



# Audit of Advances

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- CA Hitesh Pomal



# Audit of Advances

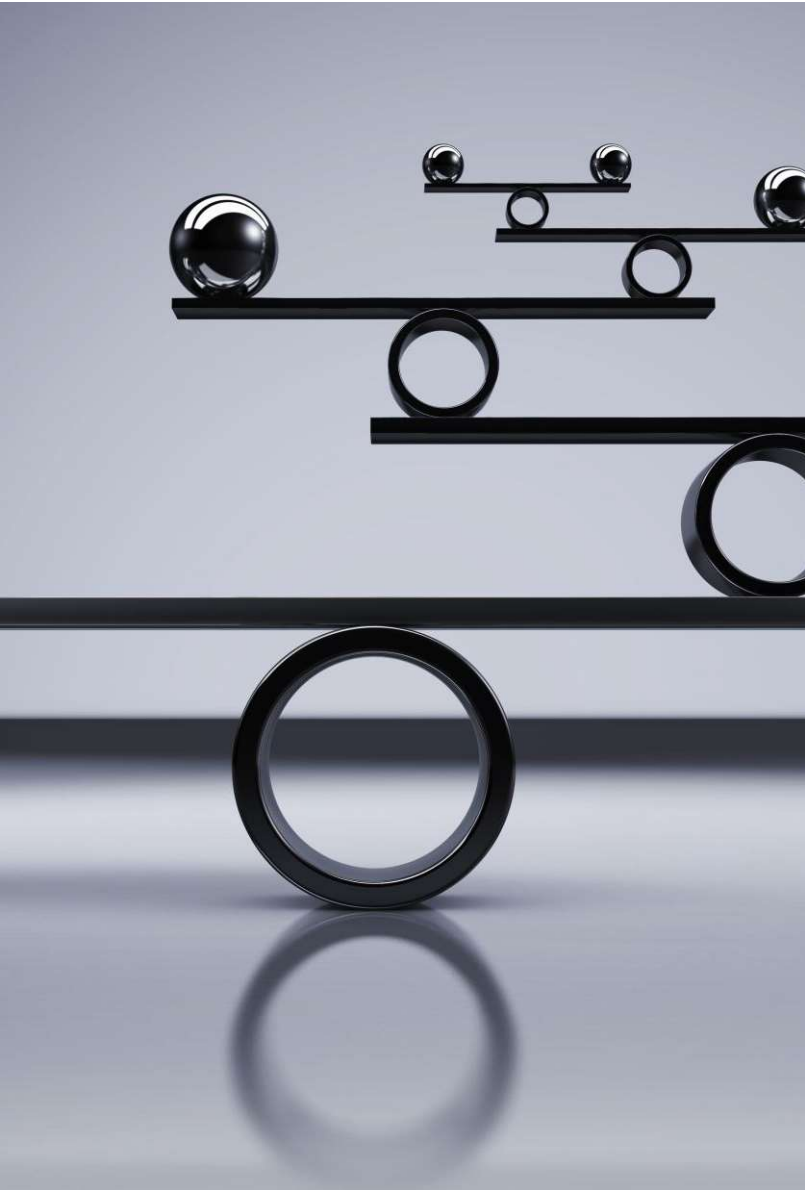
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- **General Audit Procedures**

- Appraisal
- Sanction
- Disbursement
- Documentation
- Post disbursements

- **Specific Audit Procedure - Product wise**

- Agriculture Loans
- Housing Loans
- MSME & Priority Sector Loans
- Emergency Credit Line Guarantee Scheme (ECLGS)



## Types of Advances

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1. Funded Loans
2. Non-Funded Loans



# 1. Funded Loans

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- Term Loans
- Cash Credit
- Overdraft
- Funded Interest Term Loans
- Demand Loans



## 2. Non-Funded Loans

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- Letter of Credit (LC)
- Bank Guarantee (BG)
- Bills Discounting

# CHECKLIST

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REVIEW OF ADVANCES





# Applying Professional Skepticism

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## Potential Window Dressing

- Generally at Quarter Ending
- Transfer from unutilized credit limits to deposit & reverse
- Allowing loans against such deposits
- Scheme manipulations (e.g. Non priority advance to priority advance)

## Indications of Rushed Sanctions

- Comparing volume of advances for last fortnight with that of previous fortnight
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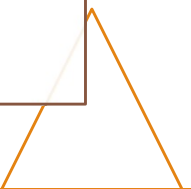
# Applying Professional Skepticism

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## Potential Ever-Greening of Week Credit Facilities

- Fictitious book-entries in CC & OD accounts
- Analysing movement in Accounts Restructured
- Movement in SMA / Potential NPAs
- To collect information on Movement in NPA

## Using Internal / Concurrent Auditor's work in Planning (SA – 610)

- Material errors and frauds (Suspected / Alleged)
  - Divergence in RBI's IRACP Norms / NPAs suggested not taken into effect
  - SMA/ RFA/ Wilful defaulters/ Non-Co-operative borrowers
  - Other Material Irregularities
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# Preliminary Audit Procedures

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PREVIOUS YEAR'S MOC EFFECT

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YEAR END ADJUSTMENT – CLOSING  
CIRCULARS

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BALANCING OF NFB LIMITS - GLB

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CONSISTENCY CHECKS

- Automation of IRACP Norms
- Asset Classification Reports
- NPA Ageing



# Audit Procedures for Different types of Advances



# Agricultural Loans

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- Due Diligence & Assessment of Requirements
- Adherence to RBI guidelines for revised KCC scheme – RBI Master Circular in 2018
- Activities eligible for crop season linked classification- Annexure 2 of RBI Master Circular dated 01.10.2021
  - Loans to Individual Farmers, SHGs etc. directly engaged in Agricultural only
  - Loans to Corporate Farmers
  - Loans to Primary Agriculture Credit Societies for on- lending to agriculture



# Housing Loans

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- Purchase of Plot : Declaration – Interest Rate etc.
- Construction on Plot : Copy of Plan – Undertaking from borrower – Architect Certificate – Stagewise disbursement etc.
- Purchase of Ready built house – Architect Certificate-residual age of property etc.
- Purchasing / constructing a second house - For self occupation purpose only : RBI Master Circular para 2(b)(ii)





# MSME & Priority Sector Loans

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- MSME Eligibility : Even Wholesale & Retail trade included as per MSME Notification dated July 2, 2021
- New definition of MSME :as per MSME Notification dated June 26, 2020 & July 2, 2021
- Education Loans to Priority Sector – Loans upto Rs. 10 lacs for education
- Emergency Credit Line Guarantee Scheme (ECLGS) : To eligible borrowers whose accounts were not overdue for more than 60 days as on 29.02.20 or 31.03.21
- Pradhan Mantri Street Vendors Atmanirbhar Nidhi: Eligible Vendors – Upto Rs. 10,000



## Other Loans

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- Loan Against Properties (Mortgage Loans) : Bank Policy / Valuation Report / Title Report / Residual age of Property
- Loan against Term Deposit : No loans against TDRs of other Banks / Appropriate Margin/ Interest rate
- Loan Against Gold / Silver: Adherence of RBI guidelines / Bank Policy / Tenure only for 12 months / Loan to Value ratio 75% / ownership and appraiser certificate

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graph LR; A[Bank Guarantees] --- B[ ]; B --- C[ ]; C --- D[Letter of Credits]; D --- E[ ]; E --- F[ ]; F --- G[Non Fund Based];
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Bank Guarantees

Letter of Credits

Non Fund  
Based

## Bank Guarantees (BG)

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To those customers who are regular enjoying credit facilities (Except as mentioned in RBI Master circular dated 09.11.2021)

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Worth of Guarantors / payment of commission

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Terms of Sanction : Margin / security / purpose / period / beneficiary / bank charges & Commission

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Financial or Performance Guarantee



## Letter of Credit (LC)

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Bank Policy / appraisal guidelines  
meticulously followed

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“without recourse” LCs not opened

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Devolvement of LC

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Reversal of Liability of LC – To be  
reversed on the date of expiry of LC

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MRL that no LC is devolved, if not  
devolved

# Banking Arrangements

## Banking

### Sole Banking

## Banking

### Multiple Banking

- More than 5 crore advances
- Information in prescribed formats about the conduct of account exchanged
- Suitable Clause in loan agreements

## Banking

### Consortium Banking

- Appraisal & Sanction : Copy of Minutes / Joint Inspection
- Collecting Share of Recovery – Arrangement to get share of recovery transferred from the lead bank – an express consent from lead bank etc.




# Selection of Sample

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New Sanctions during the year

Adversely commented by RBI, Concurrent auditors, Banks's internal inspection

LFAR reporting requirement : Large Advances – 10% of total advance (FB & NFB) or Rs. 10 crores, whichever is less

- Top / Large Exposure Accounts
  - SMA-1 or SMA-2 or Projects where implementation is delayed
  - Restructured Accounts
  - List of unsecured exposures above Rs. One Crore
  - Quick Mortality Cases
  - Accounts upgraded
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## Review of Important Reports

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Previous years' Audit Reports

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Latest internal inspection reports of branch

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Latest inspection report of RBI

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Concurrent / Internal Audit Report

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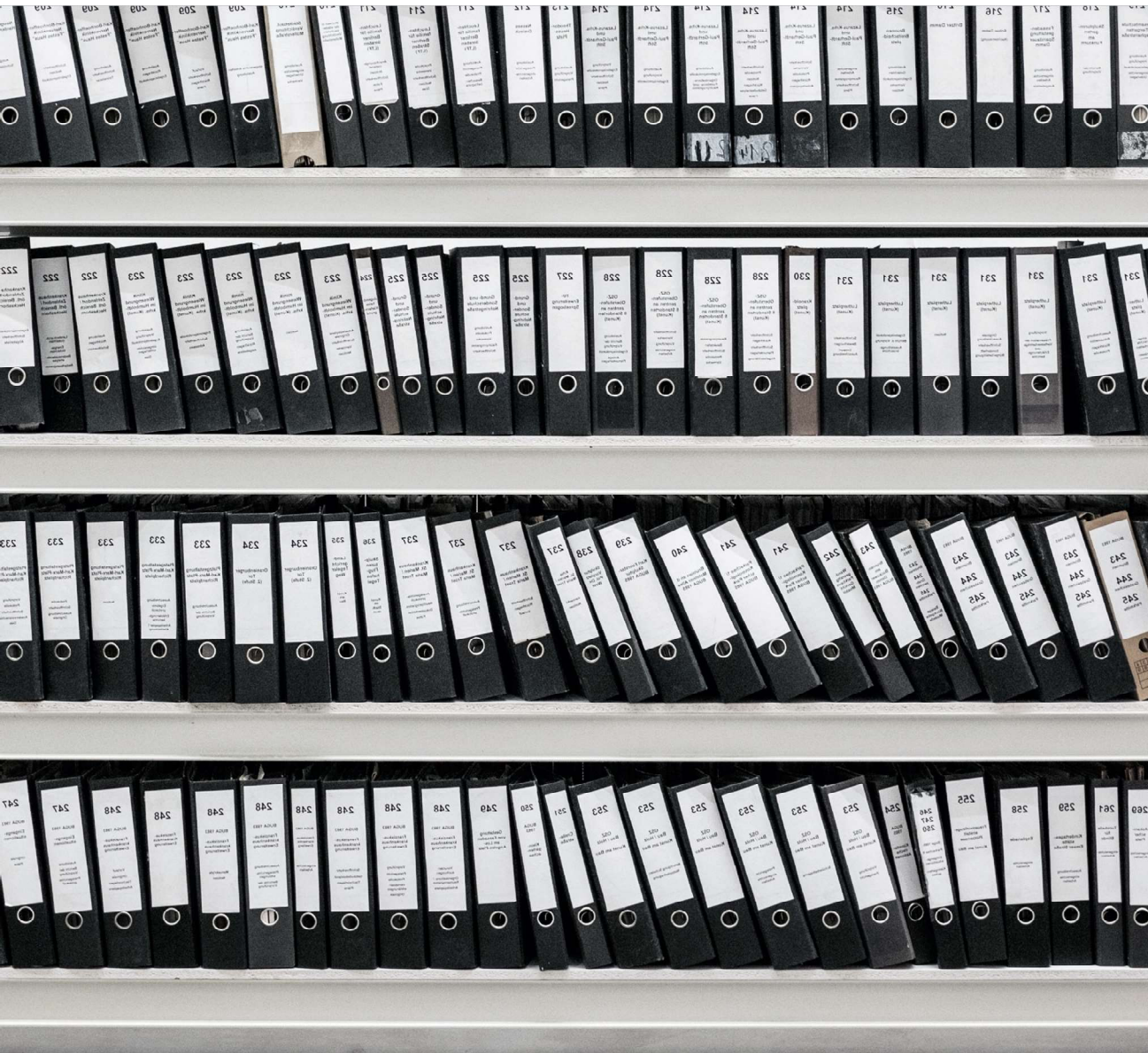
Report on verification of security

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Any other internal reports specially related to particular account

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Manager's charge-handing-over report when incumbent is changed



## Other Important Parameters for Documents Verification

# Documentation

1. Latest Sanction Letter
2. Restructuring Sanction letter/ Consortium Sanction Letter
3. OTS Related Documents
4. Consortium Meeting Minutes
5. Lead Bank Certificate
6. Technical Viability Certificate
7. Bank Stock Audit Report (Valn of stock and Debtors) as certified by Auditor
8. Monthly Stock Statements for the year in case of WCTL
9. Title Documents of Prime and Collateral Securities
10. Mortgage Register and entry of the security duly authorized

# Documentation

11. Hypothecation Deed
12. Details of Charge created/shifted as per MCA
13. Vetting Letter
14. Affidavits required as per terms of Sanction
15. Declaration of Hedge/Unhedged Foreign Currency transactions from Client
16. Standing Instruction Letter
17. Credit Rating Document and IOB Internal Rating Document
18. Latest Audited Financial Statements
19. Details regarding Pledge of shares of Promoters as per Sanction Details if any
20. CERSAI Documents

# Documentation

- 21. Balance Confirmation from Customers
- 22. Others (as per Sanction Letter conditions)
- 23. Engagement Letter
- 24. Management Representation Letter
- 25. Obtain Relevant document, details, certificates, etc as part of engagement documentation in terms of SA 230
- 26. For explanations obtained from the branch management or any other fact matters obtain a representation letter confirmation in terms of SA 580





Other Key Points

Audit of Credit  
Monitoring



# Early Warning Signals and Red Flagged Accounts

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Instances in Annexure 1 to RBI Master direction on Frauds – dated July 1, 2016 & updated July 3, 2017



Reporting to top management / audit committee if > 5 crore (RBI Master Direction on frauds dated July 1, 2016 & updated July 3, 2017)



## Frequent MOC's reported by Auditors

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Change in Date of NPA

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Addition to NPAs

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Addition to NPAs– identified as FRAUD

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Change in Status of NPA

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Changes in Security Value

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Apportioning of common security available to all the credit facilities in case of group accounts.

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Details in deduction Column – ECGC/CGTMSE/IRRDR etc.

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Change in Provision

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Reversal of Un-realized Interest

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Unexpired Discount/Processing Charges/Short/Excess interest Charged

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Reversal of Interest wrongly debited to NPA account

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Rectification of wrong accounting of Recovery in NPA accounts

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Reporting to top management / audit committee if > 5 crore (RBI Master Direction on frauds dated July 1, 2016 & updated July 3, 2017)



# Thank You



**Phone**  
+91 9824049402

CA Hitesh Pomal

