Frequently Asked Questions or FAQs are the best source for getting answers to most of the queries or issues which members at large face during any assignment. Taking lead from this, a few years back I commenced the process of compiling the queries and issues which members raised to me during the course of their branch audits/Concurrent audits/Other bank assignments. This new Section predominantly includes issues raised by members during their branch audits and accordingly may contain issues which may appear to be elementary/rudimentary. I have accordingly abstained from weeding out such elementary issues from the FAQ list as I believe these would greatly benefit the other members in their audits.

Development or compiling a list of FAQs is an embryonic process. I would for that reason request all readers to help me in this process by forwarding to me all issues which they confront on my e-mail, whatsapp or mobile.

The list of such FAQs have been segregated into appropriate Sections for the convenience of the readers.

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Section I: Advances

1. Does the branch auditor have the right to visit the unit of a borrower with Cash Credit facility?

Although, the statutory branch auditor can request the branch to arrange for a visit to the borrowers unit availing Cash Credit limit, I would recommend that Audit teams visit the client location only where the account operations are under stress or is potential NPA and the auditor has doubts regarding its asset classification/going concern status, level of operations etc. or to reconfirm whether or not DCCO has been achieved. Else, if it is a Standard operating account, I will not advise any audit team to venture into such unit inspections as it will only result in wasting precious audit time.

2. Whether Stock Audit is mandatory for Cash Credit advances? Is there any threshold for Stock Audits?

RBI vide Master Circular-“Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances” of July 1, 2015 (Para 5.3) stipulates that NPAs with balance of ₹ 5 crore and above need to be subjected to Stock Audit at annual intervals.

“With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of ₹ 5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board would be mandatory in order to enhance the reliability on stock valuation. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.”

With respect to the policy with respect to Stock Audit of other accounts, audit teams would need to refer to the loan policy of the specific bank.

3. Whether legal audit/re-verification of title deeds is mandatory for Advances? Is there any threshold for Legal Audit/re-verification?

RBI vide para 9.1 of the “Master Directions on Frauds - Classification and Reporting by commercial banks and select FIs” dated July 1, 2016 (Updated as on July 3, 2017) stipulates as follows:

“Banks should subject the title deeds and other documents in respect of all credit exposures of ₹ 5 crore and above to periodic legal audit and re-verification of title deeds with relevant authorities as part of regular audit exercise till the loan stands fully repaid.”
4. What is the validity of short review/renewal of regular limits? When is short/quick review done? Does it have any validity which goes beyond the RBI regulations allowing banks to carry on with such short/quick reviews beyond 180 days?

A number of readers have over the past years raised queries regarding classification of regular limits of borrowers which were pending review/renewal for 180 days or more and had continued to be classified as “Standard” on account of having been subjected to “short review/quick review” for 90 days on each occasion. In cases queried, such accounts had been short reviewed/quick reviewed beyond the overall limit of 180 days stipulated as per the RBI Master Circular dated 1.7.2015. It was informed that such short/quick reviews were being carried out by banks on more than two occasions to effectively postpone the “due date” to a period of more than 180 days.

The issue raised was whether such expired credit limits could be short/quick reviewed on more than two occasions i.e. 3 or 4 times and classify such accounts as “Standard”?

In my considered opinion, regular credit limit needs to be reviewed fully within the stipulated period of 180 days to avoid being classified as NPA in terms of the extant RBI norms since short/quick reviews cannot be treated as an original sanction. Logically, a maximum of two short/quick reviews for a period of 90 days each should be allowed by banks to ensure continuity of the limits till such time the same is classified as NPA on expiry of the stipulated period of 180 days.

It would also be pertinent to mention herein that Cash Credit limits automatically expire after a period of one year from the date of original sanction and the finacle software in such cases changes the limits to NIL requiring branch official(s) to sanction/authorise each payment thereafter till such time such limits are reviewed/renewed. To avoid this, some banks have a system of allowing “holding on operations” during the period of 180 days and subsequently classifying them as NPA in case holding on operations for 180 days does not result in regularisation of the expired limits.

5. Can Clean Cash Credit accounts be sanctioned/disbursed i.e. with no primary security/hypothecation of stock and book debts?

Clean overdrafts and other limits can be sanctioned by the banks based on specific schemes as per their Loan Policy. However, there are no schemes relating to Clean Cash Credit limits which I am aware of.
6. How is Drawing Power calculated for a Cash Credit Account?

Drawing Power can be calculated based on the specific margins and other terms and conditions contained in the Sanction letter. The general formula for calculating Drawing Power (DP) is as under:

\[ \text{Drawing Power} = \text{Net Value of Stock} + \text{Net Value of Debtors} \]

Where,

\[ \text{Net Value of Stock} = (\text{Stock} - \text{Creditors}) \times (100\% - \% \text{margin on stock}) \]

\[ \text{Net Value of Debtors} = (\text{Debtors} \times (100\% - \% \text{margin on debtors})) \]

However, if the sanction letter has the following clause:

“In no case the Drawing Power against Book Debts should exceed more than 50% of the total debtors” then,

\[ \text{Value of Debtors} = \text{MIN} (\text{Debtors} \times (100\% - \text{margin}\% \text{on debtors}), \text{Debtors} \times 50\%) \]

The final drawing power shall be lower of the sanctioned limit or the DP as calculated above.

In terms of the RBI guidelines, Drawing Power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older that three months, would be deemed as irregular.

7. Is it mandatory to classify an account as NPA where although the operations in the account are healthy, the regular limits have been pending review for more than 180 days? What about instances where the ad hoc sanction has not been regularized within 180 days?

In terms of para 4.2.4 of RBI Master Circular No. RBI/2015-16/101 DBR. No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 “The classification of an asset as NPA should be based on the record of recovery. Bank should not classify an advance account as NPA merely due to the existence of some 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.”

However, it further states, “Regular and ad hoc credit limits need to be reviewed/regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other