/continuously overdrawn, frequently invoked LCs / guarantees, Actual performance is well below projections, Sale proceeds not routed through Bank and credit summations are on the decline, Audited statements of non-corporate borrower having limit beyond Rs.10 lakhs not received (including Notes on accounts, accounting policies and Auditors Reports). Renewal proposals of advances are not received on time and/ or limits not renewed / reviewed within the stipulated norms (180 days).
- I. For allocated limits, full terms of sanction, stock statements, inspection reports, margin etc, not available or available with considerable delay at monitoring branches.
- J. Income accrued at branch on Advances categorized as NPAs.
- K. Wrong appropriation of recoveries in NPAs.
- L. Advances to new borrowers notwithstanding that they are defaulters in other banks/institutions.

**OTHER ISSUES FOR CONSIDERATION IN LFAR**

- Where any of the comments made by the auditor in his LFAR is adverse, the auditor should consider whether a qualification in the main report is necessary.

- It should not, however, be assumed that every adverse comment in the LFAR would necessarily result in a qualification in the main audit report. In deciding whether a qualification in the main report is necessary, the auditor should use his professional judgment having regard to the facts and circumstances of each case.
- Where the auditors have any reservation or adverse remarks with regard to any of the matters to be dealt with in their LFARs, they should give the reasons for the same.
- The Bank should have a policy for recovery of the bad and doubtful debts and NPAs. The auditor should examine whether the policy framed complies with the RBI guidelines and also that the same policy is followed by the bank.
- The policy should be regularly monitored and updated keeping in view the RBI guidelines where the bank gives credit to its customers by way of credit card also, the auditor should examine whether proper procedure is adopted to recover the credit card dues.
- The RBI has issued a Master Circular on “Credit Card, Debit card and Rupee Denominated Cobranded Prepaid Card Operations of banks”(RBI/2015-16/31 DBR.No.FSD.BC. 18/ 24.01.009/ 2015- 16) dated July 1, 2015.
- The circular provides general guidelines to banks on their credit card operations, and the systems and control expected of them in managing their credit card business.
- In the normal course, cash balances are expected to be verified on a daily basis and recorded in the cash book under the signature of the branch manager and another authorized signatory, since cash is under dual charge at the branch level.
- The auditor should ensure whether the bank has a system for verifying the same.
- The system should include general scrutiny of the cash book to ascertain whether it is in accordance with the instructions given by the bank, physical verification of cash and agreeing the same with the books maintained, with due authentication of such balances by the authorized signatories.
- For this purpose, the auditor should review the LFARs of the branches.
- The auditor should ensure whether the bank has the system of checking the cash balance at the branches at periodic intervals by the authorized officials of the bank.
- The auditor should examine and report on the adequacy of the insurance cover for cash with reference to the cash balance generally carried by the bank. He should also examine whether the insurance policy is in force.
- The auditor should ensure and comment whether the bank has obtained a global insurance policy in respect of cash at all the branches. The auditor is also supposed to report whether the insurance obtained includes the insurance for cash-in-transit.

- The auditor should look into the cases of major frauds which have been discovered and recorded including those which have been reported after the year-end. He should report on major frauds discovered and recorded by the bank.
- He should also examine the quarterly and annual review of frauds done by the bank and ascertain the number of frauds where final action has been taken by the banks and cases disposed of.
- Report on status of the compliance by the bank with regard to the implementation of recommendations of the Ghosh Committee relating to frauds and malpractices and of the recommendations of the Jilani Committee on internal control and inspection/credit system.

## 2. LFAR FORMATS

### LFAR 1

#### **LONG FORM AUDIT REPORT [LFAR] TO MANAGEMENT IN CASE OF BANK BRANCHES**

Branch _____	Zonal Office _____	_____ Circle
Code No. _____	Region _____	

The following paragraphs list the matters, which the branch auditors of banks are expected to comment upon in their Long Form Audit Reports. The appendix to this questionnaire contains questions, which are relevant to specialized branches dealing in foreign exchange transactions, recovery of non-performing assets, clearing house operations and branches having very large advances. Auditors of foreign branches of Indian Banks should also furnish this report. In the case of such branches, reference to the Reserve Bank of India should be construed to include the Reserve Bank of India, as well as the relevant regulating authority of the foreign country where the branch is located.

Where any of the comments made by the auditors in their LFAR is adverse, they should consider whether a qualification in their main report is necessary. It should not, however, be assumed that every adverse comment in the LFAR would necessarily result in a qualification in the main report. In deciding whether a qualification in the main report is necessary, the auditors should use their judgment in the facts and circumstances of each case. Where the auditors have any reservation or adverse remarks with regard to any of the matters to be dealt with in their Long Form Audit Reports, they may give the reasons for the same. Also, where relevant, instances of situations giving rise to their reservations or adverse remarks may also be given

Compilation for Statutory Audit of Bank Branches 2019-20

Compiled & prepared by CA Atul Agrawal, NOIDA

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## **I. ASSETS**

### **1) CASH**

a)	Does the branch generally carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the Bank? Whether excess balances have been reported to the controlling authorities of the Bank?	
b)	Does the branch hold adequate insurance cover for cash-on-hand and cash-in-transit?	
c)	Is cash maintained in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the Bank?	
d)	Have the cash balances at the branch been checked at periodic intervals as per the procedures prescribed by the controlling authorities of the Bank?	

### **2) BALANCES WITH RESERVE BANK OF INDIA, STATE BANK OF INDIA AND OTHER BANKS**

a)	Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.	
b)	Your observations on the reconciliation statements may be reported in the following manner :	
	i)Cash transactions remaining unresponded [give details] :	
	ii)Revenue items requiring adjustment/write off [give details] :	
	iii) Old outstanding balances remaining unexplained/unadjusted. Give details for :	

	-Outstanding between six months and one year ;and	
	-One year and above	
c)	In case any items deserve special attention of the management, the same may be reported.	

### 3) MONEY-AT-CALL AND SHORT NOTICE

	Has the Branch kept money-at-call and short notice during the year? If so, whether Instructions/guidelines, if any laid down by Controlling Authority of the Bank have been complied with?	
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### 4) INVESTMENTS

#### A. For Branches in India

a)	Are there any investments held by branches on behalf of Head Office/other office of the Bank?If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?	
b)	Whether any amounts received as income on such investments have been reported to the Head Office?	
c)	In respect of investments held by branches on behalf of Head Office/other offices of the bank whether any income is accrued / received any recognized as income of the branch contrary to the instructions of the controlling authorities of the Bank?	
d)	Whether there are any matured or overdue investments, which have not been en-cashed?If so, give details.	

e)	Whether the Guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with.	
f)	Whether the Guidelines of the Reserve Bank of India regarding Valuation of Investments have been complied with.	

### **B. For Branches outside India**

a)	In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions/ guidelines in this behalf issued by the controlling authorities of the Bank?	
b)	Have the investments held by the branch whether on its own account or on behalf of the Head Office/ other branches been made available for physical verification? Where the investments are not in the possession of the branch, whether evidences with regard to their physical verification have been produced?	
c)	Is the mode of valuation of investments in accordance with the RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located whichever are more stringent?	
d)	Whether there are any matured or overdue investments, which have not been encashed? If so, give details?	

## **5) ADVANCES**

The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. In respect of large advances, all cases of major adverse features, deficiencies, etc. should be reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks. For this purpose, large advances are those in respect of

which the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs.2 Crores, whichever is less.

### **A. Credit Appraisal**

i)	In your opinion, has the branch generally complied with the procedures/instructions of the controlling authorities of the Bank regarding loan applications, preparation of proposals for grant/renewal of advances, enhancement of limits etc., including adequate appraisal documentation in respect thereof.	
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### **B. Sanctioning/Disbursement**

i)	In the cases examined by you, have you come across instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? Are such cases promptly reported to higher authorities?	
ii)	In the cases examined by you, have you come across instances where advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.	

### **C. Documentation**

i)	In the cases examined by you, have you come across instances of credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.	
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ii)	In respect of advances examined by you, have you come across instances of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees, etc? If so, give details of such cases.	
iii)	Whether advances against lien of deposits have been properly granted by marking a lien on the deposit in accordance with the guidelines of the controlling authorities of the Bank.	

#### **D. Review/Monitoring/Supervision**

i)	Is the procedure laid down by the controlling authorities of the Bank for periodic review of advances including periodic balance confirmation/acknowledgment of debts, followed by the Branch? Provide analysis of the accounts overdue for review/renewal.		
		<b>No. of A/c</b>	<b>Outstanding [Rs. In lakhs]</b>
	- up to 6 months		
	- between 6 months and 1 year, and		
	- over 1 year		
ii)	Are the stock/book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?		
iii)	Whether there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?		

iv)	Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakhs where the branch has not obtained the accounts of borrowers, duly audited under the RBI guidelines with regard to compulsory audit or under any other statute.	
v)	Has the inspection or physical verification of security charged to the Bank been carried out by the branch as per the procedure laid down by the controlling authorities of the Bank?	
vi)	In respect of advances examined by you, have you come across cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent / unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?	
vii)	In respect of leasing finance activities, has the branch complied with the guidelines issued by the controlling authorities of the Bank relating to security creation, asset inspection, insurance, etc.?Has the Branch complied with the accounting norms prescribed by the controlling authorities of the Bank relating to such leasing activities?	
viii)	Are credit card dues recovered promptly?	
ix)	Has the branch identified and classified advances into Standard/Sub-standard/Doubtful/ Loss Assets in line with the norms prescribed by the RBI? [The auditor may refer to the relevant H.O. instructions for identification of Non-performing Assets and classification of advances].	

x)	Where the auditor disagrees with the branch classification of advances into Standard/ Sub-standard/ Doubtful/ Loss Assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated/suggested in the Memorandum of Changes.	
xi)	Have you come across cases where the relevant controlling authority of the Bank has authorized legal action for recovery of advances or recalling of advances but no such action was taken by the branch? If so, give details of such cases.	
xii)	Have all non-performing advances been promptly reported to the relevant controlling authority of the Bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.	
xiii)	Have appropriate claims for DICGC and export credit guarantees/ insurance and subsidies. If any, been duly lodged and settled? The status of pending claims giving year wise break-up number and amounts involved should be given in the following format.	

#### STATUS OF PENDING CLAIMS

	DICGC		ECGC	
	No.	Amount [Rs. in Lakhs]	No.	Amount [Rs. in Lakhs]
Particulars				
Claims as at the beginning of the year [Give year-wise details]				
Further claims lodged during the year				

Total (A)				
Amounts representing:				
a) Claims accepted/ settled [Give year-wise details]				
b) Claims rejected Give year-wise details]				
Total (B)				
Balance as at the year-end [Give year-wise details](A-B)				

xiv)	In respect of non-performing assets has the branch obtained valuation reports from approved valuers for the field assets charged to the Bank, once in three years, unless the circumstances warrant a shorter duration?	
xv)	In the cases examined by you has the branch complied with the Recovery Policy prescribed by the controlling authorities of the Bank with respect to compromise/settlement and write-off cases?Details of the cases of compromises/settlement and write-off cases involving write-offs/waivers in excess of Rs. 50.00 lakhs may be given.	
xvi)	List the major deficiencies in credit review, monitoring and supervision.	

### **E. Guarantees and Letters of Credit**

i)	Details of outstanding amounts of guarantees invoked and funded by the branch at the end of the year may be obtained from the management and reported in the following format :	
----	---	--

## a) Guarantees invoked, paid but not adjusted:

Sr. No.	Date of Invocation	Name of the party	Name of beneficiary	Amount [Rs. In lakhs]	Date of Recovery	Remarks

## b) Guarantees invoked but not paid

Sr. No.	Date of Invocation	Name of the party	Name of beneficiary	Amount [Rs. In lakhs]	Date of Recovery	Remarks

ii)	Details of the outstanding amounts of letters of credit and co-acceptances funded by the branch at the end of the year may be obtained from the management and reported in the following format:	
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Sr. No.	Date of funding	Name of the party	Nature [LC/Co-acceptance etc.	Amount [Rs. In lakhs]	Date of Recovery	Remarks

## 6) OTHER ASSETS

### A. Stationery and stamps

i)	Does the system of the Bank ensure adequate internal control over issue and custody of stationery comprising of security items [Term Deposits Receipts, Drafts, Pay Orders, Cheque Books, Traveler's Cheques, Gift Cheques, etc.] ?Whether the system is being followed by the branch?	
ii)	Have you come across cases of missing/ lost items of such stationery?	

### B. Suspense Accounts / Sundry Assets

i)	Does the system of the Bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries may be obtained from the Branch and the reasons for delay in adjusting the entries be ascertained. Does the scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/ write off? If so, give details in the following format :	
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Date of Entry	Amount [Rs. In lakhs]	Nature	Remarks

ii)	Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.	
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**II.LIABILITIES****1) DEPOSITS:**

i)	Have the controlling authorities of the Bank laid down any guidelines with respect to conduct and operations of Inoperative Accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.	
ii)	After the balance sheet date and all the dates of audit, whether there have been any unusual large movements [whether increase or decrease] in the aggregate deposits held at the year-end? If so, obtain the clarifications from the management and give your comments thereon.	
iii)	Are there any overdue / matured term deposits at the end of the year? If so, amounts thereof should be indicated.	

**2) OTHER LIABILITIES****Bill Payable, Sundry Deposits, etc.**

i)	The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained from the branch and reported under appropriate heads. Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details in the following format	
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Date of Entry	Amount [Rs. In lakhs]	Nature	Remarks

ii)	Does your test check indicate any unusual items of material withdrawals or debits in these accounts? If so, report their nature and the amounts involved.	
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### 3) CONTINGENT LIABILITIES

	List of major items of the contingent liabilities [other than constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc.] not acknowledged by the Branch?	
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### III. PROFIT AND LOSS ACCOUNT

1	Whether the branch has a system to compute discrepancies in interest/discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the controlling authorities of the Bank? Has the test checking of interest revealed excess/short credit of a material amount? If so, give details thereof.	
2	Has the branch complied with the Income Recognition norms prescribed by RBI? [The Auditor may refer to the instructions of the controlling authorities of the Bank regarding charging of interest, on non-performing assets].	
3	Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid-down in this regard by the controlling authorities of the Bank? Has the test check of interest on deposits revealed any excess / short debit of material amount? If so, give details thereof.	
4	Does the Bank have a system of estimating and providing interest accrued on overdue / matured term deposits?	



5	Are there any divergent trends in major items of income and expenditure which are not satisfactorily explained by the branch? If so, the same may be reported upon. For this purpose, an appropriate statement may be obtained from the branch management explaining the divergent trends in major items of income and expenditure.	
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#### **IV. GENERAL**

##### **1) BOOKS AND RECORDS**

a)	In case any books of account are maintained manually, does general scrutiny thereof indicate whether they have been properly maintained, with balances duly linked out and authenticated by the authorized signatories?	
b)	In respect of computerized branches :	
	❖ Whether hard copies of accounts are printed regularly?	
	❖ Indicate the extent of computerization and the areas of operation covered.	
	❖ Are the access and data security measures and other internal controls adequate?	
	❖ Whether regular back-ups of accounts and off-side storage are maintained as per the guidelines of the controlling authorities of the Bank?	
	❖ Whether adequate contingency and disaster recovery plans are in place for loss / encryption of data?	
	❖ Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch?	

##### **2) RECONCILIATION OF CONTROL AND SUBSIDIARY RECORDS**

Have the figures, as at the year end, in the control and subsidiary records been reconciled? If not, the last date up to which such figures have been reconciled should be given under the respective

heads, preferably in the following format:

Account Head	Date	General Ledger Balance [Rs.]	Subsidiary Balance [Rs.]	Last Date on which balanced

### 3) INTER BRANCH ACCOUNTS

i)	Does the branch forward on a daily basis to a designated cell/Head Office, a statement of debit/credit transactions in relation to other branches?	
ii)	Does a check of the balance in the Head Office Account as shown in the said statement during and as at the year-end reveal that the same is in agreement with the Head Office Account in the general ledger?	
iii)	Are there any outstanding debits in the Head Office Account in respect of Inter-branch transactions?	
iv)	Does the branch expeditiously comply with / respond to the communications from the designated cell /Head Office as regards unmatched transactions? As at the year-end are there any unresponded /uncomplained queries or communications? If so, give details?	
v)	Have you come across items of double responses in the Head Office Account? If so, give details.	
vi)	Are there any old/large outstanding transaction/entries at debits as at year-end which remain unexplained in the accounts relatable to inter branch adjustments?	

**4) AUDITS / INSPECTIONS**

i)	Is the branch covered by concurrent audit or any other audit / inspection during the year?	
ii)	In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors, concurrent auditors, stock auditors or internal auditors, or in the special audit report or in the Inspection Report of the Reserve Bank of India ?State the various adverse features persisting in the branch though brought out in these audit / inspection reports.	

**5) FRAUDS**

i)	Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimize the possibilities of their occurrence.	
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**6) MISCELLANEOUS**

i)	Does the examination of the accounts indicate possible window dressing?	
ii)	Does the branch maintain records of all the fixed assets acquired and held by it irrespective of whether the values thereof or depreciation thereon have been centralised?Where documents of title in relation to branch or other branches are available at the branch, whether the same have been verified?	
iii)	Are there any other matters, which you as a branch Auditor would like to bring to the notice of the management or the Central Statutory Auditors?	

Date:

**STATUTORY BRANCH AUDITORS**

Compilation for Statutory Audit of Bank Branches 2019-20

Compiled &amp; prepared by CA Atul Agrawal, NOIDA

Founder Partner – M/s AAAM &amp; Co., Chartered Accountants

+919990057390, atul@aaaca.in

## **LFAR 4**

### **A. For Branches dealing in Foreign Exchange Transactions**

1. Are there any material adverse features pointed out in the reports of concurrent auditors, Internal auditors and / or the Reserve Bank of India's Inspection Report which continue to persist in relation to NRE/NRO/NRNR/FCNR -B/EEFC/RFC and other similar deposit accounts, if so, furnish the particulars of such adverse features.
2. Whether the Branch has followed the instructions and guidelines of the controlling authorities of the Bank with regard to the following in relation to the foreign exchange, if not, state the irregularities:
  - a. Deposits
  - b. Advances
  - c. Exports Bills
  - d. Bills for Collection
  - e. Dealing Room Operations [where a branch has one]
  - f. Any other area
3. Obtain a list of all Nostro Accounts maintained / operated by the Branch from the branch management.
  - a. Are the Nostro Accounts regularly operated?
  - b. Are periodic balance confirmations obtained from all concerned overseas branches / correspondents?
  - c. Are these accounts duly reconciled periodically? Your observations on the reconciliation may be reported.
4. Does the Branch follow the prescribed procedures in relation to maintenance of Vostro Accounts?

**Statutory Branch Auditors**

## LFAR 5

### **A. For branches dealing in recovery of Non-Performing Assets such as Asset Recovery Branches**

- 1) In respect of borrowers with outstanding of Rs.2.00 Crores and above the information in the enclosed format should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and which might need the attention of the management / Central Statutory Auditors should be appended to the Long Form Audit Report.
- 2) List the accounts [with outstanding in excess of Rs.2.00 Crores], which have been upgraded from Non-Performing to Standard during the year and the reasons therefore.

Sr. No.	Name of the Unit / Account	Outstanding [Rs. In lakhs]	IRAC Status as on 31st March [Last Year]	IRAC Status as on 31st March [Current Year]	Reasons
1					
2					
3					
4					
5					

- 3) Whether the Branch has a system of updating periodically, the information relating to the valuation of security charged to the Bank?
- 4) Age-wise analysis of the recovery suits filed and pending may be furnished.

Year	No. of Accounts	Amount [Rs. In Lakhs]
Upto March 2015		
2015-16		
2016-17		
2017-18		
2018-19		
2019-20		

- 5) Is the Branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Also list the time barred decrees, if any, and reasons therefore.
- 6) List the recoveries and their appropriation against the interest and the principal and the accounts settled / written off / closed during the year.
- 7) List the new borrower accounts transferred to the Branch during the year. Have all the relevant documents and records relating to these borrower accounts been transferred to the Branch? Has the Branch obtained confirmation that all the accounts of the borrower [including non-fund based exposures and deposits pending adjustment / margin deposits] been transferred to the Branch?

**Statutory Branch Auditor**

## LFAR 6

### **A. For branches dealing in Clearing House Operations, normally referred to as Service Branches.**

- 1) Does the branch have a system of periodic review of the outstanding entries in clearing adjustments accounts? In your view has the system generally been complied with?
  
- 2) Whether review of the clearing adjustments accounts [inwards / outwards] reveals any old / large / unusual outstanding entries which remain unexplained? Give year-wise break-up of outstanding in number and value :

<b>Inward Clearing</b>	<b>Number</b>	<b>Value</b>
Normal Clearing		
High Value Clearing		
Inter-Branch Clearing		
National Clearing		
Returned/Dishonoured Clearing		

<b>Outward Clearing</b>	<b>Number</b>	<b>Value</b>
Normal Clearing		
High Value Clearing		
Inter-Branch Clearing		
National Clearing		
Returned/Dishonoured Clearing		

- 3) Has the Branch strictly followed the guidelines of the controlling authority of the Bank with respect to operations related to clearing transactions? Comment on the systems and procedures followed by the Branch in this regard.

**LFAR 2****A. For branches dealing in very large advances such as corporate banking branches and Industrial Finance Branches or branches with advances in excess of Rs.100 Crores.**

- 1) In respect of borrowers with outstanding of Rs.2.00 Crores and above, the information in the enclosed format should be obtained from the Branch Management. Comments of the Branch Auditor on advances with significant adverse features and which might need the attention of the management/Central Statutory Auditors should be appended to the Long Form Audit Report.
- 2) What, in your opinion, are the shortcomings in credit appraisal, monitoring, etc.?
- 3) List the accounts [with outstanding in excess of Rs.1.00 Crore], which have either been downgraded or upgraded with regard to their classification as Non-Performing Asset or Standard Asset during the year and the reasons therefore.



Branch: \_\_\_\_\_ Code No. : \_\_\_\_\_

**ANNEXURE TO THE LONG FORM AUDIT REPORT****[FOR LARGE / IRREGULAR / CRITICAL ADVANCE ACCOUNTS]**

[To be obtained from the branch management by the Branch Auditors of branches dealing in large advances / asset recovery branches]

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) As on the date of current audit	
	(b) As on the date of previous Balance Sheet	
10	Assets Classification by the Branch Auditor	
	(a) As on the date of current audit	
	(b) As on the date of previous Balance Sheet	
11	Are there any adverse features pointed out in relation to asset classification by the Reserve Bank of India Inspection or any other audit.	
12	Date on which the asset was first classified as NPA [where applicable]	
13	Facilities sanctioned :	

Date of Sanction	Nature of facilities	Limit [Rs. In lakhs]	Primary Security [Rs. In lakhs]	Collateral Security [Rs. In lakhs]	Margin %	Balance Outstanding at the year-end [Rs. In lakhs]	
						Current Year	Previous Year
Provision Made : Rs _____ lakhs							
14	Whether the advance is a consortium advance or an advance made on multiple-bank basis						
15	If Consortium,						
	(a) Names of participating banks with their respective shares						
	(b) name of the Lead Bank in Consortium						
16	If on multiple banking basis, names of other banks and evidence thereof						
17	Has the Branch classified the advance under the Credit Rating norms in accordance with the guidelines of the controlling authorities of the Bank?						
18	(a) Details of verification of primary security and evidence thereof;						
	(b) Details of valuation and evidence thereof						

Date verified	Nature of Security	Value [Rs. In lakhs]	Valued by
---------------	--------------------	----------------------	-----------

Insured for Rs. _____ lakhs [expiring on _____]			

19	(a) Details of verification of collateral security and evidence thereof	
	(b) Details of valuation and evidence thereof	

Date verified	Nature of Security	Value [Rs. In lakhs]	Valued by
Insured for Rs. _____ lakhs [expiring on _____]			

20	Give details of the Guarantee in respect of the advance		<u>Guaranteed Amount [Rs. In lakhs]</u>	<u>Valid upto</u>
	(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.

21	Compliance with the terms and conditions of the sanction	
----	--	--

Terms and Conditions	Compliance
(i) Primary Security (a) Charge on primary security (b) Mortgage of fixed assets (c) Registration of charges with Registrar of Companies (d) Insurance with date of validity of policy	
(ii) Collateral Security (a) Charge on collateral security (b) Mortgage of fixed assets (c) Registration of charges with Registrar of Companies (d) 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 :	
(a) Submission of Stock Statements/Quarterly Information Statements and other Information Statements	
(b) Last inspection of the unit by the Branch Officials : Give the date and detail of errors/omissions noticed	
(c) In case of consortium advances, whether copies of documents executed by the company favouring the consortium are available	
(d) Any other area of non-compliance with the terms and conditions of sanction	

## 22. Key financial indicators for the last two years and projections for the current year

[Rs. In lakhs]

<b>Indicators</b>	<b>Audited Year ended 31st March _____</b>	<b>Audited Year ended 31st March ____</b>	<b>Estimates for year ended 31st March _____</b>
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			

23. Observations on the operations in the account:

	<b>Excess over drawing power</b>	<b>Excess over limit</b>
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.		

	<b>Debit Summation [Rs. In lakhs]</b>	<b>Credit Summation [Rs. In lakhs]</b>
2. Total summation in the account during the year		
Less : Interest		
Balance		

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

Compilation for Statutory Audit of Bank Branches 2019-20  
 Compiled & prepared by CA Atul Agrawal, NOIDA  
 Founder Partner – M/s AAAM & Co., Chartered Accountants  
 +919990057390, atul@aaaca.in

- (i) Documentations;
- (ii) Operations;
- (iii) Security / Guarantee; and
- (iv) Others

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

26. (a) 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.

(b) Whether any action has been initiated towards recovery in respect of accounts identified / classified as Non-performing Assets.

27. Branch Auditor's comments.

Date:

Signature and Seal of Branch - in - Charge

**STATUTORY AUDIT 2019-2020**  
**COMMENTS ON LARGE ADVANCES**

<b>Sr. No.</b>	<b>NAME OF THE BORROWER :</b>
	<b>BRANCH :</b>

[Rs. in lakhs]

<b>Asset Classification</b>	<b>Facility Fund based/ Non-fund based</b>	<b>Limit</b>	<b>DP</b>	<b>O/S.</b>	<b>Irregularity</b>	<b>Auditor's Observations</b>



March, 2020

The Manager

\_\_\_\_\_  
Bank  
\_\_\_\_\_  
(Branch)  
\_\_\_\_\_

**URGENT**

Dear Sir,

**Sub: Audit of the accounts of your Branch for the year 2019-20 - Audit engagement/ Letter seeking information/Management Representations:**

You have already been informed by your Management, that we have been appointed as the auditors to audit and report on the accounts of the Branch for the year 2019-20.

We have accepted the appointment, and we confirm that the audit shall be carried out in accordance with the applicable legal provisions and the regulatory requirements, besides the applicable authoritative pronouncements of the Institute of Chartered Accountants of India, with the objective of expressing an opinion on the Branch financial statements. For this purpose we will perform sufficient tests to obtain reasonable assurance as to whether the information contained in the accounting records and other source data is reliable and sufficient as the basis of the preparation of the financial statements; and whether the information is properly presented in the said statements.

**Management's Responsibility for the Financial Statements:**

You are aware that it is the Management's responsibility for the preparation of the financial statements including adequate disclosures and making judgments and estimates, that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Branch at the end of the financial year and of the financial performance by way of true position of profit or loss of the Branch for the year then ended, in accordance with the statutory and Regulatory requirements for the time being applicable. The Management's responsibility includes the maintenance of adequate accounting records, the selection and consistent application of appropriate accounting policies and implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards and the design, implementation and maintenance of internal controls, not only for the safeguard of the assets of the Bank/branch, but that are relevant to the preparation and fair presentation (of the state of affairs as at the year end and the true balance of profit or loss for the year under audit) reflected in the financial statements that are free from material misstatement, whether due to fraud or error.

Our objectives are to obtain reasonable assurance about whether the financial statements 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 shall exercise professional judgment and maintain professional skepticism throughout the audit. In respect of the Branch, we shall 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the bank has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used, to the extent applicable to the Branch, and the reasonableness of accounting estimates and related disclosures made by management of the Branch.
- 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 shall 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 shall 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.

From the matters communicated with those charged with governance, we shall determine those matters that are of most significance in the audit of the financial statements of the current period and are, therefore, the key audit matters. We shall describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we shall determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which might come to our notice through the **Long Form Audit Report (LFAR)**, essentially in response to the questionnaire prescribed by the Reserve Bank of India, or otherwise.

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

We wish to complete some audit procedures even prior to the year-end, depending on your state of readiness/response.

**In view of the severe time constraints imposed, we are confident you will make available to us, strictly within the dates stipulated, the following Branch returns/statements duly completed, pre-reviewed and duly authenticated, to enable us to furnish our reports in the form and manner desired of us by law or by the Reserve Bank of India and not necessarily in the form and manner prescribed by the Bank:**

**Statements/returns:**

- a) The Balance Sheet as at 31.3.2020;
- b) The Profit and Loss Account for the year 2019-20;
- c) The statements relating to the particulars of Advances as at 31.3.2020; and
- d) Other supporting returns/statements/annexures (*including those covering the LFAR requirements*).

In connection with our assignment, we seek from you the Information/ clarifications as stated in **Annexure 'I'** to this letter and may seek further information on other matters in the course of audit. As part of the audit process, we will expect to receive from the Management, written confirmation of the representations made to us; and a **written response (para-wise), to our requirements is imperative, and such response is to be based on your verification of facts and evidence.**

**To enable us to monitor the progress of the audit and completion of the assignment, please indicate/mention, the actual date(s) of completion as well as handing over to us of each statement/return/ confirmation or other information required to be prepared by you (as per the contents of the letter of appointment sent to us), by your endorsement of the date on each such statement/return/confirmation. (*duly authenticated*).**

**We await your commitment.**

We shall be indemnified for all legal and other costs as may be required to be incurred by us if we are required to defend ourselves in respect of frauds reported by us and where we are sought to be made a party in litigation/arbitration/resolution of any disputes.

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

We shall appreciate your cooperation in the matter.

Thanking you,

Yours faithfully,

**CHARTERED ACCOUNTANTS**

**Annexure I to letter dated March ,2020**

**INFORMATION /REQUIREMENTS IN CONNECTION WITH THE AUDIT OF ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2020**

**1. Latest Reports:**

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

- a) Branch Audit Report and Accounts;
- b) Long Form Audit Report;
- c) Internal Inspection Report;
- d) Internal/Concurrent Audit Report(s);
- e) Credit Audit Report;
- f) RBI Inspection Report, if such inspection took place;
- g) Income and Expenditure Control Audit/Revenue Audit Report;
- h) Quarterly review report;
- i) IS/ IT/Computer/EDP Systems Audit; and
- j) Any special inspection/investigation report.

If there has been a change of Incumbent during the year in the Branch, our attention may be drawn to any reservations, observations/remarks that may have been made by the Incoming Branch Head, with regard to the financials of the Branch that have effect on its state of affairs or working of the Branch, particularly as regards the classification status of the advances.

**2. Circulars in connection with Accounts/financial statements:**

Please confirm that you will have at the Branch, for our ready reference, a **list and copy** of all the HO/CO/RBI circulars, including **the year-end closing of Accounts Circular(s)**, relevant to the accounts for the year 2019-20.

**3. Accounting Policies:**

Please provide us a copy of the Bank's Accounting Policies as applicable to the Branch. If there is a change, since the preceding year, in the said policies, as having an impact on the Branch statements/returns, we may be duly informed of the same and the financial effect thereof may be computed to enable us to verify the same.

**4. Accounts, if maintained on Computer/ in the EDP environment:**

Please confirm:

- a) The system followed for maintenance of accounts in relation to the branch, including in particular the system generated information/data and that on the decentralized basis at the branch. We may also be informed of the nature of software package(s) currently installed at the Branch to supplement/interlink the centralized system; and whether there are any changes/ modifications in the package(s) since the preceding year, **as regards the systems as well as changes in the system driven information, brought about by virtue of regulatory/statutory amendments and H.O. Circulars**, including in particular affecting the revenue, due to applicability of revised interest rates on deposits, advances etc. The nature, basis and the effective dates of the modifications, may please be confirmed to us.

- b) Whether the Branch has a system of taking out periodic print-out of books which can be made available for our review, when the branch returns/statements are handed over to us.
- c) The system laid down for computer and data security, back-ups, off-site storage (including locations and personnel in charge), contingency and disaster recovery system/plans and adherence thereto at the Branch; and whether the system ensures periodic testing of the same.

**Any adverse features observed during the year may be confirmed, along with the remedial action taken.**

- a) **Whether the computerized system applicable for the branch, has been validated to ensure that all the requisite /applicable parameters are incorporated therein. This may be evidenced.**
- b) Whether **daily exception reports** as to the “system” as well as “transactions”, are available and that there is no pending remedial action/ compliance up to the year end; as also that the statements incorporate adjustments required based on the month-end/day-end procedures as at the year-end. **Any such report that is pending compliance may be brought to our notice.**
- c) *whether, all transactions that required manual intervention to the system generated information/data have been duly adjusted in the books and incorporated in the financial statements of the Branch up to the year end.*

#### **5. Deposits (Refer also to the format as per Annexure IV)**

##### **a) Overdue/matured Term Deposits:**

Please confirm:

- i) Whether, and the extent to which, as per the system, the unclaimed/overdue/matured term deposits, are included in Term Deposits, instead of Demand Deposits.
- ii) Whether any interest provision/adjustment is made up to the year end in respect of unclaimed/unpaid/matured deposits. The amount may be confirmed both, Rupee denominated as well as foreign currency deposits.
- iii) that the renewals of deposits are made at net of tax deducted at source, at the rates as applicable.
- iv) Please let us have a list of deposits, (received/ suo moto renewed)
- v) deposit receipts are not physically issued, although book entries have been made as per the computerized system,
  - deposit receipts are physically issued but not dispatched to deposit holders *(particularly where the amounts received in foreign currency are to be covered by Deposit Receipts from another foreign exchange authorized Link Branch).* **A list of such unissued/ un-dispatched Deposit Receipts in the physical custody of the Branch may be given and the Receipts produced for our verification.**

- renewals have been made by endorsement of renewal on the existing Deposit Receipts of the deposit holders, without issuing fresh receipts.
- vi) Please also confirm whether any deposits have been renewed other than in the name(s) of the original holder e.g. in the case of deceased depositors. In such cases, it may be confirmed to us as to whether the Branch holds the necessary evidence on record as to the authenticity of the deposit holder.
- vii) Please confirm as to whether Interest accrued but not due and for which provision is made as at the year end, is shown in the balance sheet as part of:
- Rupee denominated Fixed/Term Deposits(indicate interest accrued and not due, if forming of the Deposits);or
  - FCNR(B) deposits (indicate interest accrued and not due forming part of Deposits);or
  - Savings Bank Accounts; or
  - Other Liabilities – Interest Accrued (indicate interest accrued but not applied to the individual Savings Bank accounts);
- viii) Please confirm whether the Branch holds any foreign currency denominated (FCNR(B)) deposits , whether with fixed maturity or otherwise, which have become inoperative. You are aware that in terms of Foreign Exchange Management (Crystallization of Inoperative Foreign Currency Deposits) Regulations, 2014 and vide Notification No. FEMA 10A/2014-RB dated March 21, 2014, issued under Foreign Exchange Management Act (FEMA), 1999 relating to inoperative foreign currency deposits, directions had been issued under Sections 10(4) and 11(1) of FEMA; **inoperative deposits having a fixed term and those with no fixed term maturity, after the expiry of a three month notice upon completion of three years, will get crystallized into Rupees.** Please confirm if any such action was required, but not taken in the Branch.
- b) **Tax Deduction at Source**
- i) Please confirm the system followed by the Bank with regard to deduction of tax at source on interest on deposits (*including in respect of interest accrued but not due as aforesaid*), and whether in respect of interest **(based on credit or payment whichever is earlier)**, including in respect of **cumulative** Deposit Schemes **and** on renewals of matured deposits, Tax as required to be deducted at source was so deducted on due dates and deposited within the prescribed period; ***Cases of non- compliance may be listed for our review and incorporated in Form 3CD (Tax Audit Reporting Format).***
- ii) **We may be informed if there are any amounts paid on account of Tax Deducted at source (either due to a demand raised by the Tax Authorities, or in respect of provisions, or otherwise), which remains to be linked to the accounts of the depositors, and in respect of which the amounts have not yet been incorporated in the related TDS Returns. The total amount paid and not linked may be made known.**
- c) **Back- ended or other subsidies adjustable against advances**
- Please confirm whether Deposits include any amounts received under specific schemes. If so, the amount thereof and interest, if any, paid thereon during the year, may be confirmed;

**and whether interest on advances is calculated net of Govt. subsidies, if any, in such schemes, contrary to RBI applicable norms.**

**d) Deposits held as margins:**

Please confirm whether against issue of guarantees/ LCs and other similar obligations, the Branch holds any cash margins by way of fixed deposits, which are shown as part of the 'Deposits' portfolio. **If so the aggregate amount of such deposits may be made known to us.**

**e) Inoperative Deposit Accounts:**

Please confirm the procedure followed at the Branch with regard to identification of Dormant/ Inoperative Accounts and safeguards as to operations therein; ***and whether the identified accounts are segregated/ maintained in separate distinct ledgers.***

Please let us have information as regards debits, if any, in accounts while the accounts were held as inoperative or dormant.

**f) Gold Monetization Scheme 2015(GMS):**

Please confirm if the Bank Branch is designated to accept / hold deposits under the **Gold Monetization Scheme (GMS)**, in terms of the RBI Master Direction No.DBR.IBD.No.45/23.67.003/2015-16 dated 22-10-2015, as updated till 9-1-2019

Please Confirm whether the Branch:

- is designated to accept, from eligible persons, deposits, the principal and interest of which under the Scheme and Directions is to be denominated ingold.
- has accepted any such deposits {STBD (Short term Bank Deposits)} and recorded them in its books on due dates; and maintains on behalf of the Central Govt., a record of {MLTGD (Medium and Long term Govt.Deposits)}
- has evidence on record as to the option excised by depositor (at the time of making the STBD deposit) to redeem either in gold or at Rupee equivalent of the gold value.
- has followed the internal controls with regard to acceptance of deposits, including 'KYC' norms.
- has kept in safe custody, and is in possession of the gold accepted till the date of commencement of interest.
- has appropriately disclosed the value of gold held in its Balance Sheet.
- has imported any gold for redemption of STBD; and whether any such deposits were redeemed as per Scheme.
- has maintained a memoranda record of MLTGD, including safe custody of gold equivalent of MLTGD on behalf of the Government.
- has sold any gold to MMTC for minting India Gold Coins (IGC), or to jewelers and other banks participating in Gold Monetization Scheme(GMS).
- has lent gold under Gold Metal Loan (GML) Scheme to MMTC for minting IGC and to jewelers
- has accounted for the advances to jewelers based on the contractual terms to obtain the value of the gold on completion of tenure of loan together with interest accretion.

**6. Balance(s) with other Banks(including RBI/SBI):**

We seek balance confirmation certificates and the related reconciliation statements in evidence of the year end outstanding balances with other banks, if any; also confirming



whether there are any entries arising there from as have effect on revenue up to 31.3.2019. For this purpose you may let us know how the pending items in reconciliation were adjusted after 31.3.2019, and **whether these are considered in the Memorandum of Changes (MOCs).**

***In case a currency chest is attached to the Branch, whether all deposits into and withdrawals from the Currency Chest, have been duly communicated on a value date basis to the linked branch of the Bank, unless the Branch itself maintains the account of Reserve Bank of India, to effect the necessary adjustments. In the latter case, it may be confirmed whether the inward currency chest slips from other linked offices are recorded on a value date basis till the year end, unless covered by MOC.***

## **7. Advances:**

a) Please confirm whether the aggregate of the advances as per the Branch Balance Sheet as at 31.3.2019 reconciles with the Particulars of Advances (Portfolio) statement after including/considering:

- interest bearing staff advances;
- credit card dues;
- debit balances in Savings/Current/deposit accounts;
- inappropriate credit balances (including in litigation) which were otherwise required to be adjusted;
- DICGC/ECGC and other credit guarantee claims received and pending adjustment;
- **Interest Suspense or any account of similar nature;**
- **FITL Accounts and related credit towards provision;**
- **Subsidies (and interest thereon, to the extent requiring adjustment);**
- **foreign exchange differences on the above, if decentralized; and**
- **value dated entries pertaining to Advances Accounts originating prior to the year-end but recorded after that date.**

b) **A summary of the particulars of Advances as per Annexure II may be provided to us:**

- Top 25 NPAs and their status as at 31.3.2019 and 31.3.2018;
- NPAs upgraded to Standard classification during the period 1.4.2018 to 31.3.2019, justifying reasons for the same; ***also indicating the amount of any unapplied interest in such accounts (not debited/charged to the borrower);- refer Item 3 of Annexure IA.***

c) **Centralized Advances Processing Cells/Centers/Clusters**

In case all or any of the loan procedures (*whether in connection with grant or renewal of credit facilities*) are not conducted at the Branch, but are centralized at any Loan Processing Cells/Centers/Clusters, (*e.g., Retail Assets and Small & Medium Enterprises City Credit Centre, Retail Assets Credit Processing Centre, Retail Credit Processing Centre, or by whatever name called*), involving appraisal, sanction, execution of documents, disbursements, collection and holding of post-dated cheques etc., and the documents are in the custody and control of the said centralized Cell/ office, please confirm as to how the compliance of the applicable RBI

prudential norms of asset classification, income recognition and provisioning has been made, in so far as the advances at your Branch are concerned.

We would like you to satisfy us as to the compliance of the appraisal systems, completeness and accuracy of the original records/documents in the custody and control of the centralized office, pursuant to which you are maintaining the borrowal account; and in particular:

- i. that confirmation is available from the said Office as to the number and amount of the advances accounts, and whether these tally with the data in the Branch;*
- ii. that the Sanction Letters issued to you by the said centralized office and held by you for your compliance at the Branch, are duly authenticated (and not merely computer generated, without authentication), and that the centralized office has confirmed that these sanction letters subsequent instructions were issued strictly as per the applicable documentation and sanction terms with all updated modifications/ changes therein; and that these in any case are in consonance with the applicable prudential regulatory norms, based on the Guidelines/regulatory impositions inforce.*
- iii. that the system generated data for the Branch advances is in line with the regulatory built in parameters, based on facts made available from the centralized office as regards matters other than operation of the credit facilities and accounts recorded at the Branch.*
- iv. that the drawing power/limits have been properly computed at the centralized office as conveyed to you for your ensuring that the account of the borrower is monitored at the Branch accordingly, without any defaults;*
- v. that adverse features pointed out by the Internal/concurrent/inspection audit of the centralized office as regards the appraisal, disbursement, sanction, documentation under their control, have been considered by you for classification of the account; and further that there are no unbanked post dated cheques held by the said office affecting the borrowers' accounts.*
- vi. that for the purpose of audit, the Branch will provide evidence at the Branch, as to the documents, security and guarantee aspects etc. to justify the classification of the amount reflected in the branch books as advances; and information sought, including on all large advances, in the manner required by us.*

The above information is critical to our examination/reporting on advances and may please be ensured at the Branch.

- d) Please let us have a list and particulars of advances accounts corresponding to each category as per the recommended format in Annexure IA to this letter.
- e) In respect of Advances(**large borrowers**), each with outstanding's above 5% of the total Advances Portfolio of the Branch or Rs. 200 lakhs whichever is lower , the **year-end Status**

***Report on may be given as per Annexure III, III.1 and III.2, which includes information as per the LFAR.***

Where there are in any report, adverse comments on any borrowal accounts as to classification, please let us have reasons/justification for not accepting such adverse comments, or change in classification.

**f) Please confirm whether:**

- the borrowers' accounts have been classified by the Branch according to the RBI norms for the time being applicable, particularly the Non-Performing Assets(NPA) [***Sub-Standard, Doubtful or Loss assets***].

In case a computerized package is being used for such classification, ***whether the Branch can demonstrate effectively that the applicable latest parameters as per the prudential norms of RBI, have been duly incorporated in the package.***

- the Branch has examined the accounts based on documentation security/guarantee/operations aspects etc., ***and except as otherwise required by RBI***, determined the status ***borrower-wise and not account-wise*** for categorizing the accounts, as above; and in case the loan processing, appraisals, sanction etc. is done at another centralized/designated office, the branch has evidence on record that the compliance by it, is in consonance with the authentic information/data received from such centralized location, as also stated in Para 7(c)above.
- the classification as at the year-end of borrowal accounts under consortium arrangements with other participating banks, and in cases of multiple banking, has been done on the basis of operation of the accounts as per your Branch, without the necessity of relying on classification made by other participating banks; ***however, confirming to us, the status of the borrower, if adverse, in case of other lenders.***
- ***the Branch has evidence of the existence and realistic realizable value of the security and that the computation of the Drawing Power (DP) has been correctly made , net of margin applicable on paid for stocks and eligible debtors. In case of consortium advances, where another bank is the leader, please confirm whether you have received and verified the DP to be in consonance with the terms of your sanction.*** Please review all cases to determine if, and to the extent, the DP is required to be modified on this account and as may have a bearing on the classification of the of the borrower based on such computation of limits/drawing power. This may also be evidenced.
- parity in classification is maintained at all branches in respect of the same borrower, particularly where the branch maintains a “sub limit” out of the borrowings sanctioned at another branch of the Bank.
- the existence/market value is evidenced, based on physical inspections or otherwise through stock audit or other verification procedures applied nearer the balance sheet date; ***which evidence may be produced for our examination.***

- in case of NPAs, the periodicity of valuation, and the basis on which valuation is arrived at in respect of advances for the year under audit, particularly in case the security valuation reports/dates are older than one year.
- in respect of facilities of Rs.5.00 crores and above,  
*Whether and in which cases stock audit was required, but was not conducted; and Cases in which stock audit was conducted where adverse features noticed have not been addressed and whether it has any effect on classification of any borrowers; and whether the same has been duly considered.*
- there are at the year-end, any stray / other credits (including wrong entries/mere book adjustments) in any borrowal account but for which the account would be NPA, particularly if the said credit(s) are reversed after the year-end.
- there are any cheques discounted at the year end and credit given to borrowers in cases where, but for such credit the advance would be NPA.
- as at the year-end, upgradation in classification of any advance is made, based on any subsequent favourable events, including recovery of amounts in default that may have caused the borrowing to be NPA.
- where the amounts are disbursed in installments (e.g. Housing Loans) the EMIs have been recomputed for effective dates

**g) Besides furnishing us information as per Annexure II, may we request you to provide us with a list of the:**

- i. Top 25 NPAs and their status as at 31.3.2019 and 31.3.2020;
- ii. NPAs upgraded to Standard classification during the period 1.4.2018 to 31.3.2019, justifying reasons for the same; ***also indicating the amount of any unapplied interest in such accounts (not debited/charged to the borrower);-refer Item 3 of Annexure IA.***
- iii. Borrowers identified/classified as NPAs during the year and whether, and extent to which, unrealized income on such accounts is reversed/ derecognized. ***In case the unrealized income on such accounts has been reversed by giving credit to the accounts of the borrowers, the amounts so reversed may be made known to us. (Refer Item 17 in Annexure IA).***
- iv. List of Borrowers, treated as Standard, where one time settlement was sanctioned, but there is a default in repayment or in compliance of the terms thereof;
- v. Particulars of Advances where there is divergence of opinion between the Branch Management and the RBI/Inspection/ Internal/Concurrent audit Reports etc., as to the classification, provisioning, income recognition, indicating as to how this has been addressed by the Branch.

- vi. The aggregate of the amounts of advances in the standard category which have the status of “critical amount due”; and whether any amounts comprised therein are over 90 days in default as at 31.3.2019.  
A list of such accounts may be made available and quantified, for our review.
- vii. Borrowal accounts (in standard category), which have not been reviewed/ renewed for 180 days since the due date of their last renewal, or where there is a default on the part of the borrower in submission of stock statements, for a period of 90 days beyond any period of default/irregularity, *including that commencing prior to 31.3.2018*; and if so, whether such borrowers are classified as NPAs.  
Particulars of accounts overdue for review/renewal between 6 months and 1 year, and those over 1 year may be provided.
- viii. accounts which do not fall within the definition of advances, such as interest free employee advances, but have been shown as such in the accounts of the Branch may be listed for our review.
- ix. borrowal accounts in the “Standard” or “Sub Standard” category which are the subject matter of reference to BIFR/ DRT or in litigation, justifying their classification.
- x. Advances to borrowers on the list of willful defaulters (as per the latest list and guidelines of the RBI).
- xi. all accounts where the default resulted in WCTL, FITL, WCDL etc. and whether the advances would be NPAs but for such facilities.

**h) Up gradation of classification:**

Please let us have a list of borrowers' accounts (including projects under implementation and restructured accounts), ***where classification previously made***, has been changed to a better classification, stating reasons for the same; and whether provision (including for the Interest sacrifice, if made), on the borrowal accounts, is sought to be reversed contrary to RBI's master circular.

Please confirm whether Advances comprising Funded Interest, if already recognized as income, is fully provided for and not reckoned as income till realization/ redemption of securities. This would also apply to funded interest where the same is converted into securities (equity, debentures or other instruments), if held at the branch.

**i) Devolved Letters of Credit(LCs)/ co-acceptances, and guarantees: Please confirm:**

- the precise procedure followed for accounting treatment of devolved obligations (guarantees/LCs); and whether the debits have been raised in separate distinct accounts of the borrowers or to the normal cash credit/overdraft accounts of the borrowers; and whether these are aggregated for determination of the classification of the borrower/account

- whether and the extent to which there are any devolved LCs up to the year-end, which are pending payment.

For Information on guarantees invoked, and outstanding LCs/ co acceptances- Refer format in Para 5(e) of Part 1 of the LFAR questionnaire.

j) **Please confirm:**

- i. In case of one time settlement proposals under consideration or where rehabilitation/ re-phasing is being done, whether the amount of sacrifice including anticipated sacrifice is provided fully.
- ii. Particulars of accounts where the borrowers have defaulted in their commitments after sanction of the compromise proposal, indicating classification of the amounts, on which information may be made available.
- iii. Whether the Bank has a recovery policy in cases of compromise/ settlement/write off and is the policy available at the Branch.
- iv. Particulars of cases of compromise/settlement/write off involving write off/ waiver, each in excess of Rs. 25 lakhs, on which information may please be furnished
- v. The name and amount outstanding in the case of the borrowers each having working capital limits of Rs.10.00 lakhs and above, as also those subject to compulsory audit under any statute, where the latest audited accounts are not on record or where received, these statements are inadequate.
- vi. Compliance by the Branch of the RBI Master Circular No. DBOD.No.Dir.BC.10/13.03.00/2016-17 dated 1-7-2015, relating to statutory and other restrictions as regards Loans and Advances. **In particular it may be confirmed as to whether, at the Branch:**
  - there are any loans and advances against security of the Bank's ownshares.
  - there is any laid down procedure as regards identification of directors/ officers and their relatives **and** of directors of other banks for purposes of sanction of loans to them or to concerns in which directors are interested, as per the said circular.
  - loans have been given to companies for buy back of their shares/securities.

k) **Advances to share brokers/NBFCs:**

Please confirm whether at the Branch, there are advances to:

- share brokers; if so, the total amount of limits granted and the aggregate advance due as at the year-end.
- NBFCs; if so please confirm whether the RBI has taken any adverse view as regards their registration or otherwise. The status on advances to NBFCs may please be made known,

along with their classification.

**l) Advances to Staff-**

Please confirm:

- the procedure with regard to Advances to Staff (interest/non-interest bearing), by the Bank, both in its capacity as a banker and as an employer; also whether such interest-bearing advances are being disclosed as Advances.
- the verification procedures followed in respect of Staff Housing Loans, and in particular, whether the original documents are held at the Branch and can be produced for our examination.
- Are there any cases in default of collection of the principal/interest, where due and recoverable?

**m) Credit Cards:**

Please confirm the system followed at the Bank/Branch for recovery of credit card dues; and whether, and the extent to which, there are debit outstanding's on account of Credit card dues, have been treated as Advances, and not 'Other assets'

- n) Please let us know whether there are any borrower accounts comprising MSME accounts as also large borrower accounts as stipulated respectively in Circular No. FIDD.MSME & NFS.12/06.02.31/2017-18 dated 24-7-2017 and DBR.No.BP.BC.101/21.04.048/2017-18 dated 12.2.2018 of the RBI with regard to which you have applied appropriately the IRAC Norms. Please confirm whether this is in accordance with the Board approved Policies. Special attention may be paid to large restructured accounts requiring reporting as to their credit information and classification (SMA-0, SMA-1, SMA-2) ; and further accounts that require reconsideration as to the IRAC norms, if covered by RBI DBR.No.BP.BC.101/21.04.048/2017-18 dated 12.2.2018circular.

**8. Outstanding in Suspense/Sundries:**

Please let us have a summary of the year-wise break up of amounts:

- Debited to Suspense Account (or similar account) indicating, as at the year end, the number of entries and the amount thereof, with reasons for non-adjustment of old/large/ unusual entries.

**The amount of provision for doubtful amounts may be confirmed.**

- Credited to Sundries/Sundry Deposit Accounts, indicating the reasons for non-adjustment of items included therein, particularly in respect of items which are over 3 years old.

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

- **Please confirm the amount at debit on account of TDS paid and outstanding, not linked to any customer.**

**9. Provisions/Liabilities remaining unadjusted against corresponding advances:**

Please confirm whether provisions for known liabilities, up to the year-end have been made (also, based on subsequent entries made); and if, and the extent to which, any provisions are

required towards advances of expenditure nature (e.g. Travel Advance).

**10. 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 after the year-end at the Branch, upto the cutoff date, if given by Head Office; otherwise, up to the date of the audit. ***(Refer Format at Annexure V).***
- b) Date-wise details of debits in various nominal or other sub-heads relating to Inter-branch transactions, with reasons, particularly for old/ large outstanding amounts, including those which are pending for over 30 days as at the Balance Sheet date.
- c) Please confirm:
  - whether there are any temporary debits pertaining to any advance /borrower's account wrongly recorded in Inter branch /Head Office account , that have been reversed after the yearend.
  - whether the Branch has effectively complied with the centralized Reconciliation Cell, all their queries in relation to unmatched entries.
  - Communications pending action, and having effect on the accounts for the year, may be made available for our review.
  - the number of old unadjusted entries and the aggregate amount as at the year-end comprising unlinked debits retained at the Branch, in respect of Drafts and TTs, MTs paid, which remain outstanding at the Branch; ***and whether, and the extent to which, provision is being considered for the same.***
  - the period up to which the Reconciliation Cell has sent the statements of unmatched entries (head-wise).

**11. Foreign Currency outstanding transactions:**

If the Branch is carrying balances (including in off-balance sheet items) in foreign currencies as at the year-end, whether, and the basis on which, these have been converted as at the year-end, may be made known. ***Evidence/basis of the rates as applied may be made available.***

**12. Contingent Liabilities etc.:**

**Please confirm whether:**

- there are any demands/claims (whether statutory, regulatory, contractual or otherwise) on account of litigation, arbitration or other disputes having financial implications, ***including claims from customers, fraud cases, for staff claims, municipal taxes, local levies etc. The nature and extent of such contingent liabilities, if not considered in the Branch financial statements, may be communicated. (Reference may also be made to the LFAR - Para II.3).***
- guarantees are being disclosed in the Branch Balance Sheet, ***net of cash margins and term deposits***; and whether, ***and the extent to which, expired letters of credit, and guarantees where the claim period has also expired, and obligations have ceased, these continue to be disclosed in the Branch returns.***



The amount of such expired obligations may be made known.

- other obligations assumed, e.g., Letters of comfort have been disclosed in the Branch returns; and that, based on the related documentation, these do not comprise funded liabilities by or on behalf of the bank (by way of Buyers' Credit etc.
- there are any outstanding contracts on capital account (including for fixed assets to be acquired/ constructed). Details thereof may be given.
- there are any awards in arbitration/litigation or disputes involving any liability (including based on any awards by the Banking Ombudsman).

**13. Interest Income/Expenditure:**

- a) Please let us have a statement showing the rates of interest applicable during the year on various categories of
  - Advances Accounts
  - Deposits Accounts
 giving reference of the relevant circulars of the Head Office, and indicating the effective dates and periodicity of application of the interest rates; and evidencing that the computer programme was modified from such effective date(s), for any changes during the year.
- b) Please confirm whether the rates and changes therein for advances, are based on the Credit rating, as and where applicable and reflected in the accounts/documentation.
- c) Please confirm whether interest being debited at the end of each month on advances, is being compounded for levy of further interest on a monthly basis. Where interest on advances is being computed and debited by the system up to a date prior to the month-end, whether the Branch has computed the same for the residue period for the month of March 2020.
- d) **System of appropriation of recoveries in NPAs:**  
Please confirm the basis on which the Bank exercises the right of appropriation of recoveries in NPA Accounts, where there are no instructions by the borrowers; and in such cases, whether the appropriation is made with priority given to "principal" rather than to unrealized charges, and interest.

**Please confirm whether there are upgraded restructured/rehabilitated advances accounts, where the "right of recompense" of sacrifice borne by the Bank was a precondition, but the same was not exercised at the time of upgradation of the borrower.**

If so, details thereof may please be given to us.

- e) As regards advances (including bills), whether any income has been adjusted/recorded to revenue, contrary to the norms of income recognition issued by the Reserve Bank of India and/or Head Office circulars issued in this regard; and particularly, in Non Performing Accounts (including overdue bills) , if the same has been recorded except on actual

**realization** from the borrowers, and not out of fresh limits sanctioned by the Bank.

*f) Interest income, if recognized on certain advances:*

Please confirm whether and **the extent to which**, you have recognized any interest as income on the following types of advances:

- On Central Govt. guaranteed advance, if NPA, but for reasons that the guarantee is not invoked or repudiated requiring the account to be treated as and retained in, Standard category.
- In cases of restructured accounts, where the income recognized earlier, was, to the extent unrealized and converted to FITL and fully provided for, is reversed or treated as standard for further accretion of income.
- in case documents under LC are not accepted on presentation or payment under the LC is not made on the due date by the LC issuing bank for any reason and the borrower does not immediately make good the amount disbursed as a result of discounting of concerned bills, whether the outstanding bills discounted continue to be classified as Standard and treated as 'performing'.
- the reversal of interest income (i.e derecognized income), is recorded through "Interest Suspense" or similar account. It may be confirmed whether, and the extent to which, Interest Suspense or other similar account comprising Interest applied upto the date of the account becoming NPA, has been reversed and credited to the account of the borrower during the year. If so, please let us know the amount attributable to the current year and that pertaining to the year ended 31-3-2019.
- in respect of accounts identified as NPAs during the year, amounts contractually due but remaining unrealized as interest, fees, commission and other charges are reversed for all earlier periods; and the unapplied interest has been computed and recorded upto date.
- Amount of income accrued, if any, as at 31.3.2019 on NPAs may be made known.

g) Please confirm whether interest adjustments on inter branch balances (as per the Transfer Price Mechanism) as communicated by Head Office, have been duly recorded in the Profit & Loss Account of the Branch.

Relevant evidence thereof may please be made available to us.

h) If there are significant debits in interest income Account, the justification thereof.

**14. Commission on Govt. business**

Please confirm whether at the Branch, income is being accounted on cash or on accrual basis. Income accrued up to 31.3.2019 but not claimed/ recorded/ received may please be confirmed to us, together with computation thereof.

**15. Interest Provision on Deposits:**

Please confirm whether interest provision has been made upto the year end, on Term and Savings Bank account deposits, on eligible Current Accounts and unclaimed/unpaid deposit accounts of deceased depositors, in accordance with the applicable contractual

rates and latest instructions of the Head Office; and the amount may be confirmed in respect of the following:

- interest accrued till the date of maturity on FCNR(B) deposits, if included in Deposits.
- Interest accrued but not applied on Savings bank deposits, if treated as part of “Other Liabilities – Interest Accrued”

Correspondingly, if considered as due, whether Tax deduction at source has been made and deposited within the prescribed time with the Govt.

#### **16. Employee/Staff Payments and benefits**

Please confirm that all payments and staff benefits due to the Branch employees upto the year end have been duly computed and recorded under the respective sub heads, including incremental liability towards arrears, if any.

#### **17. Rent, Rates and Taxes**

Please confirm that the rents (payable as tenant, and not as reimbursement to staff towards their rent obligations), rates and taxes are recorded up to the year end, based on:

- rent/lease agreements for the time being in force and liability has been considered on the basis of claims/demands *and contractual enhancements due*;
- municipal taxes and levies are adjusted/provided up to the year-end, based on the demands accepted; and
- in case of disputed liabilities, if any, the related contingent liability has been disclosed.

#### **18. Penalties/fines etc:**

Please confirm whether any fines or penalties have been imposed on the Branch, or incurred or paid by the Branch during the year as arising out of any defaults to meet statutory or regulatory requirements or otherwise. If so, the particulars thereof may be made known; as these would require separate disclosure in the financial statements of the Bank and for consideration in the Tax Audit Report under Section 44 AB of the Income tax Act 1961 (Form 3 CD).

#### **19. Frauds etc.:**

**Please confirm whether for the purpose of provisioning, the relevant particulars have been prepared at the Branch and whether:**

- there are any frauds reported/recorded up to 31.3.2020;
- there are any known cases or transactions or events, or any enquiries that have been initiated for any suspected frauds/aberrations.
- there are any cases of vigilance or similar enquiry, or financial claims/potential claims that may arise, from customers/others in respect of the Branch. The relevant records of these may please be made available.
- the Branch has complied with the reporting requirements of RBI and communicated the same as per the requisite formats, including where central investigating agencies

have initiated criminal proceedings or where the RBI had directed that a matter be treated as fraud.

**20. Recommendations of the Mitra Committee – BankFrauds**

While drawing your attention to the contents of the SA 240 - *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*, issued by the Institute of Chartered Accountants of India, particularly in that the responsibility for the prevention and detection of fraud and error rests with the management through the implementation and continued operation of an adequate system of internal control, we would request you to confirm whether, in relation to the operations/activities of the Branch, anything has come to light which is in the nature of a fraud, any fraudulent activity, or any matter susceptible to fraud or foul play, which should receive our attention; and particularly, if there is anything which invokes, or is the subject matter of any vigilance, enquiry, investigation or examination as regards any transaction or event that is suggestive of attracting compliance or for reporting to the competent authorities within the Bank, or to the regulatory authorities.

This would include matters that could arise out of inadequacies in, or absence/breach of the laid down, internal control systems and procedures (both accounting and administrative).

Your attention is drawn to the RBI relevant Master Circulars Nos. **DBR.No.BP.BC.92/21.04.048/2015- 16 April 18, 2016**, **DBS.CO.CFMC.BC.No.1/23.04.001/2016-17 dated July 01, 2016**, relating to **Frauds – Classification and Reporting**; as also **Para 4.2.9(ii) of the RBI Master Circular dated 1-7-2015 covering prudential norms applicable to Advances**.

**21. Compliance of Ghosh and Jilani Committee recommendations**

Please confirm whether the Branch has duly complied with the requirements of the Ghosh and Jilani Committees and whether such compliance has been got verified from the Bank's Inspection Division and/or the Concurrent Auditors.

It may be confirmed as to whether there are any adverse observations in respect of any requirements that may also have bearing on the financial statements of the Branch; and if so, these may please be made known to us.

**22. Consideration of laws and regulations for the purpose of the audit of financial statements:**

Please confirm as to whether the Branch is maintaining a codified list of the related laws and regulations applicable to the Bank in respect of its operations/activities to cover all transactions and events, with which it is concerned; and whether the Branch management has come across, or is aware of anything that needs to be brought to our notice for our consideration or anything suggesting that there is fundamental effect on the state of affairs or operations of the Branch on account of non-compliance of these.

**23. Transactions and events after the Balance sheet date**

Please let us have a statement of any significant transactions or events occurring after the

Balance sheet date but which relate to the period prior to 31-3-2019, ***whether or not yet recognized or recorded in the accounts of the Branch***. This would include items of income or expense or capitalization etc. relating to the period prior to the year end. (particularly also, if these are reported in the inspection/internal/concurrent audit reports relating up to March 2019), which need to be incorporated in the MOC. This may kindly be communicated to us.

**24. Investments:**

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

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

**25. Other Certification**

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

The certificates relate to the following (besides the data as per the letter of appointment to us):

- a) DICGC
- b) PMRY
- c) 12 odd dates data for verification of SLR (Refer Annexure AVII)
- d) Implementation of the Ghosh and Jilani Committee recommendations
- e) Movement Chart of NPAs and Provision of NPAs (Refer Annexure AII)
- f) Information relating to restructuring etc. undertaken during the year
- g) Others (as communicated to you by Head Office)

**26. Asset Liability Management:**

Please let us have, duly authenticated, the financial information regarding the disclosures to be made as at 31.3.2020, as required by the Reserve Bank of India, indicating the procedure/basis followed to arrive at the financial data.

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

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

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

Reference may also be made to the important items as per **Annexure VI**.

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

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

Information duly completed in respect of Paras 1 to 28 should be made available simultaneously with the returns/ statements/ schedules, as committed by the Head Office to be given by the Branch on 1.4.2019.

*We may seek further information on matters as these arise in the course of the audit, including on verification of information/representations made by you and would request you to respond to the same expeditiously, considering the severe time constraints on us to complete the assignment and furnish our report.*

**CHARTERED ACCOUNTANTS**

**Annexure IA** {refer also Para 7 (d)(e) } Re: Request for list and particulars of advances falling in the following categories *(in the format as under)*

Category of advances	Names of the Borrowers in each category	Outstanding as at the year end (Rs.)	Classification as per RBI prudential norms
1. All Large accounts (as defined- Rs. 2.00 crores or 5% of the Portfolio, whichever is less) -per Annexure III			
2. All accounts reported as Special Mention Accounts in <b>SMA – 2</b> (accounts <i>considered critical</i> ).Such accounts with unusual credits towards year end particularly if these are reversed after the year end, need special attention.			
3. NPA accounts upgraded to Standard during the year			
4. Cases where one time settlement (OTS) has been sought.			
5. Accounts Restructured in the earlier years to determine their year-end status, if in default or not classified as per RBI norms.			
6. Accounts in which OTS was accepted but there is default in compliance.			
7. FITL cases arising out of Restructuring where corresponding provisions are held in “Sundry Liabilities Account (Interest Capitalization)”.			
8. Advances accounts where there is an initiation of proceedings involving Investigation, vigilance, enquiry and those where fraud is reported.			
9. Staff Advances – where the persons have ceased to be employees of the Bank; and accounts in default.			
10. BIFR cases classified as Standard.			

**Annexure IA** (refer Para 7 (c ) Re: Request for list and particulars of advances falling in the following categories *(in the format as under)*..*Contd*

Category of advances	Names of the Borrowers in each category	Outstanding as at the year end (Rs.)	Classification as per RBI prudential norms
11. SSI/SME cases under rehabilitation as at the year end			
12. Standard advances in litigation			
13. Central Government guaranteed cases which are non-performing.			
14. Standard accounts Unapplied Interestwhere there is Interest Suspense			
15. Advances in the list of willful defaulters of the RBI.			
16. Advances subject to re-financing.			
17. Fresh NPAs identified by the Branch.			
18. NPA cases where the assessed realizable value of the securities has a significant shortfall – 50% or more.			
19. Standard Accounts with temporary deficiencies as per Para 4.2.4 of Master Circular on Advances.			
20. NPA cases where the realizable value of the security as assessed by the Bank/approved valuers /RBI is less than 10% of the outstanding.			
21. Quick Mortality Cases			
22. Advances comprising frauds detected (Para 4.2.9.(ii) of the IRAC Master Circular dated 1.7.2015)			
23. MSME Borrowers registered under the GST Regime having an exposure in aggregate (including non-fund based) up to Rs. 25 Crore.			



**Annexure IA** (refer Para 7 (c ) Re: Request for list and particulars of advances falling in the following categories *(in the format as under)..Contd*

Category of advances	Names of the Borrowers in each category	Outstanding as at the year end (Rs.)	Classification as per RBI prudential norms
24.OtherAccounts,notcoveredabove,withadversecomments in the existing/latest Reports(as per Para 1 above)			

**In case there are no borrowers in any category, please state “NIL”**

**Annexure II – Information on Advances**

(Amt- Rs. In '000)

**A. CLASSIFICATION OF ADVANCES AS COMPARED TO THE PREVIOUS YEAR-END**

<b>Particulars</b>	<b>As at 31.3.2020</b>		<b>As at 31.3.2019</b>		<b>Increase/ (Decrease)</b>	<b>Remarks</b>
	<b>No</b>	<b>Amt (Rs)</b>	<b>No.</b>	<b>Amt.(Rs.)</b>	<b>Amt (Rs.)</b>	
<b>A.1.</b> <b>STANDARD</b> SME/Direct Agriculture Credit Teaser Loans -Others						
<b>A.2. STANDARD</b> - In SMA -2 Category						
<b>Total (A) (A.1+A.2)</b>						
<b>B.SUB-STANDARD</b>						
<b>C.DOUBTFUL</b>						
<b>D.LOSS</b>						
<b>E. FRAUD CASES</b>						
<b>F. Total (B+C+D+E)</b>						
<b>TOTAL (A+F)</b>						

**B. FUNDED INTEREST TERM LOANS (FITL) / WORKING CAPITAL TERM LOANS(WCTL)**

<b>Particulars</b>	<b>As at 31-3-2020</b>		<b>As at 31-3-2019</b>	
	<b>No. of Accounts</b>	<b>Amount (Rs.)</b>	<b>No. of Accounts</b>	<b>Amount (Rs.)</b>
<b>Total exposure – FITL</b>				
<b>Total exposure – WCTL</b>				
<b>Provision held</b>				

**C. PARTICULARS OF AND MOVEMENT IN NPAs AND PROVISIONS**

	<b>Gross NPA (Rs.)</b>	<b>Net NPA (Rs.)</b>	<b>Remarks</b>
As at the beginning of the year			
Additions during the year			
Less :Deductions			
a) Upgradations			
b) Recoveries (excluding recoveries from upgraded accounts)			
c) Technical/Prudential Write-offs			
d) Write-offs other than those under (c) above			
(also refer Appendix Part C-2 of Master Circular No . <b>DBR.No.BP.BC.2/21.04.048/2015-16 dated 1-7-2015)</b>			
<b>Balance at the year-end</b>			
	=====	=====	

**D. Interest etc. (ACCRUED BUT NOT EARNED) on NPAs**

<b>Particulars</b>	<b>31.3.2020</b>		<b>31.3.2019</b>	
	<b>No. of Accounts</b>	<b>Amount (Rs.)</b>	<b>No. of Accounts</b>	<b>Amount (Rs.)</b>
<b>A. Interest</b>				
Interest Suspense or other similar accounts				
Unapplied Interest (Memorandum Interest)				
<b>Total (A)</b>				
<b>B. Right of Recompense</b> (in restructured accounts upgraded to 'Standard')				
<b>TOTAL (A+B)</b>				

BANK: ZONE: BRANCH:

ANNEXURE - OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.03.2020

(Each column needs to be filled in completely and adequately; and in case space is inadequate use inverse side)

1. BORROWER:

a) Name of the Borrower

:: Group

b) Address :

c) Constitution :

Company ☐ : Partnership ☐ : Sole Prop ☐ : Other (specify) \_\_\_\_\_

d) Nature of Business :

e) Other Units in the same group :

f) - Name(s) of proprietor/partners/Directors :

- Name of Chief Executive, if any :

g) Whether Borrower or constituents thereof are on the list of willful defaulters of RBI :

: If Yes, give details: ☐ No ☐ Yes

h) Credit Facilities:

:

Fund Based (Rs.)					Non Fund Based (Rs.)		
Term Loans	CC/OD	Bills	Others	Total	LCs	Guarantees	Total

Nature of facilities and limits (Rs. in lakhs)

Date of Sanction and authority

Due date of renewal, and authority

: Actual date of renewal

Particulars of latest balance confirmation

Total exposure of the Branch  
In Lakhs)

- i) **Whether project under Implementation**
- j) **Give details, if the account has been subject to:**
  - Rehabilitation / Restructuring (including as per BIFR)
  - Repayment to terms*Amount : Rs.*

Borrower (Rs.)	Group (Rs.) (Rs.								
	: Since		Category as per RBI master circular		I	II	III		
No	Yes					Sacrifice:*		Yes	No
		Amount : Rs.				Right of recompense:*		Yes	No

\*Basis to be enclosed



\_\_\_\_\_BANK:                      ZONE: \_\_\_\_\_                      BRANCH: \_\_\_\_\_

ANNEXURE–III. OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2020

3. **SANCTION (Terms andConditions)**

Security						(Rs.inlakhs)
Primary	*Value (Rs.)	Margin (Rs.)	Net Value(Rs.)	Collateral	Valuation date	Value (Rs.)
Stocks/Inventories (*net of unpaid for stocks)						
BookDebts (*Eligible Debts)						
Others(Specify)						
Total				Total		

(Value and Margins as per working on the inverse side)

b) **Other major Terms and conditions:**

i)

ii) iii) iv)

v)

vi) vii)

c) **Guarantor(s)**

CentralGov : \*State Govt. : Banks :Financial Institutions :Others

t.

*\*whetherinvoked*

Yes / No

☐☐☐☐☐

4.

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a) **Documents**

**Obtained:**(Tick as appropriate) DPN

*Letter of Hypothecation*

Mortgage Deed

[Equitable/Registered] Agreement

for loan

Letter of

Guarantee Legal

Opinion

Non Encumbrance Certificate

Registration of Charge (in case of Company) or evidence thereof

**Others (Specify)**

Yes

No

☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

b)**Documents required but pending completion** (Specify with reasons):

c)**Furnishing of copy of the Loan Agreement(s) to the Borrower (Refer RBI Circular DBR.No.Dir.BC.10/13.03.00/2015-16 dated1.7.2015):**

Date(s) of Sanction oftheLoan(s)\_\_\_\_\_ Date(s) of disbursement of the

Loan(s) \_\_\_\_\_

**Date of furnishing of the copy(ies) of the Loan Agreement totheBorrower\_\_\_\_\_.**

\_\_\_\_\_



ADVANCES

PORTFOLIO STATUS

:

(Figures – Rs. in lakhs for all columns)

Facility	Limit (Rs.)	standing (Rs.)	*Margin on primary Security		Drawing Power (Rs.)	Outstanding on 31.3.2020 (Rs.)	Overdrawn Amount@ (Rs.)	Overdues ** (Rs.)
			%	Amount (Rs.)				
<b>Fund based</b> CASH CREDIT TERMLOANS WCTL FITL Others BILLS OTHERS								
<b>Total</b>			xx					
<b>Non Fund Based</b> Letters of Credit Inland Foreign Letters of Guarantee Letters of Comfort								<b><u>Invoked/ Devolved</u></b>
<b>Total</b>			xx					
c) Amount at credit unappropriated                      Rs. _____                      #Rs. _____								
d) Interest, if any, held in “Suspense Account”                      Rs. _____                      #Rs. _____								
e) Unapplied Interest                      Rs. _____                      #Rs. _____								
f) Bank’s right of recompense                      Rs. _____                      #Rs. _____								
(# as at previous year end)								

[\* after deducting unpaid stocks and debts older than stipulated period]  
@ Overdrawn amount must be with reference to lower of the limit or drawing power  
\*\* Segregate principal and interest amounts in default, indicating separately, if any amount is over 90 days overdue.

<b>6.A CLASSIFICATION:</b> (as per RBI norms) (Tick as appropriate) <i>@ State also whether D1,D2,D3: # based on unsecured/secured exposures(state on inverse)</i>				<b>*STANDARD</b>		<b>#SUBSTANDARD</b>		<b>DOUBTFUL@</b>		<b>LOSS</b>		
				Bank	Auditor	Bank	Auditor	Bank	Auditor	Bank	Auditor	
a) as at the year-end (31.3.2020)												
b) as at the previous year-end(31.3.2019)												
c) as at half year-end (30.9.2019)												
d) Date of Identification as NPA by Bank			(Date)	(iv) Other Reasons for Identification as NPA (including frauds if any)								
e) Reasons for identification as NPA (per RBI norms):												
i) Default in servicing of 90 days or more			Yes									No
ii) Accounts not reviewed/limits not renewed for 180 days or more			Yes									No
iii) Funded Interest (FITL)-projects under implementation			Yes									No
f) Whether classification is as per guidelines of the Controlling Authority			Yes									No
<b>6.B ADVERSE OBSERVATIONS IN LATEST REPORTS</b>												
<b><u>Concurrent Auditor</u></b>												
<b><u>Internal Inspection</u></b>												
<b><u>RBI Inspection Reports</u></b>												
<b><u>Other Reports(including Special Audit/Credit Audit/Stock audit)</u></b>												
<b>*State reasons for upgradation of Account if NPA earlier.</b>												
-Whether upgradation is in respect of project under implementation:									Yes	No		
If so, pre-upgradation classification						Substandard		Doubtful:	D1	D2	D3	



8.

e) Particulars/Dates of Irregular Drawings\*

(Rs. In Lakhs)

Date	Limit (Rs.)	Drawing Power (Rs.)	Outstanding (Rs.)	Excess over		Reasons for Excess	Whether excess drawings reported to the controlling Authority	Date of approval by controllin g Authority
				Drawing Power (Rs.)	Limit (Rs.)			

\* In case of computerized branches information is available/corroborated from **exceptional daily reports** generated through the system

f) **Summary of Account/Summations:** (Rs.in Lakhs)

	Cash Credit(Rs.)	Overdraft (Rs.)	Others(Rs.)	Remarks
<b>Opening Balance -Debit at the beginning of the year</b>				
<b>Add: <u>Debit Summations</u></b>				
i) Interest				
ii)Others				
<b>Total</b>				
<b>Less: <u>Credit Summations</u></b>				
<b>Balance outstanding debit as at year end</b>				

9.

8. SECURITY/GUARANTEE:

(Rs.in Lakhs) Nature of EvidenceIs there any indicationof

a) Evidence on record for existence and Market valueofSecurity:

double financing Primary:

Date

Particulars

(indicating date of thelatest stock statements/bookdebtsetc.)

c) Others (specify)

Collateral

a) Stocks (net of unpaidstocks)

b) Book Debts (current debts)

YES

NO

(Date of last valuation, Nature of encumbrances, if any )

iii) Insurance coverage.	Whether adequate		Any other Adverse features	
	Yes	No	Yes	No

Comment on inadequacy in Insurance coverage and other adverse features.

iv)Physical Inspection of securities charged as security:

Date of latest inspection

Date of last Stock Audit Report

Adverse observations, if any

- Reasons for non-inspection(if more than 6 months)

-Major uncomplied adverse observations in Inspection/  
Concurrent audit/stock audit/credit audit on securities

10.

v) <u>Guarantees</u>	<u>Date of Guarantee</u>	<u>Amount</u>	<u>Guarantees (Rs.in Lakhs)</u>		<u>*Remarks</u>
<u>Particulars</u>		<u>(Rs.)</u>	<u>*Invoked(Rs.)</u>	<u>Repudiated(Rs.)</u>	
Central Govt.					
State Govt.					
Banks					
Financial Institutions					
Others(Specify)					
<b>* Besides other observations, reasons for non invoking of guarantees to be given in the remarks column</b>					
b) <b>Exceptional reports, If any</b> on documentation, operations, security/guarantee aspects (whether and when reported to the supervisory / monitoring authority), or where the same is pending , or where the same is pending approval/ authorization)					
<b>Latest audited statements</b> (including audit report, accounting policies and notes), whether on record -Whether there are any qualifications in the Notes/Audit Report having impact on the financial statements ( <b>State effect thereof</b> ) - Whether Cost Audit report(if applicable) received					
d) <b>Critical Information</b> Whether any critical information sought from the borrower remains uncomplied.					

11.

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**OBSERVATIONS OF BRANCH MANAGEMENT**(including responses to adverse observations in Reports stated at **Item 6**

- B** above) Documentation
- Operations*
- Security/ Guarantee*
- Any other matter*
- Overview of the borrowal account and its operation

**10. COMPLIANCE OF TERMS AND CONDITIONS OF SANCTION** (Annexure III.1)

**11. KEY FINANCIAL INDICATORS FOR THE LAST 3 YEARS AND PROJECTIONS FOR THE YEAR** (Annexure III.2)

**Signature of Branch Incharge :** \_\_\_\_\_  
\_\_\_\_\_



\_\_\_\_\_BANK

ZONE:\_\_\_\_\_A

BRANCH:\_\_\_\_\_

**BANK AUDIT 2019-20****ANNEXURE –III.1 -OBSERVATIONS/STATUS REVIEW ON MAJOR ADVANCES ACCOUNTS FOR THE YEAR ENDED 31.3.2020***Bank:**Branch:*

Name of Borrower		COMPLIANCE OF TERMS AND
Terms and Conditions		CONDITIONS OF SANCTION
i)	<b>Primary Security</b>	
	a) Charge on primary security	
	b) Mortgage of fixed assets	
	c) Registration of charges with Registrar of Companies	
	d) Insurance with date of validity of Policy	
	e) Stock Audit whether conducted-if so when	
ii)	<b>Collateral Security</b>	
	a) Charge on collateral security	
	b) Mortgage of fixed assets	
	c) Registration of charges with Registrar of Companies	
	d) Insurance with date of validity of Policy	
	e) Basis and date of last valuation	
iii)	<b>Guarantees – Existence and execution of valid guarantees</b>	
iv)	<b>Asset coverage to the branch based upon the arrangement (i.e. , consortium or multiple-bank basis)</b>	

v)	<b>Others:</b>	
a)	Submission of Stock Statements/ Quarterly Information Statements and	
b)	other Information Statements.	
c)	Whether latest audited accounts obtained and analysed including	
d)	considering effect of qualifications therein.	
e)	Last inspection of the unit by the Branch officials: Give the date and details of errors/omissions noticed	
	In case of consortium advances, whether copies of documents executed by the company favouring the consortium are available	
	Any other area of non-compliance with the terms and conditions of sanction.	

***Note: In case of non/unsatisfactory compliance, action taken by the Bank may be indicated on the inverse side for each item.***

**(Branch In charge)**

\_\_\_\_\_BANK                      ZONE:\_\_\_\_\_                      BRANCH:\_\_\_\_\_

Borrower:\_\_\_\_\_

**ANNEXURE III.2- Key financial indicators for the last two completed years and projections**

(Rs.in Lakhs)

Indicators	Audited Accounts (year ended)		Projected for year ended 31.03.2020
	31.03.2018	31.03.2019	
Turnover			
Increase in turnover % over previous year			
Profit before depreciation, interest and tax Less: Interest			
Net Cash Profit before tax			
Less: Depreciation[*straightline <input type="checkbox"/> W.D.V <input type="checkbox"/> ](*tick as applicable) 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 during the year:			
High			
Low			
Closing			
** Earning Per Share (Face Value Rs. )			
Whether the accounts were audited?	No	Yes, up to	
If yes, are there any audit qualifications@			
** To be based on common denominator of face value of shares :State whether	basic:		Diluted

@ Audit qualifications may also be stated against item 8 (c) of the form Branch Incharge

[illegible]

Over 10 years										
<b><i>TOTAL</i></b>										
<b>Fixed Deposit Receipts held in physical custody by Bank</b>										
<b><u>INTEREST PROVISION</u></b>										
<b>Provision for Interest accrued till the year end and on the above overdue/unclaimed deposits</b>										
<b>2. On deceased depositors – Unclaimed Current Accounts</b>										
<b>TOTAL INTEREST PROVISION</b>										
<b><i>@ including FCNR (B) matured deposits crystallized in Rupees</i></b>										

***BRANCH MANAGEMENT***



*BANK BRANCH AUDIT (2019-20)*

**ANNEXURE VI - LEAR REQUIREMENTS DESERVING SPECIAL ATTENTION**

- a) *Balance confirmation certificates and reconciliation statements with banks indicating reasons for unadjusted old entries outstanding between 6 months and 1 year, and those over 1 yearold.*
- b) Responses to Para I.4 of the questionnaire, if and to the extent applicable to thebranch.
- c) Status of “large advances\*” in the light of the reporting requirements as per Item I.5 of the questionnaire.  
***(\*defined as those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs.2 Crores, whichever is less).***
- d) Data as per the format in Item I.5 (d) (xii) of the questionnaire, relatingto  
 (i) credit guarantee claims, and (ii)subsidies.
- e) Particulars of cases of compromise/settlement and write off involving write offs/ waivers in excess of Rs.50lakhs.
- f) Information [as per item I.5(e) of the questionnaire], in a tabulated form as regards guarantees invoked, letters of guarantee andco-acceptances.
- g) Information as per Item I.6 (b) of thequestionnaire
- h) Details as per the format [ II.2(i) of thequestionnaire]
- i) ListofcontingentliabilitiesnotacknowledgedasdebtsinresponsetoititemII.3ofthe questionnaire.
- j) Statement of divergent trends in major items of income/ expenditure as compared to the previous year with explanation thereof. Items comprising interest earned on advances and that paid on deposits may preferably be computed on the basis of monthly average advances/ deposits for the branch and the current and previous year forcomparison.
- k) Note on areas of computerization and Bank’s instructions/guidelines covering matters in Item IV. (1)(b) of thequestionnaire.
- l) Statement in response to Item IV. 2 of thequestionnaire.
- m) List of outstanding debits, if any, in H.O. Account in respect of Inter-branchtransactions.
- n) Inter-branchAdjustments
- Particulars/status of unresponded/ pending/ uncomplied queries or communications from the designated offices as regards unmatched items in Inter-branchAdjustments.
  - List/status of outstanding old/ large entries at debit comprising Inter- branchItems.

- o) Statement of particulars of frauds discovered during the year, as per the prescribed format.
- p) Evidence of reconciliation of records of fixed assets, (with a confirmation as to their updation) with physical inventories last taken.
- q) Documents of title of the branch premises, if maintained at the Branch, for production to auditors.
- r) Information/ responses to the questionnaire, if a specialized branch (Refer Appendix – Item A.3 in particular).
- s) Information in the structured format in response to Item B of the Appendix covering advances, each in excess of Rs.2 crore. (Refer **Annexure III**)
- t) Information in respect of borrowers pursuant to Item C of Appendix.
- u) Details of Inward/outward clearing as per the prescribed format (**per D2 of the Appendix**).





**BYHAND**  
**March 30, 2020**

The Branch Manager,

\_\_\_\_\_ Bank

Dear Sir,

*Re: Audit of Accounts for 2019-20.*

We are deputing our team headed by Mr. \_\_\_\_\_ in connection with the verification of the following, at the close of business on 1-4-2020 (Monday):

**A .Cash balances etc.**

- a) Cash held:
  - Cash in hand (including with tellers).
  - Cash Acceptance Machines.
  - Cash Deposit Machines.
  - Cash Recyclers
- b) Cash at suboffices;
- c) Cash in ATM(s), if operated/controlled; and, if any, with authorized agencies for replenishment;
- d) Petty Cash/imprest balances;
- e) Postage in hand;
- f) Tokens, if any;
- g) Foreign Currency, if any;
- h) Demonetized currency, if any (reasons for holding of which must be given); and
- i) Gold, if any
  - held on behalf of the Government.
  - held on its own account by the Bank.

In connection with the above, please ensure that you will be getting the verification done simultaneously, and at all locations, of the balances for the aforesaid items and produce for our verification the following:

- a) Foreign Currency parcels, if any, lying at the Branch.
- b) Sealed covers containing cash, if any.
- c) Petty Cash and imprest balances held with various officers.
- d) Reconciliation of the book balance with that at the ATM, in case of any difference.

**B. Security Paper Stationery/ Forms (Unused/blank)**

1. We would be undertaking the physical verification of ***the unused/blank security paper stationery/ forms*** (critical stationery) lying at the branch, including for the following:
  - a) Time/Term Deposits;
  - b) Deposits under various schemes;
  - c) Travellers' Cheques;
  - d) Drafts;
  - e) Pay Orders/Banker's Cheques, Gift cheques, etc; and
  - f) Cheque Books/Withdrawal Slips.

We would request you to keep ready, a list of stock of all stationery in hand of the nature and type referred to above, so that verification thereof is expedited; and further ensure that the relevant registers are up to date to enable us to examine the balances therein.

2. Instruments of the above nature issued but lying in physical custody of the Branch may be listed and got verified.

**C. Bills for Collection/Purchased:**

All bills in hand (for collection as well as purchased) may be listed out and got physically verified

**D. Fixed Deposit Receipts in physical custody of the Branch, in respect of Deposits received or renewed(refer Para 5 of Annexure I Section A of our earlier letter):**

Such un-dispatched Receipts in the physical custody at the Branch may be produced, indicating the number and amount thereof.

**E. Your formal confirmations for our record:**

Upon completion of the exercise involving physical verification as aforesaid, we would request you to let us have a confirmation of the balances as at the year-end, duly signed by the authorized signatories.

**F. External Confirmations**

May we request you obtain and to let us have, balance confirmation certificates in respect of:

- a) Balances with other banks as at the year-end along with reconciliation statements, in evidence of outstanding's with such banks (including, if any, with the Reserve Bank of India);
- b) Borrowings, if any, recorded at the Branch (banks/institutions).

We expect these certificates/ reconciliation statements, duly authenticated, to be handed over along with the Branch returns.

We shall be thankful for your co-operation.

Yours faithfully,

**CHARTERED ACCOUNTANTS**