C o n t e n t s

				PAGE		
About the	About the Author					
Preface to	the Fif	th Edit	tion	I-7		
Introductio	on			I-21		
• STEP 1	Appo	intmen	t letter Received - What next?	1		
• STEP 2	Your	backbo	one - Strong Planning	6		
• STEP 3	Back	Office	- Start Preparing	9		
	>	Importa 2019-2	ant RBI Circulars applicable for branch Audit 20	15		
	\triangleright	Draft I	Branch Audit programme 2019-20	16		
	\triangleright	Draft b	pranch enquiry letter 2020	16		
	\triangleright	Draft 1	MRL to be obtained from Branch Management	18		
• STEP 4	Reac	hed the	Branch - What do I do?	21		
• STEP 5	Balance Sheet Review					
	>	Special Balanc	checks in respect of a few account heads in the e Sheet	29		
	>		Liabilities/Other Assets relating to Interest Accrued aces & Deposits)	29		
		0	Other liabilities	30		
		0	Cash on hand	32		
		0	Balance with Banks	32		
		0	Fixed Assets	33		
		0	Other Assets	34		

I-12 CONTENTS

				PAGE		
		О	Bank Guarantees, Letters of Credit and other off Balance Sheet items	34		
		О	Guidance for verification of the Branch Capital Adequacy Returns	38		
• STEP 6	State	ement	of Profit & Loss	44		
	\triangleright	Syste	m Suspense	44		
	\triangleright	Ledg	er scrutiny in Finacle environment	46		
	\triangleright	Ехре	nditure other than Interest on Deposits	47		
	\triangleright	Inter	est paid on Deposits	47		
	\triangleright	Inter	rest on Advances	48		
	\triangleright	Incor	me recognition on Projects under implementation	53		
	\triangleright	Incor	me recognition on NPAs/restructured accounts	53		
	\triangleright	Bank	k Guarantee/Letters of Credit Commission	57		
	\triangleright	Othe	er Income Accounts	58		
• STEP 7	Identification of NPAs : A Practical overview					
	\triangleright	The.	simplest definition of a Non-Performing Asset (NPA)	60		
	\triangleright	Reco	rd of recovery is the Thumb Rule	60		
	\triangleright	Respo	onsibility of NPA identification and provisioning	60		
	\triangleright	NPA	date	61		
	\triangleright	NPA	on overdue for more than 90 days	61		
	\triangleright	Over	due	62		
	\triangleright	Reve	rsal of income on being classified as NPA	62		
	>	Cash Orde	Credit/OD account to be NPA when it is "Out of er"	63		
	>	Cred quar	lits not enough to cover interest debited during ter	63		
	\triangleright	CC/0	OD accounts - Special Checks	65		
	\triangleright	Inter	rest not serviced during next quarter	67		
	\triangleright	Inter	rest subvention	67		
	\triangleright	Inter	rest recovery Staff loans	67		
	\triangleright	Mora	atorium in payment of Interest	67		
	>		s when regular/ ad hoc credit limits not reviewed/ larised	67		
	\triangleright	NPA	s when Stock statements not submitted	69		
	\triangleright	Stage	es of Asset Classification	70		

				PAGE			
	\triangleright	Accel	lerated movement of NPA classification	70			
	\triangleright	Provi	isioning norms in respect of Frauds	72			
	>		ing with loan frauds, Early Warning Signals (EWS) Red Flagged Accounts (RFA)	73			
	\triangleright	Upgr	adation of NPAs	77			
	\triangleright	All fa	acilities to be classified as NPA	79			
	>		olidation of the amount of devolved LCs and invoked with the primary account	81			
	>		ification with other member banks not relevant in ortium Advances	82			
	>		nal NPA regulations applicable to State Government ranteed Advances	82			
	\triangleright	NPA	classification in case of "inter-changeable limits"	83			
	\triangleright	Adva	nces against Term Deposits, NSCs, KVPs/IVPs etc.	84			
	>		ification when NPA is either regularised or closed the year end	85			
	\triangleright	NPA	classification in Takeout Finance	85			
	>	NPA when Projects are under implementation (Para 4.2.15 of the Master Circular)					
	\triangleright	Pract	tical checks for identifying potential NPAs	96			
	\triangleright	Data	Analysis of Advances for identifying potential NPAs	98			
	>	Othe (NPA	r suggested checks on existing Non-performing Assets As)	103			
• STEP 8	Nor	Non-Performing Advances : Assessment of Provision					
	\triangleright	Provi	ision as per RBI guidelines	105			
	>	Addi: 7, 20	tional Provisioning under RBI Circular dated June 919	105			
	>		isioning norms under the RBI Circular on MSME ucturing dated January 1, 2019	105			
		0	Accelerated Provisioning	111			
		0	Loss Assets	111			
		0	Doubtful Assets	111			
		0	Sub-standard Assets	113			
		0	Classification of accounts as Unsecured Advances	114			
		0	Floating Provisions	115			
		O	Accounting and disclosure of various kinds of Pro- visions	116			

I-14 CONTENTS

			PAGE
		O Provisions on Leased Assets classified as NPA	117
		O Provision on Standard Assets	117
		O NPAs in respect of Savings Bank/TOD	118
		O Advances covered by ECGC guarantee	118
		O Advances covered by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	119
	>	Practical audit checks for assessment of provision on NPAs as per RBI guidelines	120
• STEP 9	Adv	ances : Restructuring Demystified	125
	>	Which restructuring options are available to banks as on date?	125
	\triangleright	What does restructuring involve?	127
	\triangleright	Which asset category of accounts can be restructured?	130
	\triangleright	Which type of accounts can be restructured?	130
	\triangleright	Pre-requisites for any restructuring	131
	>	Asset classification norms of restructured accounts applicable in terms of RBI guidelines	131
	\triangleright	Provisioning norms relating to restructured advances	134
	>	Prudential norms for conversion of Principal into Debt/ Equity	137
	>	Prudential norms for Conversion of unpaid interest into "Funded Interest Term Loan" (FITL), Debt or Equity instruments	137
	>	Conversion of Principal into Debt/Equity and Unpaid interest into "Funded Interest Term Loan" (FITL), Debt or Equity Instruments	138
	>	SME Debt restructuring mechanism (Para B of Annexure 4 to the extant RBI Master Circular on IRAC norms pertaining to Advances)	139
	>	Prudential Norms on change in ownership of Borrowing Entities	139
• STEP 10	Freq	uently Asked Questions (FAQs)	141
	>	Advances	142
	\triangleright	NPA Identification & Provisioning	147
	\triangleright	Balance Sheet and Profit & Loss	153
	\triangleright	Miscellaneous	155
	\triangleright	Priority Sector Lending	159

CONTENTS I-15

				PAGE
	\triangleright	MSI	ME	160
	\triangleright	UDI	IN	164
• STEP 11	_		t Regulatory Changes during the year : RBI summary and highlights	166
• STEP 12	Hou	ısing l	Loans	188
• STEP 13	Aud	lit of A	Agricultural Advances : Made easy!!	193
	\triangleright	Let 1	us first understand some Agricultural terms	193
		0	Long duration crops	193
		0	Short duration crops	193
		O	Rabi Season	193
		O	Kharif Season	193
		O	Mono Cropping Farmers/Mono Crop loans	195
		O	Multi Cropping Farmers/Multi Crop loans	195
		0	Direct and Indirect/Allied Agricultural Advances	195
		О	How do you determine the harvesting period/Crop season?	196
	\triangleright	Understanding NPA norms of Agricultural Advances		
		0	NPA when?	196
		0	Calculating overdue status	196
		О	Farm Credit to agricultural to activities and to non-agriculturists	197
		О	When will the 90 days NPA norms become applicable?	197
	\triangleright	Rura	al Housing Advances	198
	>	Prac crops	tical Guide for NPA Classification of short duration	198
		0	Mono Cropping/Single Cropping	198
		0	Multiple Cropping/Double Cropping	199
	>	Prac crops	tical Guide for NPA Classification of Long duration	200
	>		n credit extended to agricultural activities eligible for ced NPA Norms	200
	>		cultural Advances not eligible for relaxed NPA norms eligible under priority sector	202

I-16 CONTENTS

				PAGE
	>		n-application of interest at monthly intervals on Agri- ural loans	203
	\triangleright	Prac	ctical Guidance on FAQs in respect of specific issues	207
• STEP 14	Res	tructu	ring - Natural Calamities	209
	\triangleright	Nat	ural Calamities - What does it encompass?	209
	>		at kind of loan is covered by this Master Direction on ructuring in case of natural calamities?	210
	>	_	icultural loans - Restructuring norms in case of Natu- Calamities	210
		0	Conversion into Term Loan of Short Term Loan	210
		О	Conversion into Term Loan of Long Term Agriculture Loans	211
		0	Other Loans	211
		0	Moratorium period on restructuring	212
		0	Additional Collateral Security	212
		0	Asset Classification on restructuring	212
		0	Restructuring conditions	213
		0	Other guidelines for restructuring	214
• STEP 15	IS A	\udit -	Finacle : Guidance	217
	\triangleright	Revi	iew of Advances and Deposits portfolio	218
		О	To generate the Jotting report of Advances/ Deposits - JOTRPT	218
		О	For viewing the transactions in the Ledger account - ACLI	218
		0	For viewing the account details - ACLI	219
		О	To view DP and Sanction Limit of Advances - ACLI	219
		0	To view the type/purpose etc. of a loan - ACLI	220
		0	To view the Scheme Code/Details - ACLI	220
		0	To view the Asset classification of loans - ACLI	220
		О	To view the repayment schedule and overdue status in individual Term Loans - ACLI	220
		О	Loans Overdue position inquiry - LAOPI (Specially for Term Loans)	222
		\circ	Viewing ad hoc allowed - ACTODI (Inquiry)	222
		0	Viewing Updation of Stock statement - HCLM	223

CONTENTS I-17

			PAGE
	0	Viewing account details - HACLI/HACCBAL	223
	0	Viewing Interest applied details - INTTI	224
	О	Viewing Interest Work Sheet Advances/Deposits - AINTRPT	224
	О	Interest adjustment due to Value date/Limit History change - IARMREP	225
	О	View turnover in Cash Credit/Other loan A/c's - ATOR	226
	О	View Security Register Maintenance (Advances) - SRM	226
	0	Print and save individual Accounts/ledger - PSP	226
	О	Consolidated Bill Wise Outstanding Report as on date	227
	0	Account details for deposits	228
	0	Account wise MIS Codes Report	229
	0	Account Closed Report	229
	0	Check whether account is registered under GST	230
\triangleright	Revi	ew of Non-Performing Assets (NPAs)	230
	О	To generate list of NPA Accounts (Classification wise with NPA Date) - ASSCR	230
	0	To generate list of NPA Accounts - NPARPT	231
	0	Printing/Viewing Report generated - PR	231
\triangleright	Revi	ew of Balance Sheet and Profit & Loss	232
	О	Steps to individually review/scrutinize heads of account - ACLI	232
	0	Guarantees issued cum liability register - GILR	232
	О	To view manual entries debited to Profit & Loss - MINTRPT	233
	О	To view Balance Sheet/Profit and Loss Account - GR	233
	\circ	TDS Inquiry Position - TDSIP	234
	О	To generate list of entries other than service charges debited to the G/L proxy account - OSPRO	235
	\circ	Value dated transactions - FTR	235
	0	Inventory Status Report (Security Forms) - ISRA	236
	0	Viewing and Saving reports of GL and P&L heads of account - ACLPOA	236
	0	Viewing Interest provision on Deposits - INTPRO	237

I-18 CONTENTS

				PAGE
		0	To find any Menu Option - SEARCH	237
		0	Exceptional Transactions Report - EXCPRPT	237
		0	Bank Guarantee Outstanding Position	238
		0	Inter Sol Transactions Report	239
	\triangleright	Defa	ault key mapping in Finacle	239
• STEP 16	IS A	udit -	BaNCS@24 : Guidance	241
	\triangleright	For	viewing CC/OD/Deposit/FBP/FBN accounts	241
	\triangleright	For	viewing Term Loans/Retail Loans	242
	\triangleright	For	checking BGL Accounts	243
	\triangleright	For	getting all details of a customer	243
	\triangleright	For	getting the account number from any BGL code	244
	\triangleright	Prac	ctical uses of Reports available in BaNCS@24	244
		0	Loans Disbursed	244
		0	Outstanding Term Loans	244
		0	List of NPAs	245
		0	Accounts due for Review	246
		О	List of loan accounts where interest charged is not as per instructions	246
		0	List of Potential NPAs	246
		0	Details of Insurance cover	247
		0	Accrued interest on Advances/ Deposits	247
		0	Expired Inland Bank Guarantees	247
		0	Inland Bank Guarantees issued	247
		0	Inland LCs issued	248
		0	Inland Bank Guarantees outstanding	248
		0	Inland Inward Sight Bills outstanding	248
		0	Inland LCs outstanding	249
		0	Inland LC Bills outstanding	249
		0	Details of Suspense and Sundry Creditors	249
		0	Bankers Cheques Outstanding	249
		0	New Deposit accounts opened during the month	250
		0	Category-wise Details of Deposits	250
		0	Details of customer-wise Deposits	250
		0	Deposits where interest is not as per Bank Circular	250
		0	Details of TDS on Deposits	251
		O	Details of branch transactions	251

CONTENTS I-19

		PAGE
	O Details of System generated transactions	251
	O Details of Manual transactions	252
	O Trial Balance	252
	O Active users	252
• STEP 17	Miscellaneous Guidance on other matters	253
	> Audit Report	253
	> Certificate on Asset Liability Management	254
	➤ Ghosh & Jilani Committee recommendations	254
	> Long Form Audit Report	255
• STEP 18	Certification by Concurrent Auditors	265
• STEP 19	Stock Audits : Guidance	271
	A step wise practical guidance on how to commence and carry out the Stock audit	271
	> Draft Engagement Letter	275
	> Draft Report to be issued by Stock Auditors	278
• STEP 20	Asset Classification: Summary of RBI Guidelines	288
	➤ Para 2.1.2 : Non-Performing Asset (NPA)	288
	> Para 2.1.3 : Servicing of Interest due	289
	> Para 2.2 : Out of Order	289
	> Para 2.3 : Overdue	289
	➤ Para 4.1 : Categories of NPAs	289
	> Para 4.2.3 : Security not relevant for NPA classification	290
	➤ Para 4.2.4 : Accounts with temporary deficiencies	290
	Para 4.2.5: Upgradation of loan accounts classified as NPAs	290
	Para 4.2.6: Accounts regularised near about the balance sheet date	290
	Para 4.2.7: Asset Classification to be borrower-wise and not facility-wise	291
	➤ Para 4.2.8 : Advances under consortium arrangements	291
	➤ Para 4.2.9 : Accounts where there is erosion in the value of security/frauds committed by borrowers	292
	Para 4.2.11 : Advances against Term Deposits, NSCs, KVP, Indira Vikas Patra etc.	293
	➤ Para 4.2.12: Loans with moratorium for payment of	293

I-20 CONTENTS

				PAGE
	\triangleright	Para -	4.2.13 : Agricultural Advances	293
	\triangleright	Para -	4.2.14 : Government guaranteed advances	295
	\triangleright	Para -	4.2.15 : Projects under implementation	295
		0	Para 4.2.15.2 : Project Loans	296
		0	Para 4.2.15.3 : Project Loans for Infrastructure Sector	299
		0	Para 4.2.15.4 : Projects under Implementation- Change in Ownership	301
		0	Para 4.2.15.5: Other Issues	304
		О	Para 4.2.15.6 : Income recognition on projects under Implementation	305
	\triangleright	Para -	4.2.16 : Takeout Finance	306
	\triangleright	Para -	4.2.17 : Post-shipment Supplier's Credit	307
	\triangleright	Para -	4.2.18 : Export Project Finance	307
	\triangleright	Para -	4.2.21 : Credit Card Accounts	308
Appendix 1	>	Draft audit	letter seeking No Objection from the previous ors	309
Appendix 2	\triangleright		ration of Independence, Indebtedness and Fidelity & cy (Partners)	310
Appendix 3	>		ration of Independence and Fidelity & Secrecy n Members)	311
Appendix 4	>	Autho	Engagement Letter to be sent to the Appointing ority of the Bank (in terms of SA 210: Agreeing to of Audit Engagements)	312
Appendix 5	>	after i	ant RBI Master Directions, Circulars, etc., issued the Master Circular dated 01.07.2015 relevant to Audits for the year ended 31st March, 2020	317
Appendix 6	\triangleright	Pre Si	ign Off checklist relevant to the signing partner	335
Appendix 7	\triangleright	Draft	Bank Branch Audit Programme 2019-20	339
Appendix 8	\triangleright		enquiry letter to be sent to the Branch prior to nencing the audit	388
Appendix 9	\triangleright		Written Representation Letter to be obtained from ranch Management (Refer to SA 580)	402
Appendix 10	>		Audit Report of the Branch Auditor of a Nation- Bank	410
Appendix 11	\triangleright	Draft	replies to Ghosh Committee recommendations	416
Appendix 12	\triangleright	Draft	replies to Jilani Committee recommendations	423