



BANK BRANCH STATUTORY AUDIT

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PLANNING

Documents to be gathered at inception of audit:

- Last Year LFAR (FY15-16)
- Statutory Audit Report (FY15-16)
- Current Year Concurrent Audit Report (FY16-17)
- Inspection Audit Report (FY16-17)
- RBI Inspection (FY16-17)
- Revenue Audit Report (FY16-17)
- System Audit Report (FY16-17)
- Any other Investigation/audit (FY16-17)
- Stock audit reports
- **Loan balancing file x 2**
- **PNPA List for last 2 months**

AUDIT PLANNING

- Proper allocation of work among Audit Team should be done for smooth performance of Audit.
- A checklist of work to be done should be made with time frame, which should be specifically adhered to.
- Review latest available inspection report and concurrent audit report of branch.
- Review closing circular issued by HO
- Study business Mix of branch to decide the sample size and mix.
- Study the previous year's Statutory Audit Report and LFAR
- Keep a note of points you come across during audit, which are relevant for LFAR.



DOCUMENTS TO BE SUBMITTED

- All MOCs
- Branch Audit Report
- Certificate related to IRAC Norms
- LFAR
- Various Statements and certificates
- Tax audit report
- Report on Ghosh and Jilani committee recommendations



DOCUMENTS TO BE OBTAINED COMPLETION OF AUDIT

- LFAR
- Tax Audit Report
- Trial Balance, Financials
- Statements / Certificates
- **Man Days Certificate**
- **Management Representation letter**

DOCUMENTATION

1) Documents as per Circular

a) GPA-1000

b) Agreements

c) Undertakings

d) Hypothecation (0.25%)

e) Equitable Mortgage (0.25% or 5%)

f) Registration of Equitable Mortgage

g) Cersai

2) Chain title as per Search report

3) Stamp Duty

ADVANCES AND PRUDENTIAL NORMS

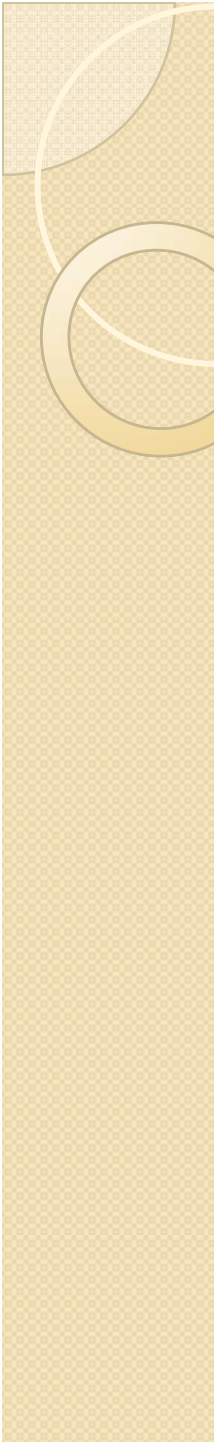
1) Identification of A/c's NPA

a) Term Loan

- Interest and/or Installment remain overdue for more than 90 days.

b) CC/OD

- Calculation of Drawing Power
- Stock Statement

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- If the account continuously remains in excess of sanctioned limit/drawing power.
 - No credit in account continuously for 90 days, or credits is not enough to cover the interest debited during the period.
 - If credit facility is not renewed within 180 days from the due date.
 - Drawings are allowed against stock/book debt statements which are older than 180 days.

AGRICULTURE ADVANCES

- Interest or installment remains overdue for two crop seasons for short duration crop, one crop season for long duration crop. (in any case 1 year)
- Banks have discretion of rescheduling the agricultural advances in case of natural calamities, which impair repaying capacity
- Reference Circulars of Reserve Bank of India
 - a) FIDD.CO.Plan.BC.54/04.09.01/ 2014-15 dated April 23, 2015
 - b) FIDD.No.FSD.BC.52/ 05.10.001/2014-15 dated March 25, 2015
 - c) FIDD.CO.Plan.B C.54/04.09.01/ 2014-15 dated April 23, 2015

ASSETS CLASSIFICATION AND PROVISIONS

Standard Asset

The account is not non-performing.

Sub-Standard Asset

A sub standard Asset is one which has remained NPA for a period of less than or equal to 12 months.

Loss Assets

These are accounts, identified by the bank or internal or external auditors or by RBI Inspectors as wholly irrecoverable but the amount for which has not been written off.

CLASSIFICATION NORMS

□ Doubtful Asset - Three Categories

Category

Period

Doubtful -I

Up to One Year

Doubtful -II

One to Three Years

Doubtful - III

More than Three Years

Provisioning Norms

Primary Responsibility is of the Bank Management and Auditors

Standard Asset

➤ Agricultural and SMEs Sectors	0.25%
➤ Commercial Real Estate (CRE) Section	1.00%
➤ CRE – Residential Housing Project	0.75%
➤ Others	0.40%
➤ Housing Loan during teaser rate period	2.00%
➤ Restructured accounts (First 2 years from the date of restructuring).	5.00%

SUB-STANDARD ASSET

- ❖ 15% of total outstanding
- ❖ 25% of total outstanding if loan is unsecured
- ❖ 20% of total outstanding if infrastructure loan provided is backed by escrow facility with first charge

Definition of Secured Loan:

If security is not less than 10% of exposure (funded & non-funded) ab initio

Provisioning Norms

Doubtful Assets:

<u>Period Provision</u>	<u>(Secured</u>	+	<u>Unsecured)</u>
Up to 1 year	25%	+	100%
1 to 3 years	40%	+	100%
More than 3 years	100%	+	100%
Loss Asset	100% should be provided for		

**Intangible Security: Considered only if backed by legally enforceable and recoverable right over collection and rest of intangibles like rights, licenses, etc. are considered as 'Unsecured'*

Exceptions for the FY 16-17 due to demonetization

Circular dated November 21, 2016

- 1) Running working capital finance (CC/OD), Crop loans with sanctioned limits upto Rs. 1 crore
- 2) Term Loans with original sanctioned limit upto Rs. 1 crore
- 3) Loans to NBFC / Housing Finance Companies, PACs
- 4) Loans by State Co-op. Bank to DCCBs

Conditions:

- 1) Dues are payable between 01.Nov.16 to 31.Dec.16
- 2) Deferment restricted to the above period for further 60 days
- 3) Applies only to PAs and not to existing NPAs

Circular dated December 28, 2016

- 1) Running working capital finance (CC/OD), Crop loans with sanctioned limits upto Rs. 1 crore
- 2) Business (including Agriculture) Term Loans with original sanctioned limit upto Rs. 1 crore (both limits are mutually exclusive)

Conditions:

- 1) Dues are payable between 01.Nov.16 to 31.Dec.16
- 2) Deferment restricted to the above period for further 30 days
(i.e., in all $60 + 30 = 90$ days)

Applies only to PAs and not to existing NPAs

- CC account continuously overdrawn and becoming NPA on 1 November, 2016 will be given benefit of 90 days more and will now become NPA on 30 January, 2017.
- TL installment due on 30 August, 2016 becoming NPA on 29 November, 2016 will now become NPA on 28 February, 2017.

Valuation of Securities

- Once in 3 years
- Immediately after becoming NPA

Project finance having moratorium period from 6 month to 18 month

Exceptions / Clarifications

- Advances against term deposits, NSCs, IVPs, KVPs and Life Insurance Policies need not be treated as NPAs, till security cover is sufficient to cover outstanding balance.
- Income to be recognized subject to availability of margin
- Advance against gold ornaments / Government securities not exempt.
- Central Government guaranteed advance to be classified as NPA only if Government repudiates the guarantee when invoked.

LFAR/STATEMENTS/TAX AUDIT REPORT

1) Physical verification

- Cash
- Stamps
- Controlled stationery
- Locker (specially keys of dormant lockers)
- ATM
- Fixed assets

2) Revenue Leakage

3) Impersonal Head

- Suspense A/c)
- Inter Bank A/c
- H.O A/c

4) Window Dressing



➤ **Interest subvention**

➤ **TDS on**

- AMC
- Deposits / interest
- Valuers fees
- Advocates fee (search)
- Employees
- Auditors
- Rent (Premises)
- Vehicle
- No Need to Check Service tax

➤ **Check F.A Registers**

- Cross verify with Depreciation Schedule
- Rate of Depreciation



THANK YOU

CA Samkit Bhandari