

**Appendices of Section B –
Bank Branch Audit of the Guidance
Note on Audit of Banks
(2022 Edition)**

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APPENDIX I

Text of Section 6 of the Banking Regulation Act, 1949

- (1) In addition to the business of banking, banking company may engage in any one or more of the following forms of business, namely:
- (a) the borrowing, raising, or taking up of money; the lending or advancing of money either upon or without security; the drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundis, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scripts and other instruments, and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, traveller's cheques and circular notes; the buying, selling and dealing in bullion and specie; the buying and selling, of foreign exchange including foreign bank notes; the acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds; the purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or others, the negotiating of loans and advances; the receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise; the providing of safe deposit vaults; the collecting and transmitting of money and securities;
 - (b) acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers, but excluding the business of a [managing agent or secretary and treasurer "managing agent" (w.e.f. 1st October, 1959)] of a company;
 - (c) contracting for public and private loans and negotiating and issuing the same;
 - (d) the effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of shares, stock, debentures, or debenture stock of any company, corporation or association and the lending of money for the purpose of any such issue;

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- (e) carrying on and transacting every kind of guarantee and indemnity business;
 - (f) managing, selling and realizing any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;
 - (g) acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of the security for any loans or advances or which may be connected with any such security;
 - (h) undertaking and executing trusts;
 - (i) undertaking the administration of estates as executor, trustee or otherwise;
 - (j) establishing and supporting or aiding in the establishment and support of association, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connections of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;
 - (k) the acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purposes of the company;
 - (l) selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;
 - (m) acquiring and undertaking the whole or any part of the business of any person or company, when such business is of nature enumerated or described in this sub-section;
 - (n) doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company;
 - (o) any other forms of business which the Central Government may by notification in the Official Gazette, specify as a form of business in which it is lawful for a banking company to engage.
- (2) No banking company shall engage in any form of business other than those referred to in sub-section (1).

APPENDIX II

The Third Schedule to the Banking Regulation Act, 1949

(See Section 29)

FORM 'A'

Form of Balance Sheet

Balance Sheet of _____ (here enter name of the Banking Company)

Balance Sheet as on 31st March – (Year) _____ (000's omitted)

	<i>Schedule</i>	<i>As on 31.3__</i> <i>(current year)</i>	<i>As on 31.3__</i> <i>(previous year)</i>
Capital & Liabilities			
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other liabilities and provisions	5		
Total		_____	_____
Assets			
Cash and Balances with Reserve	6		
Bank of India			
Balances with banks and money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total		_____	_____
Contingent Liabilities	12		
Bills for Collection			

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**Schedule I
Capital**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. For Nationalised Banks		
Capital (Fully owned by Central Government)		
II. For Banks Incorporated Outside India		
Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head).		
Amount of deposit kept with RBI under section 11(2) of the Banking Regulation Act, 1949	_____	_____
Total	_____	_____
III. For Other Banks		
Authorised Capital (..... shares of Rs.... each)		
Issued Capital (..... shares of Rs..... each)		
Subscribed Capital (....shares of Rs..... each)		
Called-up Capital (..... shares of Rs... each)		
Less: Calls unpaid		
Add: Forfeited shares	_____	_____
Total	_____	_____

**Schedule 2
Reserves & Surplus**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Statutory Reserves		
Opening Balances		
Additions during the year		
Deductions during the year		
II. Capital Reserves		
Opening Balances		
Additions during the year		
Deductions during the year		

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III.	Share Premium	Opening Balances	
		Additions during the year	
		Deductions during the year	
IV.	Revenue and Other Reserves	Opening Balance	
		Additions during the year	
		Deductions during the year	
V.	Balance in Profit and Loss Account	_____	_____
	Total (I, II, III, IV and V)		

**Schedule 3
Deposits**

	As on 31.3__ <i>(current year)</i>	As on 31.3__ <i>(previous year)</i>
A. I. Demand Deposits		
(i) From banks		
(ii) From others		
II. Savings Bank Deposits		
III. Term Deposits		
(i) From banks		
(ii) From others		
Total (I, II and III)	_____	_____
B. (i) Deposits of branches in India		
(ii) Deposits of branches outside India		
Total	_____	_____

**Schedule 4
Borrowings**

	As on 31.3__ <i>(current year)</i>	As on 31.3__ <i>(previous year)</i>
I. Borrowings in India		
(i) Reserve Bank of India		
(ii) Other banks		
(iii) Other institutions and agencies		

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II. **Borrowings outside India**

Total (I & II)

Secured borrowings included in I & II above – Rs.

**Schedule 5
Other Liabilities and Provisions**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Bills payable		
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)		
Total	_____	_____

**Schedule 6
Cash and Balances with Reserve Bank of India**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Cash in hand (including foreign currency notes)		
II. Balances with Reserve Bank of India		
(i) in Current Account		
(ii) in Other Accounts		
Total (I & II)	_____	_____

**Schedule 7
Balances with Banks and Money at Call & Short Notice**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. In India		
(i) Balances with banks		
(a) in current accounts		
(b) in other deposit accounts		

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(ii) Money at call and short notice		
(a) with banks		
(b) with other institutions	_____	_____
Total (i & ii)	_____	_____
II. Outside India		
(i) in current accounts		
(ii) in other deposit accounts		
(iii) Money at call and short notice	_____	_____
Total	_____	_____
Grand Total (I & II)	_____	_____

**Schedule 8
Investments**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Investments in India in		
(i) Government securities		
(ii) Other approved securities		
(iii) Shares		
(iv) Debentures and bonds		
(v) Subsidiaries and/or joint ventures		
(vi) Others (to be specified)	_____	_____
Total	_____	_____
II. Investments Outside India in		
(i) Government securities (including local authorities)		
(ii) Subsidiaries and/or joint ventures abroad		
(iii) Other investments (to be specified)	_____	_____
Total	_____	_____
Grand Total (I & II)	_____	_____

**Schedule 9
Advances**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
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A.	(i)	Bills purchased and discounted		
	(ii)	Cash credits, overdrafts and loans repayable on demand		
	(iii)	Term loans		
		Total		
B.	(i)	Secured by tangible assets		
	(ii)	Covered by bank/Government guarantees		
	(iii)	Unsecured		
		Total		
C.	I.	<i>Advances in India</i>		
	(i)	Priority sectors		
	(ii)	Public sector		
	(iii)	Banks		
	(iv)	Others		
		Total		
	II.	<i>Advances outside India</i>		
	(i)	Due from banks		
	(ii)	Due from others		
	(a)	Bills purchased and discounted		
	(b)	Syndicated loans		
	(c)	Others		
		Total		
		Grand Total (C.I. & C.II)		

**Schedule 10
Fixed Assets**

	As on 31.3__ (current year)	As on 31.3__ (previous year)
I. Premises		
At cost as on 31 st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
II. Other Fixed Assets		

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(including furniture and fixtures)

At cost as on 31st March of the
preceding year

Additions during the year

Deductions during the year

Depreciation to date

Total (I & II)

**Schedule 11
Other Assets**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Inter-office adjustments (net)		
II. Interest accrued		
III. Tax paid in advance/tax deducted at source		
IV. Stationery and stamps		
V. Non-banking assets acquired in satisfaction of claims		
VI. Others*		
Total	_____	_____

* In case there is any unadjusted balance of loss the same may be shown under this item with appropriate footnote.

**Schedule 12
Contingent Liabilities**

	<i>As on 31.3__ (current year)</i>	<i>As on 31.3__ (previous year)</i>
I. Claims against the bank not acknowledged as debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(a) In India		

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(b) Outside India		
V. Acceptances, endorsements and other obligations		
VI. Other items for which the bank is contingently liable		
Total	_____	_____

Form 'B'
Form of Profit & Loss Account
for the year ended 31st March _____

(000's omitted)

	Schedule	Year ended 31.3__ (current year)	Year ended 31.3__ (previous year)
I. Income			
Interest earned	13		
Other income	14		
Total		_____	_____
II. Expenditure			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies			
Total		_____	_____
III. Profit / Loss			
Net profit/loss (-) for the year			
Profit/loss (-) brought forward			
Total		_____	_____
IV. Appropriations			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to -			
Government/Proposed dividend			
Balance carried over to balance-sheet			
Total		_____	_____

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**Schedule 13
Interest Earned**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I. Interest/discount on advances/bills		
II. Income on investments		
III. Interest on balances with Reserve Bank of India and other inter-bank funds		
IV. Others		
Total	_____	_____

**Schedule 14
Other Income**

	<i>Year ended</i>	<i>Year ended</i>
	<i>31.3__</i>	<i>31.3__</i>
	<i>(current year)</i>	<i>(previous year)</i>
I. Commission, exchange and brokerage		
II. Profit on sale of investments <i>Less: Loss on sale of investments</i>		
III. Profit on revaluation of investments <i>Less: Loss on revaluation of investments</i>		
IV. Profit on sale of land, buildings and other assets <i>Less: Loss on sale of land, buildings and other assets</i>		
V. Profit on exchange transactions <i>Less: Loss on exchange transactions</i>		
VI. Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India		
VII. Miscellaneous income		
Total	_____	_____

Note: Under items II to V, loss figures may be shown in brackets.

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**Schedule 15
Interest Expended**

	<i>Year ended</i> 31.3__ <i>(current year)</i>	<i>Year ended</i> 31.3__ <i>(previous year)</i>
I. Interest on deposits		
II. Interest on Reserve Bank of India/inter-bank borrowings		
III. Others		
Total		

**Schedule 16
Operating Expenses**

	<i>Year ended</i> 31.3__ <i>(current year)</i>	<i>Year ended</i> 31.3__ <i>(previous year)</i>
I. Payments to and provisions for employees		
II. Rent, taxes and lighting		
III. Printing and stationery		
IV. Advertisement and publicity		
V. Depreciation on bank's property		
VI. Directors' fees, allowances and expenses		
VII. Auditors' fees and expenses (including branch auditors' fees and expenses)		
VIII. Law charges		
IX. Postage, telegrams, telephones, etc.		
X. Repairs and maintenance		
XI. Insurance		
XII. Other expenditure		
Total		

APPENDIX III

Illustrative Format of Report of the Branch Auditor of a Nationalised Bank Independent Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank

Report on the Audit of the Financial Statements

Opinion

1. We have audited the Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, the Profit and Loss Account for the year then ended and other explanatory information [*in which are included the Returns for the year ended on that date*].

In our opinion, and to the best of our information and according to the explanations given to us, read with the Memorandum of Changes (mentioned in paragraph 7 below), the aforesaid financial statements give the information required by the Banking Regulation Act, 1949, in the manner so required for bank and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs in case of the Balance Sheet of the branch as at March 31, 20XX and true balance of profit/loss for the year ended on that date.

Basis for Opinion

2. We conducted our audit in accordance with the Standards on Auditing (SAs) issued by ICAI. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the bank in accordance with the code of ethics issued by the Institute of Chartered Accountants of India together with ethical requirements that are relevant to our audit of the financial statements, in [jurisdiction] and we have fulfilled our other ethical responsibilities in accordance with these requirements and the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the Financial Statements

3. The Bank's management is responsible with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Bank in accordance with the accounting principles generally accepted in India, including the applicable Accounting Standards, and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

4. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 exercise professional judgment and maintain professional skepticism throughout the audit. We 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

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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.

- To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances¹.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Report that the audit at branch level is not 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.

Materiality is the magnitude of the misstatements in the financial statements that, individually or aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning of the scope of our audit work and evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatement in the financial statements.

We 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 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.

¹ when a branch is not scoped in for audit of IFCoFR this paragraph should be replaced as follows: "To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control".

Other Matters

5. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- (b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 (Revised)–Employee Benefits' issued by the Institute of Chartered Accountants of India;
- (c) Arrears of salary/wages/allowances, if any, payable to staff;
- (d) Staff welfare contractual obligations;
- (e) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments;
- (f) Interest on overdue term deposits;
- (g) Depreciation on fixed assets;
- (h) Auditors' fees and expenses;
- (i) Taxation (Current Tax and Deferred Tax);
- (j) Any other provision made by Head Office.

6. The following is a summary of Memorandum of Changes submitted by us to the branch management².

Memorandum of Changes (summary)			
	No.	Increase	Decrease
a) In respect of Income			
b) In respect of expenditure			
c) In respect of Assets			
d) In respect of Liabilities			
e) In respect of Gross NPAs			
f) In respect of Provision on NPAs ³			

² Where Applicable.

³Applicable in cases where banks determine provision at Branch level.

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g) In respect of Classification of Advances			
h) In respect of Risk Weighted Assets			
i) Other items (if any)			

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949;

8. Subject to the limitations of the audit indicated in paragraphs 4 to 6 above and as required by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980, and subject also to the limitations of disclosure required therein, we report that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit and have found them to be satisfactory;
- b. The transactions of the branch which have come to our notice have been within the powers of the Bank;
- c. the returns received from the branch have been found adequate for the purposes of our audit.

9. As required by the RBI's letter no. DOS.ARG.No.6270 /08.91.001/2019-20 dated March 17, 2020 (as amended), we report that:

- a. ⁴The observation or comments on financial transactions or matters which have any adverse effect on the functioning of the bank are as follows:
 - i.
 - ii.
- b. ⁵The qualification, reservation or adverse remarks relating to the maintenance of accounts and other matters connected therewith are as follows:
 - i.

⁴ In case if there are no such observations, the SBA would state the same accordingly.

⁵ In case if there are no qualifications / reservations / adverse remarks, the SBA would state the same accordingly.

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- ii.
 - c. ⁶Our audit report on the operating effectiveness of the Branch's internal financial controls over financial reporting is given in **Annexure A** to this report. Our report expresses an unmodified opinion on the operating effectiveness of internal financial controls over financial reporting of the Branch as at _____ (balance sheet date)."
10. We further report that:
- a. in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
 - b. the Balance Sheet, and the Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - c. In our opinion, the Balance Sheet, and the Profit and Loss Account comply with the applicable accounting standards, to the extent they are not inconsistent with the accounting policies prescribed by RBI.

For ABC and Co.
Chartered Accountants
Firm Registration No.

Signature
(Name of the Member Signing the Audit Report)
(Designation)⁷
Membership Number
UDIN

Place of Signature

Date

⁶ This reporting will be required only when a branch is scoped in for audit of IFCoFR.

⁷ Partner or proprietor as the case may be.

ANNEXURE “A” TO THE INDEPENDENT AUDITOR’S REPORT

(Referred to in paragraph 9(c) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date)

Report on the Operating Effectiveness of Internal Financial Controls Over Financial Reporting as required by the Reserve Bank of India (the “RBI”) Letter DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended), (the “RBI communication”)

We have audited the operating effectiveness of the internal financial controls over financial reporting of ___ Branch (“the Branch”) of ___ Bank (“the Bank”) as of March 31, 20XX in conjunction with our audit of the standalone financial statements of the Branch for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

The Bank’s management is responsible for establishing and maintaining internal financial controls based on _____ [for example, “the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”.] These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Banking Regulation Act, 1949 and the circulars and guidelines issued by the Reserve Bank of India.

Auditor’s Responsibility

Our responsibility is to express an opinion on the operating effectiveness of internal financial controls over financial reporting of the Branch based on our audit. Our audit of internal financial controls over financial reporting did not include an evaluation of the adequacy of the design and implementation of such internal financial controls over financial reporting since those aspects are audited by the Statutory Central Auditors of the Bank.

We conducted our audit based on the instructions provided by the Statutory Central Auditors of the Bank and in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”)

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issued by the Institute of Chartered Accountants of India (the “ICAI”) and the Standards on Auditing (SAs) issued by the ICAI, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether internal financial controls over financial reporting operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the operating effectiveness of the internal financial controls over financial reporting of the Branch. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the operating effectiveness of the Branch’s internal financial controls over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A Bank’s internal financial controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank’s internal financial controls over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank’s assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial controls over financial reporting may become inadequate because of

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changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, and to the best of our information and according to the explanations given to us, the Branch has, in all material respects, internal financial controls over financial reporting that were operating effectively as at March 31, 20XX, based on _____ [for example, “the criteria for internal control over financial reporting established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”].

For XYZ & Co
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation⁸)
(Membership No.)
UDIN

Place of Signature:

Date:

⁸ Partner or Proprietor, as the case may be.

APPENDIX IV

Illustrative Format of Report of the Branch Auditor of a Banking Company

Independent Bank Branch Auditor's Report

To,
The Statutory Central Auditors
_____ Bank Limited

Report on the Audit of the Financial Statements

Opinion

1. We have audited the Financial Statements of _____ Branch of _____ (*name of the Bank*) which comprise the Balance Sheet as at 31st March 20XX, the Statement of Profit and Loss, and other explanatory information [*in which are included the Returns for the year ended on that date*].

In our opinion, and to the best of our information and according to the explanations given to us, read with the Memorandum of Changes (mentioned in paragraph 7 below), the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs in case of the Balance Sheet of the branch as at March 31, 20XX and its profit/loss for the year ended on that date.

Basis for Opinion

2. We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

3. Management of the Branch is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Branch in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Branch and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Financial Statements

4. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures

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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 and the reasonableness of accounting estimates and related disclosures made by management.
- Report that the audit at branch level is not 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.

Materiality is the magnitude of the misstatements in the standalone financial statements that, individually or aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning of the scope of our audit work and evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatement in the financial statements.

We 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 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.

Other Matters

5. No adjustments/provisions have been made in the accounts of the Branch in respect of matters usually dealt with at Central Office, including in respect of:

- (a) Bonus, ex-gratia, and other similar expenditure and allowances to branch employees;
- (b) Terminal permissible benefits to eligible employees on their retirement (including additional retirement benefits), Gratuity, Pension, liability for leave encashment benefits and other benefits covered in terms of 'AS 15 (Revised)–Employee Benefits' issued by the Institute of Chartered Accountants of India;
- (c) Arrears of salary/wages/allowances, if any, payable to staff;
- (d) Staff welfare contractual obligations;
- (e) Old unreconciled/unlinked entries at debit under various heads comprising Inter branch/office Adjustments;
- (f) Interest on overdue term deposits;
- (g) Depreciation on fixed assets;
- (h) Auditors' fees and expenses;
- (i) Taxation (Current Tax and Deferred Tax);
- (j) Any other provision made by Head Office.

6. The following is a summary of Memorandum of Changes submitted by us to the branch management⁹.

Memorandum of Changes (summary)			
	No.	Increase ₹	Decrease ₹
a) In respect of Income			
b) In respect of expenditure			
c) In respect of Assets			
d) In respect of Liabilities			
e) In respect of Gross NPAs			
f) In respect of Provision on NPAs ¹⁰			

⁹Where Applicable.

¹⁰Applicable in cases where banks determine provision at Branch level.

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g) In respect of Classification of Advances			
h) In respect of Risk Weighted Assets			
i) Other items (if any)			

Report on Other Legal and Regulatory Requirements

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provision of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act.

8. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:

- (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.
- (b) The transactions of the branch which have come to my/our notice have been within the powers of the Bank.
- (c) The returns received from the branch have been found adequate for the purposes of our audit.
- (d) the profit and loss account shows a true balance [of profit or loss] for the year then ended.

9. Further, as required by section 143(3) of the Act, we report that:

- (a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) in our opinion, proper books of account as required by law have been kept by the branch so far as appears from our examination of those books;
- (c) the Balance Sheet, and the Statement of Profit and Loss, dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
- (e) with respect to the adequacy of the internal financial controls over financial reporting of the Branch and the operating effectiveness of such controls, refer to our separate Report in "Annexure A";

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- (f) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- (i) The Branch has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule XX / Note XX to the financial statements; *(or the Branch does not have any pending litigations which would impact its financial position¹¹)*
 - (ii) The Branch has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts -Refer Schedule XX / Note XX to the financial statements; *(or the Branch did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses¹²)* and
 - (iii) There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Branch *(or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Branch or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Branch¹³)*.
 - The management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the branch to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries¹⁴;

¹¹ As may be applicable.

¹² As may be applicable.

¹³ As may be applicable.

¹⁴ To be commented as applicable.

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- The management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the branch from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the branch shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries¹⁵; and
 - Based on such audit procedures that were considered reasonable and appropriate by us in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) contain any material misstatement¹⁶.
- (iv) The clause (f) of Rule 11 of the Companies (Audit and Auditors) Rules, 2014 is not applicable to the branch as the branch has not declared or paid dividend during the year¹⁷.
- (v) The branch has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention¹⁸.

For ABC and Co.
Chartered Accountants
Firm Registration No. _____

Signature
(Name of the Member Signing the Audit Report)
(Designation)¹⁹
Membership Number
UDIN

Place of Signature
Date

¹⁵ To be commented as applicable.

¹⁶ To be commented as applicable.

¹⁷ To be commented as applicable.

¹⁸ To be commented as applicable.

¹⁹ Partner or proprietor as the case may be.

Annexure A to the independent auditor’s report of even date on the financial statements of _____ Branch of _____ Bank Limited

[Referred to in Paragraph 9(e) under ‘Report on Other Legal and Regulatory Requirements’ section of our report of even date]

Report on the Internal Financial Controls over Financial Reporting under Clause (i) of Sub-section (3) of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of _____ Branch of _____ Bank Limited (‘the Branch’) as at 31 March 20XX in conjunction with our audit of the financial statements of the Branch for the year ended on that date.

Management’s Responsibility for Internal Financial Controls over Financial Reporting

2. The Management of the Branch is responsible for establishing and maintaining internal financial controls based on _____ [for example, “the internal control over financial reporting criteria established by the Branch considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (‘the Guidance Note’) issued by the Institute of Chartered Accountants of India (‘the ICAI’)”]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Branch’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 (‘the Act’).

Auditor’s Responsibility

3. Our responsibility is to express an opinion on the Branch’s internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (‘the Guidance Note’) and the Standards on Auditing (‘the Standards’), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls over financial reporting, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was

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established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Branch's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

6. A branch's internal financial controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A branch's internal financial controls over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the branch; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the branch are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the branch's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the

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internal financial controls over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

8. In our opinion, the Branch has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 201X, based on _____ [for example, “the internal control over financial reporting criteria established by the Branch considering the essential components of internal control stated in the Guidance Note issued by the ICAI”].

For ABC and Co.
Chartered Accountants
(Firm’s Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)²⁰
Membership Number
UDIN

Place of Signature
Date of Report

²⁰Partner or proprietor, as the case may be.

APPENDIX V

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor

{The following letter is for use as a guide and will need to be varied according to individual requirements and circumstances relevant to the engagement.}

The Branch Head

(or the appropriate representative of senior management).

[Date]

Subject: Engagement Letter

Dear Sirs,

1. The Objective and Scope of the Audit

We refer to the letter No. datedreceived from(Name of the relevant authority) informing us about our appointment to carry out the statutory audit of the (name of e branch) branch of your Bank for the financial year beginning April 1, 20XX and ending 31st March 20YY, including Tax Audit, issuance of the Long Form Audit Report and, as a part of the audit, verification and/ or certification of certain specific aspects pertaining to these branches, as listed in your aforementioned letter. We are pleased to confirm our acceptance and understating of this engagement by means of this letter.

Our audit of the financial statements of this branch will be conducted with the objective of our expressing an opinion on the financial statements of the branch. These financial statements include the Balance Sheet, wherein we express our opinion on the true and fair view of the state of affairs as at 31st March 20XX and the Profit and Loss Account, wherein we express our opinion on the true balance of the profit/ loss for the year ended on 31st March 20XX. The objective and scope of our audit, *inter alia*, includes reporting in conjunction whether the branch's internal financial controls over financial reporting were operating effectively as at balance sheet date²¹ in terms of RBI's letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended).

²¹This reporting will be required only when a branch is scoped in for audit of Internal Financial Controls over Financial Reporting.

Further, the objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole 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 Standards on Auditing (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.

2. The Responsibilities of the Auditor

- i) We will conduct our audit in accordance with the Standards on Auditing (SAs) and any other applicable pronouncements issued by the Institute of Chartered Accountants of India (ICAI), as well as the requirements of the Banking Regulation Act, 1949, and the guidelines/ directions issued by the Reserve Bank of India under the said statutes, from time to time. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 circumstances²²
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

²²when a branch is not scoped in for audit of internal financial controls over financial reporting, this paragraph should be replaced as follows:

“Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control”.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease 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.
- ii) Because of the inherent limitations of an audit, including the possibility of collusion or improper management override of controls, there is an unavoidable risk that material misstatements due to fraud or error may occur and not be detected, even though the audit is properly planned and performed in accordance with SAs.
- iii) We invite your attention to the fact that, in terms of RBI Circular No. DBS.FGV.(F).No.BC 12/ 23.08.001/2001-02 dated May 3, 2002 relating to implementation of recommendations of the Committee on Legal Aspects of Bank Frauds (Mitra Committee) and the recommendations of the High Level Group set-up by the Central Vigilance Commission applicable to all scheduled commercial banks (excluding RRBs) we are required to report to the RBI anything susceptible to fraud or fraudulent activity or any act of excess power or any foul play in any transaction.
- iv) ²³We invite your attention to the fact that in terms of RBI's letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended), we are required to also report on the following matters in our report:
- a) Whether the financial statements comply with the applicable accounting standards.
 - b) The observations or comments on financial transactions or matters which have any adverse effect on the functioning of the branch.

²³To be considered if the same is communicated by SCA / Bank in the scope of work communicated as per the appointment letter.

- c) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.
- d) Whether the branch's internal financial controls over financial reporting were operating effectively as at balance sheet date²⁴ (The terms of reference for our audit of the internal financial controls over financial reporting carried out in conjunction with our audit of the Branch's financial statements will be as stated in the separate engagement letter for conducting such audit and should be read in conjunction with this letter).

3. The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our assignment will be conducted on the basis that the branch management and, where appropriate, those charged with governance of the bank acknowledge and understand that they have responsibility:

- i) For the preparation of financial statements that give a true and fair view in accordance with the applicable Financial Reporting Framework. This includes:
 - proper maintenance of accounts and other matters connected therewith;
 - the responsibility for the preparation of financial statements on a going concern basis;
 - the responsibility for selection and consistent application of appropriate accounting policies, including implementation of applicable Accounting Standards, along with proper explanation relating to any material departures from those Accounting Standards;
 - the responsibility for making judgements 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 true balance of the profit or loss of the branch for that period.
- ii) for such internal controls, as the branch management determines, are necessary to enable the preparation of financial statements, that are free from material misstatement, whether due to fraud or error. The responsibility for internal controls also implicitly enshrines the responsibility

²⁴This reporting will be required only when a branch is scoped in for audit of Internal Financial Controls over Financial Reporting.

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for compliance with the relevant directions/ circulars of the Reserve Bank of India, including for those aspects which have been specifically listed for verification/ certification by us in your aforementioned letter;

- iii) Identifying and informing us of financial transactions or matters that may have an adverse effect on the functioning of the branch.
- iv) to provide us with:
 - a. access to all information, including the books, accounts, vouchers, internal policies and circulars, and other records and documentation, of the branch, whether kept at the branch office or elsewhere, of which the branch management is aware, that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that we may request from the branch management for the purpose of the audit, including any internal audit, concurrent audit, revenue audit, stock audit, Reserve Bank of India's Inspection report; and their latest updated compliance position.
 - c. unrestricted access to persons within the branch, from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the branch such information and explanations, as we may think necessary for the performance of our duties as auditor.
 - d. All the required support to discharge our duties as the statutory central auditor as stipulated under the Act/ ICAI standards on auditing and applicable guidance;
 - e. All relevant circulars, guidelines, clarifications etc issued by RBI from time to time.

4. Other Matters

As part of our assignment, we will request from the branch management, written confirmation concerning representations made to us in connection with the audit, in accordance with Standard on Auditing 580 – “Written Representations”, issued by the ICAI including confirmations in respect of the balances held by the Branch with other banks, and such other items on the financial statements of the Branch, as may be considered necessary by us for the purpose of our assignment.

It may also be noted that non-submission of the written confirmation to the representations asked for or non-provision of any information/ confirmation, requested by us from the branch management, may result in limitation on the scope of our assignment and possibly invite necessary qualification in our auditor's report.

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We also wish to invite your attention to the fact that our audit process is subject to 'peer review'/ 'quality review' under the Chartered Accountants Act, 1949, to be conducted by an independent reviewer. The reviewer may inspect, examine or take abstracts of our working papers, in the course of the peer review / quality review.

We look forward to full cooperation from your staff during our audit.

Our fees for the said audits (excluding fees for Tax Audit and the travelling expenses will be as specified by the Reserve Bank of India/ State Bank of India²⁵.

Our fees for audit of Non Business Offices/ CMS Branches, as well as the tax audit fees of the branches, would be as specified in your aforementioned letter.

This letter should be read in conjunction with our letter dated ___ for the Audit of Internal Financial Controls Over Financial Reporting in terms of RBI's letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 (as amended), in respect of which separate fees have been fixed/will be mutually agreed.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our aforementioned assignment/s including our respective responsibilities (Kindly also mark a copy of such acknowledgement to the concerned official/s of the respective branch managements).

XYZ & Co.
Chartered Accountants
.....
(Signature)
(Name of the Member)
Designation²⁶

Date:

Place:

Acknowledged on behalf of Branch ofBank

.....

(Signature)

Name and Designation

Date

Attached: Letter of Acceptance duly signed by us.

²⁵As may be appropriate.

²⁶Partner or proprietor, as the case may be.

APPENDIX VI

Illustrative Format of Engagement Letter to be sent to the Appointing Authority of the Nationalised Bank by Branch Auditor (Separate only for Audit of Internal Financial Controls Over Financial Reporting)²⁷

(Name of the Branch and Address)

Dear Sirs,

The Objective and Scope of the Audit

You have requested that we carry out an audit of the operating effectiveness of the internal financial controls over financial reporting of _____ Branch (“the Branch”) of ____ Bank (the ‘Bank’) as at March 31, 20YY [balance sheet date] in conjunction with our audit of the standalone financial statements of the Branch for the year ended on that date.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of expressing our opinion as required by letter no. DOS.ARG.No.6270/08.91.001/2019-20 dated March 17, 2020 on “Appointment of Statutory Central Auditors (SCAs) in Public Sector Banks – Reporting obligations for SCAs from FY 2019-20”, read with subsequent communication dated May 19, 2020 issued by the RBI (the “RBI communication”), on the adequacy of internal financial controls over financial reporting and the operating effectiveness of such controls as at March 31, 20YY based on the internal control criteria established by you.

Our audit of internal financial controls over financial reporting will not include an evaluation of the adequacy of design and implementation of such internal financial controls over financial reporting since those aspects are audited by the Statutory Central Auditors of the Bank.

²⁷ This Appendix will be required only when a branch is scoped in for audit of IFCoFR.

Audit of Internal Financial Controls Over Financial Reporting

We will conduct our audit of the internal financial controls over financial reporting in accordance with the instructions provided by the Statutory Central Auditors of the Bank and in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (“the Guidance Note”) issued by the Institute of Chartered Accountants of India (the “ICAI”) and the Standards on Auditing (SAs) issued by the ICAI, to the extent applicable to an audit of internal financial controls over financial reporting. The Guidance Note and Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about the operating effectiveness of the internal financial controls over financial reporting as at the balance sheet date.

An audit of the operating effectiveness of internal financial controls over financial reporting involves performing procedures to obtain audit evidence about the operating effectiveness of the internal financial controls over financial reporting.

The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Inherent limitations in an Audit of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper Management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial controls over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management’s Responsibility

Our audit will be conducted on the basis that Management and those charged with governance (Audit Committee / Board) acknowledge and understand that they have responsibility:

- (a) For establishing and maintaining adequate and effective internal financial controls based on the [state criteria] [for example, “the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of

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Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India”] for ensuring the orderly and efficient conduct of its business, including adherence to Bank’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Banking Regulation Act, 1949.

- (b) To provide us, *inter alia*, with:
- (i) Management’s evaluation and assessment of the adequacy and effectiveness of the Bank’s internal financial controls, based on the control criteria [mention the control criteria] and all deficiencies, significant deficiencies and material weaknesses in the design or operations of internal financial controls identified as part of Management’s evaluation;
 - (ii) Access, at all times, to all information, including the books, account, vouchers and other records and documentation, of the Bank, whether kept at the head office of the Bank or elsewhere, of which Management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (iii) All information, such as records and documentation, and other matters that are relevant to our assessment of internal financial controls;
 - (iv) Additional information that we may request from Management for the purpose of the audit;
 - (v) Unrestricted access to persons within the Bank from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Bank such information and explanations as we may think necessary for the performance of our duties as auditor;
 - (vi) Any communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices;
 - (vii) Management’s conclusion over the Bank’s internal financial controls based on the control criteria set above as at the balance sheet date [insert date];

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- (viii) Informing us of significant changes in the design or operation of the Bank's internal financial controls that occurred during or subsequent to the date being reported on, including proposed changes being considered; and
 - (ix) All the required support to discharge our duties as the statutory auditors as stipulated under the Banking Regulation Act, 1949 / ICAI auditing standards and guidance.
- (c) As part of our audit process, we will request from Management and those charged with governance, written confirmation concerning representations made to us in connection with the audit.

We also wish to invite your attention to the fact that our audit process is subject to 'peer review' / 'quality review' under the Chartered Accountants Act, 1949 and in accordance with our Firm's policies to be conducted by independent reviewer(s). The reviewer(s) may inspect, examine or take abstract of our working papers during the course of the peer review/quality review.

Reporting

Our reports will be issued pursuant to the requirements of the RBI communication. The form and content of our reports may need to be amended in the light of our audit findings.

Our Fees

- Our fees for the audits of the internal financial controls over financial reporting as at [state Balance Sheet date] have been fixed by the RBI at Rs. _____, plus out-of-pocket expenses and indirect taxes.

We will bill as the work progresses. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate of fees and discuss with you any additional fees, as necessary.

This letter should be read in conjunction with our letter dated ___ for the audit of financial statements of the Branch and the terms and conditions specified in the said letter will extend to this letter.

We look forward to full cooperation from your staff during our audit.

Please sign and return the attached copy of this letter after placing the same with the Audit Committee or the Board of Directors together with your acknowledgement of, and agreement with, the arrangements for our audit of the

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internal financial controls over financial reporting including our respective responsibilities.

Yours faithfully,

For _____
Chartered Accountants
(Firm Registration No. _____)

Place: _____ Xxxxxx
Date: _____ Partner

Copy to: Chairman, Audit Committee

Acknowledged on behalf of <<Name of the Branch>>

Name and Designation: _____

Date: _____

APPENDIX VII

Illustrative Format of Written Representation Letter²⁸ to be obtained from the Branch Management

M/s XYZ & Co.,
Chartered Accountants,
Place

Dear Sir(s),

Sub.: Audit for the year ended March 31, 20XX

This representation letter is provided in connection with your audit of the financial statements of _____ branch of _____ bank, for the year ended March 31, 20XX, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the state of affairs of _____ branch of _____ bank as of March 31, 20XX, and of the results of operations for the year then ended. We acknowledge our responsibility for preparation of financial statements, in accordance with the financial reporting framework applicable to the Bank, including the regulatory requirements of the Reserve Bank of India.

We confirm, to the best of our knowledge and belief, the following representations:

1. Accounting Policies

The accounting policies, as approved by the board of directors of the Bank, have been duly followed. There are no changes in the accounting policies followed by the branch during the current year.

2. Assets

- 2.1 All the assets owned by the bank and transferred to the branch and such other asset/s, as has/ have been acquired by the branch, has/have been duly accounted for, and none of the assets is encumbered.
- 2.2 Fixed assets held by branches have been properly accounted from the date the asset is purchased and put to use and have been physically verified with entries in the books of accounts and the fixed assets register, at the year end. No discrepancies have been noticed on such verification.

²⁸ Kindly also refer Standard on Auditing (SA) 580, "Written Representations".

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Depreciation on these assets has been adequately provided as per the policy of the bank.

- 2.3 In respect of assets other than fixed assets, the same have not been impaired and do not have a value lower than realizable value.
- 2.4 The branch is operating from a leased premise and there is no dispute with respect to the tenancy and lease charges.
- 2.5 The Branch has not got any notice from the landlord for evacuation or redevelopment of the premises which may possibly necessitate shifting the branch premises in the near future.

3. Capital Commitments

At the balance sheet date, outstanding commitments for capital expenditure have been duly depicted in the financial statements.

4. Cash and Bank Balances

The cash balance (including cash in ATM) as on March 31, 20XX is Rs. _____, and has been verified by us. Internal guidelines on periodic cash verification have been duly followed.

Fake notes received by the Bank have been duly impounded and relevant guidelines of RBI thereon have been complied.

Effective Dual custody of Cash has been maintained at all times during the financial year.

5. Liabilities and Deposits

- a) The branch has adequate monitoring and control process over dormant or in-operative accounts and re-activation of accounts is carried as per the approved process.
- b) The Branch has provided interest expenses as per approved interest rate applicable from time to time and credited to respective deposits/interest accrued till the date of Balance Sheet for all the category of deposits.
- c) The Branch has charged interest from saving accounts wherein there is Debit Balance or in case of overdraft facility or any other specific circumstances.
- d) The Branch has deducted TDS on all interest credited/accrued for deposits as per the requirements of Income Tax Act, 1961, as applicable.
- e) All matured and unclaimed term deposits are classified as Demand Deposits. Further, interest has been accrued basis Savings Accounts interest rate on such unclaimed deposits.

- f) All savings and current accounts having debit balances are shown as Advances.
- g) The branch has recorded all known and anticipated liabilities in the financial statements. Liabilities on account of GST have been correctly recorded.

6. Contingent Liabilities

- 6.1 The branch has fully disclosed in the notes to the financial statements;
 - (a) guarantees that we have given to third parties;
 - (b) Letters of Credits (Local/ Import);
 - (c) Letters of Comfort (Local/ Import);
 - (d) Deferred Payment Credits/ Guarantees (Local/ Import); and
 - (e) Other contingent liabilities.
- 6.2 Other than for advances, there are no matters involving the branch in any claims in litigation, arbitration or other disputes, in which there may be some financial implications, including for staff claims, branch rentals, municipal taxes, local levies, etc., except for those which have been appropriately included under contingent liabilities.
- 6.3 None of the contingent liabilities disclosed and other than provided for are likely to result in a further loss, requiring adjustment of assets or liabilities or provisions in the books of accounts.
- 6.4 Frivolous claims from Customers / third parties have not been included in Contingent liabilities.
- 6.5 There are no other claims on banks not acknowledged as debt, other than those disclosed in the financial returns.

Provisions for Claims and Losses

- 7. Provision has been made in the accounts for all known losses and claims of material amounts.

8. Balancing of Books

The books of the accounts are computerised and hence the subsidiary records are automatically balanced with the relevant control records. In the case of manual sub-ledgers maintained, we confirm that they duly match with the general ledger balances.

9. Overdue/Matured Term Deposits

All overdue/ matured term deposits are held as matured term deposits.

10. Advances

In respect of the Advances and income thereon, the income recognition and asset classification norms prescribed by the Reserve Bank of India have been complied with.

11. Outstanding in Suspense/ Sundry Account

The year-wise/ entry-wise break up of amounts outstanding in Sundry deposits/ Sundry assets, as on March 31, 2021 has already been submitted to you along with explanation of the nature of the amounts in brief, and supporting evidences relating to the existence of such amounts in the aforesaid accounts.

12. Interest Provisions

Interest provision has been made on deposits, etc., in accordance with the extant instructions of the Head Office.

The interest provision for Head Office Interest shall be made at the Head Office.

13. Internal Financial Control over Financial Reporting

13.1 All material transactions pertaining to the Branch have been accurately and timely recorded in the accounting records and are properly being reflected in the financial statements.

13.2 Internal control system designed by the Bank's head office, which is required to be operated at the Branch has been meticulously followed particularly with respect to granting fund based as well non fund based credit facilities, acceptance of deposits, purchase of fixed assets, computation and accounting of those income and expenditure which is required to be computed and/or accounted by the Branch, preparation of annual closing returns including the financial statements and the closure process of financial statements to the extent the same is required to be carried out at the Branch. No material or significant weakness was observed in operations of internal control system designed by the Bank's Head office and all such internal controls were operating effectively throughout the year. Further, there is no failure to correct any major weakness in internal control system.

13.3 We are responsible for establishing and maintaining adequate and effective internal financial controls, except to the extent such internal control are centrally designed and maintained, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India ('ICAI') and the preparation and

presentation of the financial statements as set out in the terms of the audit engagement dated XXXXXXXXXX and, in particular, the assertions to you on the internal financial controls in accordance with the criteria mentioned above.

- 13.4 We have performed an evaluation and made an assessment of the adequacy and effectiveness of the Branch's internal financial controls based on the criteria mentioned in Paragraph 15.3 above for the year ended March 31, 20XX. Those evaluations do not include the procedures performed by you during the audit of internal financial controls over financial reporting as part of the basis for our assessment of the effectiveness of internal financial controls.

14. Long Form Audit Report–Branch Response to the Questionnaire

In connection with the Long Form Audit Report, complete information (including all updated Internal Circulars issued till date, Receipt & disposal of Complaints & grievances) as regards each item in the questionnaire, has been made available to you in order to enable you to verify the same for the purpose of your audit.

15. Other Certification

Duly authenticated, information along with necessary source documents as regards other matters which, as per the bank's letter of appointment, require certification, has been made available to you.

16. On Demonetization is deleted as not applicable this year.

17. Information Provided

- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, updated internal policies and circulars and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- Any other matters that the auditor may consider necessary.

18. General

There is no enquiry going on or concluded during the year by the Central Bureau of Investigation (CBI), or any other vigilance or investigating agency, on the branch or on its employees and no cases of frauds or of misappropriation of assets of the branch have come to the notice of the Management during the year, other than for amounts for which provisions have already been made in the books of accounts.

19. There have been no events subsequent to the balance sheet date, that require adjustment of, or disclosure in, the financial statements or notes thereto.

20. We have made available to you all the following latest reports on the accounts of our branch, and updated compliance by the branch on the observations contained therein:

- a. Previous year's branch audit report and LFAR;
- b. Internal inspection reports;
- c. Report on any other Inspection, audit that has been conducted in the course of the year

21. Apart from the, what has been disclosed, the branch has not received any show cause notice, inspection advice, etc., from the Government of India, Reserve Bank of India or any other monitoring or regulatory authority of India that

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could have a material effect on the financial statements of the branch during the year.

22. The provision for non-performing assets, depreciation, provision for income tax, provision for bonus, gratuity, etc., is made at the Head Office. Therefore, the same has not been provided in the branch accounts. The branch has correctly deducted Tax at source and paid the same on time to the relevant authorities.

23. FIMMDA guidelines have been followed, wherever applicable.

24. The branch has complied with all aspects of contractual agreements, that could have a material effect on the financial statements in the event of non-compliance. There has not been non-compliance with requirements of regulating authorities, that could have a material effect on the financial statements in the event of non-compliance.

25. The other particulars required, have already been given to you, and particulars and other representations made to you from time to time are true and correct in all respects.

Thanking you,

Yours faithfully

For & on behalf of _____ branch of _____ bank

Authorised Signatory

APPENDIX VIII

Suggested Abbreviations used in the Banking Industry

Abbreviations have often been found to be used by the banking industry and in the Circulars/ guidelines/directions of the Reserve Bank of India. It is appropriate to understand what these abbreviations are:

<u>Abbreviation</u>	<u>Expanded form</u>
AACS	As Applicable to Co-operative Societies
ABS	Audited Balance Sheet
ACF	Auto-Correlation Function
AD	Authorised Dealer
ADB	Asian Development Bank
ADR	American Depository Receipt
AE	Aggregate exposure
AFS	Annual Financial Statement
AFS	Available For Sale
AGM	Annual General Meeting
AICCCA	Association of Independent Consumer Credit Counselling Agencies
AIFI	All-India Financial Institution
AIRCSC	All India Rural Credit Survey Committee
ALM	Asset-Liability Management
AMC	Asset Management Company
AML	Anti-Money Laundering
AO	Additive Outliers
AR	Auto Regression
ARC	Asset Reconstruction Company
ARCIL	Asset Reconstruction Company (India) Ltd.
ARIMA	Auto-Regressive Integrated Moving Average
ASBA	Application Supported by Blocked Amount

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ASM	Agency for Specialised Monitoring
ASSOCHAM	Associated Chambers of Commerce and Industry of India
ATM	Asynchronous Transfer Mode
ATM	Automated Teller Machine
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning
BCSBI	Banking Codes and Standards Board of India
BFS	Board for Financial Supervision
BG	Bank Guarantees
BIFR	Board for Industrial and Financial Reconstruction
BIS	Bank for International Settlements
BIS	Bureau of Indian Standards
B/L	Bill of Lading
BoE	Bill of Exchange
BoP	Balance of Payments
BOS	Banking Ombudsman Scheme
BOT	Build-Operate-Transfer
BPLR	Benchmark Prime Lending Rate
BPM5	Balance of Payments Manual, 5th edition
BPSD	Balance of Payments Division, DESACS, RBI
BPSS	Board for Payment and Settlement Systems
BR Act	Banking Regulation Act
BSC	Balanced Scorecard
BSE	Bombay Stock Exchange Ltd.
BSR	Basic Statistical Return
CAD	Capital Account Deficit
CAG	Controller and Auditor General of India
CALCS	Capital Adequacy, Asset Quality, Liquidity, Compliance and System
CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and control
CAP	Corrective Action Plan
CBLO	Collateralised Borrowing and Lending Obligation

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CBS	Core Banking Solutions
CBS	Consolidated Banking Statistics
CC	Cash Credit
CCCS	Consumer Credit Counselling Service
CCDM	Credit Counselling and Debt Management
CCIL	Clearing Corporation of India Ltd.
CCO	Chief Compliance Officer
CCP	Central Counter Party
CD Ratio	Credit Deposit Ratio
CD	Certificate of Deposit
CDBMS	Central Data-base Management System
CDBS	Committee of Direction on Banking Statistics
CDF	Co-operative Development Fund
CDR	Corporate Debt Restructuring
CDRM	Corporate Debt Restructuring Mechanism
CDS	Credit Default Swap
CDSL	Central Depository Services Limited
CEO	Chief Executive Officer
CERSAI	Central Registry of Securitisation Asset Reconstruction and Security Interest of India
CF	Company Finance
CFMS	Centralised Funds Management System
CFO	Chief Financial Officer
CFRA	Combined Finance and Revenue Accounts
CFS	Consolidated Financial Statements
CFT	Combating Financing of Terrorism
CFR	Central Fraud Registry
CGFT	Credit Guarantee Fund Trust
CGRA	Currency and Gold Revaluation Account
CGTSI	Credit Guarantee Trust for Small Industries
CRGFTLIH	Credit Risk Guarantee Fund Trust for Low Income Housing
CRMD	Credit Risk Management Department

Guidance Note on Audit of Banks (Revised 2022)

CGTMSE	Credit Guarantee Fund Trust For Micro And Small Enterprises
CIBIL	Credit Information Bureau of India Limited
CII	Confederation of Indian Industries
CIN	Corporate Identity Number
CKYC	Central KYC
CKYCR	Central KYC Records Registry
CLCC	Central Labour Co-ordination Committee
CLF	Collateralised Lending Facility
CME	Capital Market Exposure
CMP	Conflict Management Policy
CO	Capital Outlay
COBIT	Control Objectives for Information and related Technology
CP	Commercial Paper
CPC	Cheque Processing Centre
CPI	Consumer Price Index
CPI-IW	Consumer Price Index for Industrial Workers
CPOS	Central Point of Supervision
CPPAPS	Committee on Procedures and Performance Audit on Public Services
CPSS	Committee on Payment and Settlement System
CPTC	Collection and Purity Testing Centre
CR	Capital Receipts
CRAR	Capital to Risk-Weighted Asset Ratio
CRCS	Central Registrar of Co-operative Societies
CRE	Commercial Real Estate
CRE – RH	Commercial Real Estate – Residential Housing Sector
CRILC	Central Repository of Information on Large Credits
CRO	Chief Risk Officer
CRR	Cash Reserve Ratio
CSA	Co-operative Societies Act
CSD	Customer Service Department
CSGL	Constituent Subsidiary General Ledger

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CSIR	Council of Scientific and Industrial Research
CSO	Central Statistical Organisation
CTO	Chief Technology Officer
CTR	Cash Transaction Report
CTS	Cheque Truncation System
CVC	Central Vigilance Commission
D&B	Dun & Bradstreet Information Services India (P) Ltd.
DAPs	Development Action Plans
DBOD	Department of Banking Operations and Development
DBS	Department of Banking Supervision
DCA	Debtor creditor agreement
DCB	Demand Collection and Balance
DCCB	District Central Co-operative Banks
DCCO	Date of Commencement of Commercial Operations
DCM	Department of Currency Management, RBI
DCRR	Department for Co-operative Revival and Reforms
DD	Demand Draft
DDS	Data Dissemination Standards
DEAF	Depositor Education and Awareness Fund
DEIO	Department of External Investments and Operations
DESACS	Department of Statistical Analysis & Computer Services, RBI
DFI	Development Finance Institution
DGBA	Department of Government and Bank Accounts, RBI
DGCI&S	Directorate General of Commercial Intelligence and Statistics
DI	Direct Investment
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DID	Discharge of Internal Debt
DIN	Director Identification Number
DLIC	District Level Implementation and Monitoring Committee
DMA	Direct Marketing Agent

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DNSS	Deferred Net Settlement System
DP	Drawing Power
DPN	Demand Promissory Note
DPSS	Department of Payment and Settlement Systems
DRI	Differential Rate of Interest
DRT	Debt Recovery Tribunal
DSA	Direct Sales Agent
DSBB	Dissemination Standards Bulletin Board
DSCR	Debt Service Coverage Ratio
DTL	Demand and Time Liability
DvP	Delivery <i>versus</i> Payment
EBR	Export Bills Rediscounted
ECB	External Commercial Borrowing
ECB	European Central Bank
ECGC	Export Credit and Guarantee Corporation
ECS	Electronic Clearing Service
EDI	Electronic Data Interchange
EDMU	External Debt Management Unit
EDPMS	Export Data Processing and Monitoring System
EEA	Exchange Equalization Account
EEC	European Economic Community
EEFC	Exchange Earners Foreign Currency
EFR	Exchange Fluctuation Reserve
EFT	Electronic Funds Transfer
EME	Emerging Market Economy
EMI	Equated Monthly Installment
EPF	Employees Provident Fund
ESOP	Employee Stock Option Plans
ETF	Empowered Task Force
EUR	Euro
EWS	Early Warning System
EXIM Bank	Export Import Bank of India

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FAQs	Frequently Asked Questions
FBIL	Financial Benchmarks India Private Limited
FATF	Financial Action Task Force
FCA	Foreign Currency Assets
FCAC	Fuller Capital Account Convertibility
FCCB	Foreign Currency Convertible Bond
FC GPR	Foreign Collaboration- General Permission Route
FCNR (B)	Foreign Currency Non-Resident (Banks)
FCNR	Foreign Currency Non-Resident
FCNRA	Foreign Currency Non-resident Account
FCNRD	Foreign Currency Non-Repatriable Deposit
FC TRS	Foreign Currency Transfer of Shares
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FEDAI	Foreign Exchange Dealers Association of India
FEMA	Foreign Exchange Management Act
FFI	Foreign Financial Institution
FFMC	Full Fledge Money Changer
FI	Financial Institution
FICCI	Federation of Indian Chambers of Commerce and Industry
FII	Foreign Institutional Investor
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIPB	Foreign Investment Promotion Board
FISIM	Financial Intermediation Services Indirectly Measured
FITL	Funded Interest Term Loan
FIU-IND	Financial Intelligence Unit – India
FLAS	Foreign Liabilities and Assets Survey
FMC	Forward Market Commission
FMD	Financial Markets Department
FoB	Free on Board
FOF	Flow Of Funds

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FPI	Foreign Portfolio Investment
FRA	Forward Rate Agreement
FRB	Floating Rate Bond
FRBM Act	Fiscal Responsibility and Budget Management Act
FRMS	Fraud Reporting and Monitoring System
FRN	Floating Rate Note
FSAP	Financial Sector Assessment Programme
FSR	Financial Stability Report
FSS	Farmers' Service Societies
FST	Financial Sector Technology
FSWM	Financially Sound and Well Managed
FWG	First Working Group on Money supply
FX	Foreign Exchange (FOREX)
GBP	Great Britain Pound
GCC	General Credit Card
GCS	Gold Card Scheme
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GFD	Gross Fiscal Deficit
GFS	Government Finance Statistics
GIC	General Insurance Corporation
GLEIF	Global Legal Entity Identifier Foundation
GLS	Generalized Least Squares
GNIE	Government Not Included Elsewhere
GoI	Government of India
GPD	Gross Primary Deficit
G-Sec	Government Securities
HDFC	Housing Development Finance Corporation
HFT	Held For Trading
HICP	Harmonised Index of Consumer Prices
HO	Head Office

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HTM	Held to maturity
HUDCO	Housing & Urban Development Corporation
IBA	Indian Bank's Association
IBRD	International Bank for Reconstruction and Development
IBS	International Banking Statistics
ICA	Inter creditor Agreement
ICAI	Institute of Chartered Accountants of India
ICAR	Indian Council of Agricultural Research
ICMR	Indian Council of Medical Research
IDB	India Development Bonds
IDD	Industrial Development Department
IDPMS	Import Data Processing and Monitoring System
IDR	Investment Depreciation Reserve
IEC	Independent Evaluation Committee
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFC(W)	International Finance Corporation (Washington)
IFCI	Industrial Finance Corporation of India
IFSC	Indian Financial System Code
IFR	Investment Fluctuation Reserve Account
IFS	International Financial Statistics
IGC	India Gold Coins
IGLS	Iterative Generalized Least Squares
IIBI	Industrial Investment Bank of India
IIP	Index of Industrial Production
IIP/InIP	International Investment Position
IMD	India Millennium Deposits
IMF	International Monetary Fund
IMPS	Immediate Payment System
IN	India
INR	Indian Rupee
IOTT	Input-Output Transaction Table

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IP	Interest Payment
IRAC (Norms)	Income Recognition, Asset Classification and Provisioning pertaining to Advances
IRBI	Industrial Reconstruction Bank of India
ISCR	Interest Service Coverage Ratio
ISDA	International Swaps and Derivative Association
ISIC	International Standard Industrial Classification
ISO	International Standards Organization
IT	Information Technology
ITGGSM	Internal Technical Group on Government Securities Market
ITGI	IT Governance Institute
ITIL	IT Infrastructure Library
ITRS	International Transaction Reporting System
IWGEDS	International Working Group on External Debt Statistics
JLF	Joint Lenders' Forum
JLG	Joint Liability Groups
JPC	Joint Parliamentary Committee
KCC	Kisan Credit Card
KVIB	Khadi and Village Industries Board
KVIC	Khadi & Village Industries Corporation
KYC	Know your Customer
LAB	Local Area Bank
LAF	Liquidity Adjustment Facility
LAMPS	Large-sized Adivasi Multipurpose Societies
LAS	Loan & Advances by States
LBD	Land Development Bank
LBS	Locational Banking Statistics
LC	Letter of credit
LCR	Liquidity Coverage Ratio
LEI	Local Entity Identifier
LEIL	Legal Entity Identifier India Limited
LERMS	Liberalised Exchange Rate Management System
LFAR	Long Form Audit Report
LIBOR	London Inter-Bank Offer Rate

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LIC	Life Insurance Corporation of India
LME	London Metal Exchange
LoC	Letters of comfort
LOLR	Lender of Last Resort
LoU	Letter of Undertaking
LS	Level Shift
LT	Long Term
LTCCS	Long-Term Co-operative Credit Structure
LTO	Long Term Operation
M1	Narrow Money
M3	Broad Money
MA	Moving Average
MAP	Monitorable Action Plan
MCA	Ministry of Corporate Affairs
MCAs	Model Concession Agreements
MEDP	Micro Enterprise Development Programme
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institution
MIBOR	Mumbai Inter-Bank Offer Rate
MICR	Magnetic Ink Character Recognition
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
MLRO	Money Laundering Reporting Office
MLTGD	Medium and Long Term Government Deposit
MMBCS	Magnetic Media Based Clearing System
MMSE	Minimum Mean Squared Errors
MNBC	Miscellaneous Non-Banking Companies
MNSB	Multilateral Net Settlement Batch
MOF	Master Office File
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MPLS	Multi-Protocol Layer Switching
MRM	Monitoring and Review Mechanism
MRR	Minimum Retention Requirement

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MSF	Marginal Standing Facility
MSS	Market Stabilisation Scheme
MT	Mail Transfer
MTM	Mark-To-Market
NABARD	National Bank for Agriculture and Rural Development
NAC(LTO)	National Agricultural Credit (Long Term Operation)
NAFCUB	National Federation of Co-operative Urban Banks
NAIO	Non Administratively Independent Office
NAS	National Account Statistics
NASSCOM	National Association of Software and Services Companies
NAV	Net Asset Value
NBC	Net Bank Credit
NBC	Non-Banking Companies
NBFC	Non-Banking Financial Company
NBFI	Non-Banking Financial Institutions
NBV	Net Book Value
NCLT	National Company Law Tribunal
NDS	Negotiated Dealing System
NDS-OM	NDS Order Matching
NDTL	Net Demand and Time Liability
NEC	Not Elsewhere Classified
NEDFi	North Eastern Development Finance Corporation Ltd.
NEER	Nominal Effective Exchange Rate
NEFT	National Electronic Fund Transfer
NFA	Non-Foreign Exchange Assets
NFCC	National Foundation for Credit Counselling
NFD	Net Fiscal Deficit
NFGBC	Non-food Gross Bank Credit
NFS	National Financial Switch
NGO	Non-Government Organisation
NHB	National Housing Bank
NHC	National Housing Credit
NIA	New India Assurance Company Limited

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NIC	National Industrial Credit
NIC	National Industrial Classification
NIF	Note Issuance Facility
NIM	Net Interest Margin
NIMC	National Implementation Monitoring Committee
NNML	Net Non-Monetary Liabilities
NOC	No Objection Certificate
NOF	Net Owned Fund
NPA	Non-Performing Asset
NPD	Net Primary Deficit
NPFA	Non-Performing Financial Assets
NPI	Non-Performing Investment
NPL	Non-Performing Loan
NPRB	Net Primary Revenue Balance
NPV	Net Present Value
NR(E)RA	Non-Resident (External) Rupee Account
NR(NR)RA	Non-Resident (Non-Repatriable) Rupee Account
NRE	Non-Resident External
NRG	Non-Resident Government
NRI	Non-Resident Indian
NRNR	Non Resident Non Repatriable (Account)
NRSR	Non Resident Special Rupee (Account)
NSC	National Statistical Commission
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
NSFR	Net Stable Funding Ratio
NSSF	National Small Savings Fund
OBS	Off-balance Sheet
OBU	Off-Shore Banking Unit
OD	Over Draft
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development

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OECD	Organisation for Economic Co-operation
OFI	Other Financial Institutions
OLRR	On-line Reject Repair
OLTAS	On-line Tax Accounting System
OMO	Open Market Operations
ORFS	On-line Returns Filing System
OSCB	Other Indian Scheduled Commercial Bank
OSMOS	Off-Site Monitoring and Surveillance System
OSS	Off-site Surveillance System
OTC	Over the Counter
OTS	One Time Settlement
OVD	Official Valid Documents
PACF	Partial Auto-Correlation Function
PACS	Primary Agricultural Credit Society
PAN	Permanent Account Number
PAIS	Personal Accident Insurance Scheme
PCARDB	Primary Co-operative Agriculture and Rural Development Bank
PCR	Provisioning Coverage Ratio
PD	Primary Dealer
PD	Primary Deficit
PDAI	Primary Dealers Association of India
PDO	Public Debt Office
PDO-NDS	Public Debt Office-cum-Negotiated Dealing System
PES	Public Enterprises Survey
PF	Provident Fund
PIO	Persons of Indian Origin
PIO	Principal Inspection Officer
PKI	Public Key Infrastructure
PLR	Prime Lending Rate
PMAY	Pradhan Mantri Awas Yojna
PMLA	Prevention of Money Laundering Act

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PMRY	Prime Minister Rojgar Yojna
PO	Principal Office
POS	Point of Sale
PPP	Public-Private Partnership
PRB	Primary Revenue Balance
PSB	Public Sector Bank
PSE	Public Sector Enterprise
PTC	Pass-through certificates
PUC	Paid Up Capital
QIS	Quantitative Impact Study
QRR	Quick Review Report
RBI	Reserve Bank of India
RBIA	Risk-Based Internal Audit
RBS	Risk-Based Supervision
RC	Reconstruction Company
RCS	Registrar of Co-operative Societies
RD	Revenue Deficit
RDBMS	Relational Database Management System
RE	Revenue Expenditure
REC	Rural Electrification Corporation
REER	Real Effective Exchange Rate
RERFA	Reserve for Exchange Rate Fluctuations Account
R-GDS	Revamped Gold Deposit Scheme
R-GML	Revamped Gold Metal Loan Scheme
RFC	Residents Foreign Currency
RIB	Resurgent India Bonds
RIDF	Rural Infrastructural Development Fund
RLA	Recoveries of Loans & Advances
RLC	Repayment of Loans to Centre
RMB	Renminbi (Chinese)
RNBC	Residuary Non-Banking Company
RO	Regional Office
ROC	Registrar of Companies
RPA	Rupee Payment Area

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RPCD	Rural Planning and Credit Department, RBI
RR	Revenue Receipts
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement System
RTP	Reserve Tranche Position
RUF	Revolving Underwriting Facility
RWA	Risk Weighted Asset
SAA	Service Area Approach
SACP	Special Agricultural Credit Plan
SAM	Social Accounting Matrix
SAO	Seasonal Agricultural Operations
SAR	Self-Assessment Report
SARFAESI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SARS	Severe Acute Respiratory Syndrome
SAS	Statistical Analysis System
SB	Savings Bank Account
SBA	Statutory Branch Auditor
SBI	State Bank of India
SBNs	Specified Bank Notes
SC	Securitisation Company
SCA	Statutory Central Auditor
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	Scheduled Commercial Bank
SCB	State Cooperative Bank
SCS	Size Class Strata
SDDS	Special Data Dissemination Standards
SDR	Special Drawing Right
SDS	Special Deposit Scheme
SEB	State Electricity Board
SEBI	Securities and Exchange Board of India
SEEUY	Self Employment for Educated Unemployed Youths
SEFCs	Small Enterprises Financial Centres
SEFT	Special Electronic Funds Transfer
SEZ	Special Economic Zones
SFAC	Small Farmers Agri-Business Consortium
SFC	State Financial Corporation
SFMS	Structured Financial Messaging System
SFT	Statement of Financial Transaction

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SGL	Subsidiary General Ledger
SHG	Self-Help Group
SHPI	Self-Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIPS	Systemically Important Payment System
SI-SPA	Systems Improvement Scheme under Special Project Agriculture
SJGSY	Swarn Jayanti Gram Swarojgar Yojna
SJSRY	Swarna Jayanti Shahari Rojgar Yojna
SLA	Service Level Agreement
SLAF	Second Liquidity Adjustment Facility
SLBCs	State Level Bankers' Committees
SLEPCS	State Level Export Promotion Committees
SLR	Statutory Liquidity Ratio
SLRS	Scheme for Liberalisation and Rehabilitation of Scavengers
SMA	Special Mention Account
SME	Small and Medium Enterprise
SMG	Standing Monitoring Group
SNA	System of National Accounts
SPV	Special Purpose Vehicle
SRWTO	Small Road & Water Transport Operators
SSC	Special Sub-Committees
SSI	Small Scale Industry
SSSBEs	Small Scale Service & Business Enterprises
ST	Scheduled Tribe
STBD	Short Term Bank Deposit
StCB	State Co-operative Bank
STCCS	Short-Term Co-operative Credit Structure
STP	Straight Through Processing
STR	Suspicious Transaction Report
STRIPS	Separate Trading of Registered Interest and Principal of Securities
SWG	Second Working Group on Money Supply
SWIFT	Society for Worldwide Financial Telecommunication
TAFcUB	Task Force for Urban Co-operative Banks
TBs	Treasury Bills
TC	Temporary Change
TEV	Techno-Economic Viability

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TFCI	Tourism Finance Corporation of India
TLI	Term Lending Institutions
TT	Telegraphic Transfer
UBB	Uniform Balance Book
UBD	Urban Banks Department
UCB	Urban Co-operative Bank
UCIC	Unique Customer Identification Code
UCN	Uniform Code Number
UDIN	Unique Document Identification Number
UIA	United India Assurance Company Ltd.
UIDAI	Unique Identification Authority of India
UPI	Unified Payments Interface
US	United States
USD	US Dollars
UTI	Unit Trust of India
UTLBC	Union Territory Level Bankers' Committee
VaR	Value at Risk
VC	Venture Capital
VCF	Venture Capital Fund
VKC	Village Knowledge Centre
VPN	Virtual Private Networks
VRS	Voluntary Retirement Scheme
VSAT	Very Small Aperture Terminal
WADR	Weighted Average Discount Rate
WCDL	Working Capital Demand Loan
WCTL	Working capital term loan
WEO	World Economic Outlook
WGMS	Working Group on Money Supply: Analytics and Methodology of Compilation
WGRFIS	Working Group on Future Role of Financial Institutions
WPI	Wholesale Price Index
WSS	Weekly Statistical Supplement
YTM	Yield to Maturity
ZO	Zonal Office
XBRL	Extensible Business Reporting Language

APPENDIX IX

Illustrative Bank Branch Audit Programme for the Year ended March 31, 2022

Introduction

In present scenario, besides actual conduct of audit, proper planning becomes most important in bank branch audit engagements. Planning means detailing and requires advance thinking along with knowledge/experience of bank branch business. It is important to have knowledge about composition of business of a particular branch which is under audit. Because of variety of products and diversified bank business, auditor cannot apply the same yardstick for all branches under audit. The engagement partner and other key members of the engagement team should be involved in planning the audit, including planning and participating in the discussion among engagement team members. Today, the whole process of banking is automated and computerized, and the way audit is conducted has also undergone a sea change. Nowadays most of the important functions and processes are more or less centralized and there is limited verification to be done at the branches. Audit at branches includes physical checking of records, documents relating to operations (advances and liabilities), verification of branch related expenses, existence of assets and other similar areas.

Many of the Banks have implemented a web application for posting & online submission of Branch Audit Report, Long Form Audit Report, Tax Audit Report and various certificates, therefore review the closing instruction of the Bank prior to commencement of the audit is utmost importance to understand the manner and structure in which reporting is required to be made on online web base application. The reports/certificates in these cases have to be signed digitally.

In absence of clear understanding and the pre-requisite information on advances like borrower account No/ Customer ID's details of the facility, security, sector etc. it would not be even possible to verify and report any

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change in classification and any adverse observations in the main report or in the Long Form Audit Report.

In view of this it is important to understand the reporting structure and auditor should prepare their comments / Memorandum of changes in the format and manner as required. The branch auditor should have an understanding of the CBS and the type of reports it can generate. This will help in conducting the audit in an effective and efficient manner within the time lines.

The branch audit generally may be bifurcated into following Components:

Type of Report	Coverage
Branch Statutory Audit	<ol style="list-style-type: none">1. Audit of Advances and reporting on divergence in assets classification and income recognition, which is generally reported through Memorandum of Changes which form part of Main Audit Report;2. Audit of all other items of Assets and liabilities and Income and expenditure appearing in the financial statement.
Tax Audit Reports and Long Form Audit Report	<p>These reports are separate from Branch Audit Report:</p> <ol style="list-style-type: none">1. As per Section 44AB of Income Tax Act, 1961, the Bank is under statutory obligation to get the Tax Audit conducted by Chartered Accountant; and2. Long Form Audit Report covers reporting on the operational and control aspects of the Branch working as per RBI requirements.
Certificates	Required to be verified as per respective Banks Closing Instruction keeping in view RBI Guidelines, Guidelines of the respective schemes notified by the Central / State Government.

Following are the Generally Followed Steps for Conducting Branch Audit:

1. Appointment / engagement letter for Branch Statutory audit, with closing circulars.
2. NOC from the previous auditor.
3. Pre-Audit discussion with branch.
4. Audit planning, to include Understanding of the Branch software and commands for view of borrower accounts and generation of various MIS / Critical / exceptional reports.
5. Execution of the audit as given in the **Annexure I**.
6. Discussion of the draft branch audit report with bank.
7. Preparation of Memorandum of Changes and effect of the same in books of account of bank.
8. Review of the Post Memorandum (Post MOC) trail balance and reconciliation with the pre memorandum (Pre MOC) trial balance to ensure the correct accounting effect of memorandum of changes, wherever applicable.
9. Submission of audit report to branch and copy to central statutory auditors.

Following are the area wise documents to be collected and reviewed for conducting Branch Audit:

1. Trial Balance as on 31st March.
2. Closing circular issued by Bank's head office for conducting branch audit – Every bank issued the closing circular which contain the concern areas and list of certificates required to be certified by the branch auditor.
3. Review of previous years auditor report / LFAR.
4. Latest RBI master directions for “Income recognition and assets classification” & other relevant circulars.
5. List of comments of RBI inspection report towards the branch.
6. Latest branch concurrent audit report /Internal inspection report/ Diligence Report / Credit Audit Report with their compliances.
7. Copy of vigilance enquiry or any special investigation reports.

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8. Comparative analysis of the trial balance with the last year's audited trail balance.
9. Working papers on actual audit engagement carried out for the year
10. testing of internal controls and other operational issues at the branch
11. Review of Ghosh and Jilani committee Recommendations.
12. Documents related to verification of advances –
 - List of stress advances (SMA-2) as on 15th March (stress advances / SMA-2 report indicate the list of advances which are overdue for more than 60 days and if the same is not regularized before year end i.e. 31st march than the advance will become NPA).
 - List of new sanction made during the year.
 - List of account referred for Restructuring.
 - Accounts wherein process under IBC is mandated but not initiated by branch.
 - Borrowers wherein process of IBC initiated by any of the creditors including bank.
 - Review of Red Flagged Accounts
 - Critical review of accounts flagged under the Early Warning Signals mechanism
 - Review of restructured accounts and under various dispensation provided by RBI
 - List of Bank guarantee and Letter of credit.
 - Review of reported frauds (advance related and others)
 - Off Balance Sheet items, including claims against banks not acknowledged as debts, contingent liabilities etc.
13. Documents related to NPA's:
 - List of NPA accounts as on 31st March.
 - List of accounts upgraded during the financial year.
 - List of accounts downgraded during the year.
 - List of early mortality cases for the year under audit.
 - Details of the NPA classification with secured /unsecured details and NPA provision amount.

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- Review of the valuation reports of loan account. Valuation reports older than 3 years cannot be consider as security (1 year in case of stock) and 100% provision needs to provide on the expired secured portion.
 - Critical review of the audited financial statements of borrowers.
 - Review of forensic audit reports, wherever applicable.
14. Fixed Assets:
- Fixed Assets register as on 31st March.
 - List of new assets purchased during the year.
 - List of fixed assets sold during the year.
 - Physical verification report of branch fixed assets if conducted during the year.
 - Depreciation working as on 31st March.
15. Bank reconciliation:
- List of bank account which branch maintained with other banks.
 - Reconciliation statement of all banks account as on 31st march.
16. Inter branch reconciliation:
- Inter branch reconciliation statement.
 - Provision for net outstanding debit balance for more than 6 months (refer RBI circular DBOD No. BP.BC. 73 /21.04.018/2002-03).
 - Review of inter office ledger accounts classified under other assets and other liabilities
17. Cash
- Physical cash balance verification during branch audit period (cash on hand as well as cash at ATM, if applicable).
 - Report of the physical cash verification conducted by branch on 31st March.
18. Liabilities
- Verification of current, savings accounts, term deposits including KYC, PMLA, FEMA and other compliances.

Audit of Advances

Audit of advances is discussed in detail in the Guidance Note on Audit of Banks. However from the angle of planning following aspects must be kept in mind:

1. **Obtain top exposure accounts:** It may be advisable for a branch auditor to ask the list accounts/ exposures along with all the details such as status, classification, overdue amounts and security etc. before starting of the audit.
2. **Obtain the list of stressed accounts:** The banks monitors stressed accounts on daily basis. The account that generally has overdue beyond 60 days or likely to slip to NPA at the quarter end is termed as stressed account (some banks may use different terminology). It is advisable to obtain such list of stressed accounts at least 15-30 days ahead of the closing date i.e. say stressed account list as on 1st - 15th March. This will provide the auditor a ready list of such accounts. The auditor then can scrutinise each account to know whether the account has slipped into NPA or if not whether has been kept standard by unusual transaction in the account (that cannot be termed as usual business transactions). Like deposit and withdrawal of cash, just to show the credit turnover during the quarter in cash credit account.
3. **Obtain the list of restructured accounts:** Restructured account portfolio requires separate additional provisioning. It is necessary to obtain the list of such accounts and ensure whether the restructure is as per the RBI directives. As per latest RBI guidelines, all new restructure / CDR account will be classified as NPA. The auditor should get the list of all restructured accounts, including accounts that have taken benefit of moratorium and other RBI dispensations etc.
4. **Obtain the list of accounts covered under revised framework for resolution of stressed assets:** As per latest RBI guidelines, all new restructure / CDR account will be classified as NPA. The accounts which have been covered under revised framework for resolution of stressed assets, the compliance with the terms of the revised framework needs to be verified
5. **Accounts referred to or directed to be referred under IBC**
Obtained list of Accounts wherein process under IBC is mandated but not initiated by branch and / or Borrowers wherein process of IBC initiated by any of the creditors including bank. Such accounts need to be reviewed carefully by the auditor and adequate provision needs to be made besides correct classification of such advances and detailed scrutiny of the security available.
6. **Obtain the list of unsecured exposures above Rs. 25 Lacs.:** Unsecured exposure has significant impact on the bank, if slips to NPA.

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Many times such accounts are reviewed in the traditional manner. These require close monitoring not only from the perspective of financial parameters of the prudential guidelines but also non-financial parameters that give signals of the possible ill health. The banking industry has faced severe damages on account of non-identification of such non-financial parameters.

7. **Early mortality cases:** Any advance slippage to NPA within 12 months of its introduction is called early mortality case. Early mortality cases invoke penalty to the sanctioning authorities. This will have to be checked to understand the reason for such happening to avoid such cases in future and also to find out whether there are any cases classified as performing on some untenable ground to push it beyond early mortality.
8. **Movement of NPA and Upgraded accounts during the Year:** Review of the upgraded accounts is one of the important areas to be checked during audit. As per RBI circular, the account will get upgraded when the total arrears of interest and principal are paid by the borrower. After recovery, the accounts will get upgraded to standard assets. There should not be any overdue in borrower accounts as on date of up-gradation. The recovery in the accounts needs to be reviewed specially in case of cash credit accounts where the borrower rotates the fund just to keep the account as performing assets.
9. **Evergreening of accounts:** Evergreening refers to the practice of giving a fresh loan to repay an old one. Technically, evergreening refers to the practice of managing the balance sheet through means, which may not be violating banking laws in letter, but breaching them in spirit. To illustrate and to make it more clear: say a bank disburse a loan of Rs. 10000 to a borrower and the account become overdue after a year or two, the same bank sanction a loan of Rs. 20000 or Rs. 30000 which enable borrower to repay first loan. Therefore, the source of recovery needs to be review in case of stress accounts.
10. **Other routine checks:** The auditor may engage into other routine check of advances to satisfy himself such as classification of advances, new sanctions during the year, monitoring mechanism and provisioning under prudential norms. It may be pertinent to mention here two broad aspects that are heavily dependent on the branch auditor relating to advances. The auditor should closely verify the red flagged accounts, accounts

marked as fraud and EWS accounts. Also, these are one of the most strongest argument, amongst many, why branch audits are necessary even in CBS environment:

- **Checking of documentation:** Documentations for newly sanctioned advances along with their enforceability, review documents and its appropriate reflection in CBS; Documentation verification for advances would generally cover, pre-sanction stage, sanction stage and post sanction and monitoring stage.
- **Security value for provisioning:** After classification, the most important aspect in presenting the true and fair view of the financial statements of a bank is correct provisioning amount. This highly depends on fair assessment of security value. The base documents relating to the valuation are usually available at the branches. Correct depiction thereof in the CBS is a crucial check.

Audit of other Items in Trial Balance

It may not be necessary to elaborate on this point as this has been basic skill of auditing profession. However, following aspects may require specific attention of a branch auditor:

1. **Suspense, Inter Branch reconciliation and any other pending reconciliation item in Trial Balance:** As per the RBI guidelines, any debit entry in these accounts appearing for more than 6 months require 100% provision.
2. **Provisions other than relating to advances:** Year-end accounting provision that do not get generated through CBS require specific attention at the branch level. It may be advisable to do a comparative study of last year end, half year and current year end figure comparison. This throws lot of insights into the branch operations.

Ensuring various compliances:

Generally, the branch requires following various compliances in respect of audit:

1. **Concurrent Audit Report:** Any comments or remarks in the concurrent audit report that the branch is required to comply with.
2. **Compliance to RBI Inspection Report:** If RBI has conducted inspection in the branch, the comments in the report need compliance. Any non-compliance under the pretext that the bank has represented to RBI to reconsider the observation should not be accepted. RBI has clearly

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taken a stand that unless auditor is physically shown a letter of reversal from RBI comments in their report must be adhered to.

3. **Compliance to Internal Audit Report:** If the bank has conducted internal audit, which usually an internal exercise, obtain the report and check for the adverse comments and compliances thereof.
4. **Stock Audit Report:** Generally, an account having exposure of Rs. 5 Cr. and above requires stock audit, the compliance thereof should be commented upon. Also, any adverse comment in the report needs to be dealt with appropriately.
5. **Forensic Audit Reports:** The auditor should look at all the forensic audit reports conducted on various NPA accounts and based on the conclusion verify the adequacy of classification and provisioning.
6. **Compliance with IS Audit Report:** If the bank has conducted IS audit, which usually an internal exercise, obtain the report and check for the adverse comments and compliances thereof.
7. **Application of interest in CBS:** Generally, bankers always argue that the interest is calculated by the system and requires no cross verification. While this is true, the correct calculation by the system is subject to correct input by the branch staff relating to interest. Hence input of interest rates requires test check.

Annexure I

Details of the Authorised Persons of the bank	Branch Manager:
Others (Specify):	

Audit Aspects	Covered By Whom	Extent of Check
General		
1. Engagement letter to the appointing authority		
2. Letter for NOC to previous auditors		
3. Meeting and discussion with the bank branch management and understanding the profile of the branch and its business and take a note on the same.		
4. Letter of requirement to the Branch		
5. Review of <ul style="list-style-type: none"> • previous year's audit report/ LFAR; • current period's Internal Audit Report/ Concurrent Audit Report; • Revenue Audit Report; • IS Audit Report • RBI Inspection Report; • compliance of the branch to all of the above; and • any other special review report. 		
6. Physical verification of <ul style="list-style-type: none"> • cash; • Gold;(for Gold loan) • and valuable securities. 		
7. Note down <ul style="list-style-type: none"> • Shortage of cash appearing in Trial Balance; • Difference in physical 		

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Audit Aspects	Covered By Whom	Extent of Check
verification of gold.		
8. Reconciliation of the current account maintained with other banks / Reserve Bank of India		
9. Reconciliation of NOSTRO account with Nostro Mirror Account		
10. Physical verification of Investments, holding statements, (obtain certificate from bank manager for the same). If investments are held /done by the Branch.		
11. Verify reconciliation statement to verify entries originated prior to, but communicated / recorded after the year end in relation to currency chest operations at the branch/other link branches, involving deposits into/withdrawals from the currency chest attached to such branches.		
12. Understand the system in CBS at Branch <ul style="list-style-type: none"> • verify controls; • verify exceptional report; • understand the editable & uneditable fields at Branch; • system of downgrading & upgrading of accounts; • interest calculations; • Generation of reports relating to advances classification and Capital Adequacy calculation, etc. 		
13. Compliance of instructions issued by bank's year and closing circulars, other relevant internal instructions/circulars, Master circulars and other notifications issued by RBI, significant		

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Audit Aspects	Covered By Whom	Extent of Check
accounting policies of the bank Mandatory Accounting Standards/Auditing Standards and other notification.		
14. Prepare a list of various closing returns to be verified and certified, and then checking of the same during the audit.		
Checking of Balance Sheet Items		
1. Checking of the Advances:		
<ul style="list-style-type: none"> • Take list of all advances along with facility wise limits, outstanding, Name of Lead bank, Credit Rating, Credit summations in the account, last date of submission of stock statement, date of review of account, etc. This shall help to select the accounts for scrutiny in detail. 		
<ul style="list-style-type: none"> • Critical review of all large advances and their reporting as per prescribed norms. 		
<ul style="list-style-type: none"> • Classification of advances as per IRAC norms. 		
<ul style="list-style-type: none"> • Latest valuation of securities in favour of the bank against advances. 		
<ul style="list-style-type: none"> • Provisions on NPA as per IRAC norms. 		
<ul style="list-style-type: none"> • Review of all major restructured cases along with the compliance of norms as per RBI Guidelines. 		
<ul style="list-style-type: none"> • List of all SMA 2 accounts (and other accounts mandated for reporting) and reporting of the same to concerned authorities (CRILC). 		
Loan Accounts (Performing)		
I. Review of all large advances with		

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Audit Aspects	Covered By Whom	Extent of Check
balance of lower of 10 % or Rs. 10 crore of total advances.		
II. Review of loans sanctioned during the year.		
III. Review of other advances on test check basis.		
IV. Review of adverse comments by Concurrent auditors, RBI/internal inspectors and the reply given and corrective actions taken by the branch.		
V. Review of suit filed and decree accounts on sample basis with respect to provision thereon and progress of recovery thereof and Classification as per IRAC norms.		
VI. Review of accounts upgraded during the year from NPA to standard. and ensure full recovery of total overdues before upgradation.		
VII. Review of all accounts frequently exceeding limits/DP and watch-list accounts.		
VIII. Also verify all the credit card dues which are overdue & debit balances in SB A/c.		
IX. Check Drawing Power calculation in detail as per the norms of the bank.		
X. RFA & EWS marked accounts need additional attention		
Loan Accounts (Non Performing)		
I. Review the accounts which are classified as NPA during the year w.r.t Security Value, Interest Reversed, Date of NPA, provisioning thereon etc.		
II. Review the annual stock audit report for the NPA with balance of		

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Audit Aspects	Covered By Whom	Extent of Check
Rs.5 cr. and above & latest valuation report for the immovable properties in case the valuation is older than 3 years.		
III. Accounts under Forensic audit or under IBC proceedings		
NOTE: (i) Following aspects of the advances to be verified:		
<ul style="list-style-type: none"> • Pre sanction: System of credit Appraisal and review/renewal. 		
<ul style="list-style-type: none"> • Post sanction: Compliance of terms of sanction, documentation, end use of funds. 		
<ul style="list-style-type: none"> • Monitoring: Stock and Book statements, drawing power, insurance, inspection of stock/security, operations in the account, etc. 		
(ii) All the accounts verified in category (i) to (x) should be documented.		
2. Verify controls in respect of the following important items of assets. (i) Dual custody of cash; (ii) Custody and issue of /pay orders/other stationery items etc.; (iii) ATM cash as per books and actual balance tallied at year end. (iv) accounting treatment for excess/shortage of cash in ATM		
3.Fixed Assets		
I. Checking of additions/deduction/transfers of fixed assets,		

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Audit Aspects	Covered By Whom	Extent of Check
supported by proper bills/invoices and confirmation of date put to use. Assets transferred to and from other branches. Compliance of Accounting Standard related to fixed assets.		
II. Checking of Depreciation on additions, deduction during the year and on existing assets as per the policy of the bank.		
III. Verification of Fixed Assets Schedule for furniture & fixtures and other assets and reconciliation with figures appearing in the Balance Sheet and FA management software used by the bank (if any).		
4. Deposits and Liabilities		
a) Verification of Anti Money Laundering guidelines and Compliance with KYC norms on test check basis that overdue deposits and inoperative accounts;		
b) Check TDS compliance on the interest paid and on test check basis checking of Form 15G & 15H and confirm whether those forms are submitted with respective Income Tax Authority;		
c) Movement of Deposits vis-à-vis movement in interest expense.		
5. Inter-Office & Suspense A/c:		
1. Reconciliation of accounts with other banks, head office and inter branch adjustment accounts.		
2. Inter Office Reconciliation (IOR) Accounts: I. Verify Inter Branch Items In Transit (IBIT) account for old		

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Audit Aspects	Covered By Whom	Extent of Check
<p>entries.</p> <p>II. Compare on test Check basis, the balance and the entries in IOR Accounts with the copies of the statements submitted to the IOR department/s.</p> <p>III. Old unreconciled entries are being provided/ reported to HO for provision.</p>		
3. Detailed checking of suspense accounts – credit as well as debit schedules. i.e., Nominal ledger.		
Balance Sheet Finalisation		
1. Scrutiny of Balance Sheet, particularly –		
<p>i) that all the balances are shown in proper heads and broadly compare previous year figure to understand material variance;</p> <p>ii) Check for any negative balance in the trial balance (i.e. assets / expenses having credit balances and liability / income having debit balances).</p>		
ii) check in case of advances that:		
a) interest accrued but not due on loans is not included in advances.		
b) credit balances in O/D, CC inoperative current accounts should not be netted off with advances and the same should be shown under demand deposits.		
c) Adequacy of provisioning, in case it is done at the branch level.		
2. Checking:		

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Audit Aspects	Covered By Whom	Extent of Check
(i) Liability under Bank Guarantee/ L/C and effects of expired BGs/LCs. (ii) Reconciliation of General Ledger and Subsidiary Ledger.		
Checking of Profit and Loss Items		
1. Test checking of interest on deposits, (particularly, Interest checking should be done on test basis for the period subsequent to the period of revenue/ concurrent audit). Ensure that interest provision on overdue F.D. has been made as per latest RBI guidelines. Check the system is properly configured to check the interest calculation and the changes in interest rate is changed in system on respective dates.		
2. Test checking of interest/commission on various advances, bills, L.C., Guarantees, etc.		
3. Test checking of discount/ commission on bills discounted and others income like commitment charges, processing fees, recovery of insurance/ legal fees etc.		
4. Derive various ratios of items of income with comparable and related assets (like Avg. Interest Income to Average Advances etc.) and verify major movements or variances.		
5. Checking of interest in NOSTRO Accounts debit balances.		
6. Verification of recovery and accounting for locker rent, other income, staff accommodation, etc.,		

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Audit Aspects	Covered By Whom	Extent of Check
with details of arrears, if any.		
7. Commission income on account of Government Business, i.e., collection as well as remittance of Income tax, sales tax, excise duty, etc.,		
8. Details of Prior Period items of Income as well as expenses and complete details of provisions to be made, if any.		
9. Booking of Interest Income on account of partial recovery in NPA's.		
10 Note down the reasons for material variances, if any.		
Others		
1. Checking of statement of frauds adequacy of provision, timely reporting to competent authority, recovery and movement in balances.		
2. Checking of statement of claims against the bank not acknowledged as debt.		
3. Checking of Foreign Currency forward exchange contracts showing sales and purchase separately. Review of NRE and FCNR accounts, if any.		
4. Checking of Guarantees given on behalf of Constituents.		
5. Checking of Acceptance, endorsements and other obligations, i.e., L/C and bills accepted by the bank on behalf of customers.		
(Particularly check in case of Clause 4 and 5 above, whether the above guarantees and LC issued are within the powers of the authorised person and proper procedures have been followed for issuing the same. Review the		

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Audit Aspects	Covered By Whom	Extent of Check
position of the above as at the year-end)		
6. Other contingent liability, if any.		
7. Checking of and preparation of Interest Subsidy certificate (as per various RBI & Government schemes), correct accounting & whether the same are given to the eligible, borrowers.		
8. Checking of write off proposal and DICGC claims, sharing of recovery, etc.		
9. Checking of annual returns on protested bills/ recalled debt accounts (PB/RD).		
10. Checking of LFAR schedules and preparation of LFAR (Detailed planning for preparation of LFAR be done at the time of commencement of audit).		
11. Checking of Tax Audit annexures and preparation of Tax Audit Report.		
Final Audit and Reporting		
1. Preparation of Audit Report as per format prescribed by ICAI under SA 700 (Revised) and under any other regulatory authority.		
2. Preparation of memorandum of changes for changes to be made in classification of advances and in any item of asset/liability and profit and loss account with other remarks and/ or information which requires further attention at Regional/Zonal Office level.		
3. Preparation of Tax Audit Report.		

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Audit Aspects	Covered By Whom	Extent of Check
4. Preparation of Long Form Audit Report (by giving annexures where ever necessary).		
To collect the following Certificates:		
1. Physical verification of the fixed assets carried out on March 31, 2022/During the year.		
2. Physical verification of Investment is carried out on March 31, 2022/ During the Year. If investment are held or appearing in the Trial Balance.		
3. Physical verification of the cash & other items as on March 31, 2022.		
4. Written Representation Letter.		
To verify and issue the Certificates (as applicable): Illustrative list		
1. Certificate of Ghosh and Jilani committee Recommendations.		
2. Certificate giving details of claims lodged with DICGC / ECGC however, rejected by them.		
3. Risk weighted assets as per the capital adequacy report (BASEL II & III).		
4. Certificate for treating an account as bad or doubtful of recovery as per the requirement of DI and CGC.		
5. Subsidy claim under Prime Minister Rojgar Yojna Or any other scheme of the Central/State Government.		
6. Certificate for Interest Subvention.		
7. Other additional certificates as may be prescribed.		

Prepared by:

Reviewed by:

APPENDIX X

Typical reasons observed for the divergence in asset classification (large accounts) during Supervisory Cycle 2021-22 (FY 2020-21), during Capital Assessment Exercise

- 1. Non-implementation of the Resolution Plan (RP) in terms of June 7, 2019 circular on 'Prudential Framework for Resolution of Stressed Assets'**
 - The default observed in the account, in case of one or more banks, was not rectified within the Review period of 30 days. Further, a viable RP was not implemented within 180 days from the end of the review period. Therefore, additional provision of 20%/35% on total outstanding (funded + non-funded o/s) was advised in terms of para 17 of June 7, 2019 circular.
 - In some accounts, though the bank had made additional provision for non-implementation of RP, the provision was made only on the funded outstanding portion and not on the total outstanding (funded + non-funded o/s) as required in terms of para 17 of June 7, 2019 circular, hence, additional provision was advised.
- 2. Computation of Drawing Power (DP)**
 - The borrower had not submitted latest stock statements and the DP was computed based on the expired stock statements. The CC limit would be deemed as irregular from date of expiry of available stock statement due to non-submission of stock statements and the account should be treated as NPA in terms of para 4.2.4 (a) & (b) of 'Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' (IRAC norms) dated October 01, 2021. However, in some instances, the bank had computed the DP based on expired stock statements and kept the account standard.
- 3. Wrongful upgradation**
 - The upgradation of one account was found to be not in order (non-compliance to para B5 and B6 of Annex 1 of Circular dated June 7, 2019) and due to non-compliance of certain RP conditions. The account did not demonstrate 'satisfactory performance' during the period from the date of implementation of RP up to the date by which at least 10 per cent of the sum of outstanding principal debt as per the RP and interest capitalisation

sanctioned as part of the restructuring, if any, is repaid ('monitoring period') as per para 5 of Annex 1 of June 7, 2019 circular.

- In some cases, based on record of recovery, the account had turned into NPA. The borrower availed Resolution as per August 6, 2020 circular on 'Resolution Framework for COVID-19-related Stress'. In terms of para 38 of the circular *ibid*, the borrowers' accounts which slipped into NPA between invocation and implementation could be upgraded as standard, only on the date of implementation of the plan. However, the bank had upgraded the account in the interim.

4. Wrongful reversal of provisions

- In terms of para 24 of Annex of RBI circular dated June 07, 2019, an NPA account can be upgraded to standard category only after change in ownership under the framework is implemented and further provisions held can also be reversed only after the end of the monitoring period (From the date of implementation of RP up to the date by which at least 10% of outstanding amount is repaid in terms of para 5 and 26 of Annex of the June 7, 2019 circular). However, the bank had upgraded the account and reversed the provision, before achievement of the same.

5. Security Erosion

- Though the realisable value of the security, as assessed by the bank, was less than 10 percent of the outstanding in the account, the account was not classified as Loss Asset, in terms of para 4.2.9 (i) (b) of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated October 1, 2021.

6. Borrower-wise classification not maintained

- In some cases, the bank had classified one facility of a borrower as NPA while keeping the other facility as standard. This was not in line with para 4.2.7 of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated October 1, 2021 which prescribe asset classification to be borrower-wise and not facility-wise.

7. Record of recovery

- In some cases, accounts were not classified as NPA by the bank despite principal/interest remaining due for more than 90 days, contrary to para 2.1.2 (i) of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances IRAC norms dated October July 1, 2021.

APPENDIX XI

Advisory for Statutory Bank Branch Auditors w.r.t. Specific Considerations while conducting Distance Audit / Remote Audit / Online Audit of Bank Branch under current Covid-19 situation issued on May 6, 2020

Dear Professional Colleagues,

We hope this communique will find you safe and healthy. We are sure that by now most of us must have received appointment letters for statutory bank branch audits indicating branches to be audited along with the timelines specified by the banks in certain cases, which may be a tough challenge in the present scenario.

ICAI has always remained at the helm of affairs relating to auditing and accounting profession and always lived with its motto to be partner in nation building. In the present challenging scenario, we are sure that all the members of ICAI would contribute to the noble cause of performing our functions and duties with utmost professionalism with pragmatic vision in our role as an auditor. Living up to these expectations, most of the Statutory Branch Auditors (SBAs) have already commenced the process of the bank branch statutory audits and rest are about to start off the said process.

This communication is to address certain vital aspects related to Statutory Bank Branch Audits in the form of "Specific Considerations while conducting Distance Audit / Remote Audit / Online Audit of Bank Branch under current Covid-19 situation". An illustrative list of such considerations is enumerated below.

In the present circumstances, where the world at large faces challenges due to Covid-19 pandemic, there is a sea change which is expected in the way businesses (including banking) is conducted and the way the audit profession would require to nurture itself to adopt the changed environment. Though the methodologies of conducting audit are likely to undergo a change, the objective of the audit does not change, which require the auditors to ensure that sufficient appropriate audit evidence is available with the auditor based on which he is able to express his opinion. Thus, it is advisable for the auditor that while planning and performing the alternative procedures, more professional skepticism may be exercised to ensure compliance with Standards on Auditing.

Specific Considerations while conducting Distance Audit / Remote Audit / Online Audit of Bank Branch under current Covid-19 situation:

1. On a broader basis, there is no change expected in the function of statutory audit as compared with the earlier years, thus, the compliance with the regulatory norms including compliance with Standards on Auditing, Guidance Notes issued by ICAI on the subject matter remains unaltered. Thus, there is no dilution (in any form) of Standards on Auditing and / or any other mandatory guidelines issued by ICAI;
2. An auditor would thus take following steps on receipt of appointment letter for statutory bank audit:
 - a. Accept the appointment as branch auditors;
 - b. Plan and make available the requisite staff for conducting branch audits allotted to you;
 - c. Communicate with previous auditors via email (instead of by registered post as permitted by ESB advisory);
 - d. Use illustrative format as given in the PDC advisory to communicate with the respective branches;
3. The audit firm will enquire and adopt the SOPs adopted by the respective banks under Covid-19 situation and would strictly comply with the government regulatory guidelines issued in this regard without any deviation thereof;
4. The audit firm can opt for all the communications by email instead of physical mode wherever necessary and it is suggested that all the communications are initiated by the audit firm from a designated single email-id which will enable the firm to keep a tab on all the communications with the bank officials at the respective branches under audit. Further, the firm may consider to number such communications in chronological order for having better controls;
5. The audit firm can request the bank to provide the data / documents required for the purpose of conducting the audit in soft copy format at mutual convenience of the auditor and auditee. The audit firm will ensure strict compliance with the Non-Disclosure Agreement (NDA) terms with regards to such data / documents received and will ensure confidentiality of the data / documents;
6. In view of the present lockdown and government advisory, the audit firms are advised to co-ordinate with the concerned bank officials for necessary arrangements for movement and safety of staff of audit firm within and outside of red zone, depending on location of auditor and the branch;

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7. The audit firm can ask the respective bank to provide an access for staff / partners at the nearest branch so as to enable to have delegation of work amongst them;
8. In case of non-availability of requisite files / documents at the branch, the audit firm may request either for arrangement of visit to Central Processing Cells (CPCs) or to make the files maintained at CPCs available at the branch;
9. An audit firm can seek support from the branches in following forms:
 - a. To ensure that the requisite bank officials are present at the branches who are able to give required information and explanations to the auditor;
 - b. To request the branch officials, that the branches to be kept open for entire day along with availability of CBS as per the requirements of the audit firm;
10. If sufficient appropriate audit evidence is not available, if need be, an auditor may include Emphasis of Matter / Key Audit Matters / Scope Limitations / Disclaimer of opinion, etc. in the audit report / certificates;
11. The Reserve Bank of India issued two circulars dated March 27, 2020 and April 17, 2020 resulting in changes in Asset Classification, and Provisioning norms to certain extent. It is suggested that the auditor should satisfy itself as regards compliance of the same by the bank;
12. You may also use the facility "Online Panel of Experts for answering the queries of Bank Branch Auditors" made available by the Auditing and Assurance Standards Board (AASB) of ICAI for responding queries related to statutory bank branch audit. With a view to support our members for fast resolution of such queries, the AASB has offered an online support to our members from May 02, 2020 for the bank branch audits for the year ended 31st March 2020. The queries can be sent at email id: [**bankauditfaq@icai.in**](mailto:bankauditfaq@icai.in)

We once again assure you all that the forum of ICAI would be always available to each of its members to address any practical / professional issues arising while performing the function of statutory bank branch audits.

Best wishes, stay safe and healthy!

Chairman & Vice Chairman
Auditing and Assurance Standards Board of ICAI

Dated: May 06, 2020

APPENDIX XII

Additional Guidance on Advances (Refer Chapter 11 “Reporting for Advances”)

Types of Advances

Fund Based and Non-Fund Based Credit Facilities

1. In Fund based credit facilities, there is an actual outflow of funds from the bank to the borrower, whereas non-fund based facilities, do not involve outflow of bank's funds. Typical fund based facilities are term loans, cash credits and overdrafts while non-fund based facilities are letters of credit, bank guarantees, letter of comfort/undertaking, etc. Non-fund based facility may turn into a fund based facility on due date, if not paid by the borrower, for e.g. devolvement of bills under LC, invocation of Bank Guarantee, etc.

Fund Based Facilities

Cash Credit

2. Cash credit facility is provided to entities (borrowers) engaged in manufacturing and / or trading activities to enable them meet the gap in their working capital requirements. This facility is repayable on demand. The cash credit facility is generally granted against security of stocks of goods (net of trade creditors), standing crops, bills / book debts representing genuine sales (restricted to pre-defined age of such book debts).

3. A cheque book is issued to the borrower for withdrawal of money against the limit sanctioned. The withdrawals are permitted to the extent, lower of drawing power or sanctioned limit. This is a revolving facility and is, generally, reviewed and renewed annually or on other intervals as per Bank policy. The Bank performs a periodical review of the borrower based on his credit assessment.

4. Cash credit advances are generally on 'floating' interest rate basis. The rate is reset periodically, depending upon changes in the bank's base rate (MCLR – Marginal Cost of fund based Lending Rate) / spread in relation to the borrower class and his risk perception.

Working Capital Demand Loan (WCDL)

5. WCDL is granted for a fixed period on expiry of which it has to be liquidated, renewed or rolled over. WCDL is generally granted to meet the working capital requirement gap and is considered as a part of working capital facility.

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Depending on the sanction terms, repayment of WCDL can either be in the form of instalments spread over the loan tenure or an end of tenure bullet payment. It has to be ensured that there is actual repayment at the end of the loan tenure by fund flows and not just a renewal by roll-over which could tantamount to ever-greening.

6. As per RBI Circular dated December 05, 2018 Guidelines on Loan System for Delivery of Bank Credit for FY 2020-21, In respect of borrowers having aggregate fund based working capital limit (WCL) of Rs. 1500 million and above from the banking system, a minimum level of 'loan component' of 60 percent is prescribed. Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 60 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs. Hence, for such borrowers, drawings up to 60 percent of the total fund based working capital limits shall only be allowed from the 'loan component'. Drawings in excess of the minimum 'loan component' threshold may be allowed in the form of cash credit facility.

7. The amount and tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than seven days. Banks may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers.

Guidelines on Loan System for Delivery of Bank Credit

8. The RBI issued circular RBI/2018-19/87 DBR.BP.BC.No.12/21.04.048/2018-19 dated December 05, 2018, specified minimum level of loan component as follows:

- a. In respect of borrowers having aggregate fund based working capital limit of ₹1500 million and above from the banking system, a minimum level of 'loan component' of 40 percent shall be effective from April 01, 2019. Accordingly, for such borrowers, the outstanding 'loan component' (Working Capital Loan) must be equal to at least 40 percent of the sanctioned fund based working capital limit, including ad hoc limits and TODs.
- b. All lenders in the consortium shall be individually and jointly responsible to make sure that at the aggregate level, the 'loan component' meets the above mentioned requirements. Under Multiple Banking Arrangements (MBAs), each bank shall ensure adherence to these guidelines at individual bank level.
- c. The amount and tenor of the loan component may be fixed by banks in consultation with the borrowers, subject to the tenor being not less than

seven days. Banks may decide to split the loan component into WCLs with different maturity periods as per the needs of the borrowers.

- d. Banks/consortia/syndicates will have the discretion to stipulate repayment of the WCLs in instalments or by way of a "bullet" repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower, subject to compliance with the extant IRAC norms.
- e. The guidelines will be effective from April 1, 2019 covering both existing as well as new relationships. The 40 percent loan component will be revised to 60 percent, with effect from July 1, 2019.

Repayment/Renewal/Rollover of Loan Component

9. Banks/consortia/syndicates will have the discretion to stipulate repayment of the WCLs in installments or by way of a "bullet" repayment, subject to IRAC norms. Banks may consider rollover of the WCLs at the request of the borrower, subject to compliance with the extant IRAC norms.

Risk weights for undrawn portion of cash credit limits

10. Effective from April 1, 2019, the undrawn portion of cash credit/ overdraft limits sanctioned to the aforesaid large borrowers, irrespective of whether unconditionally cancellable or not, shall attract a credit conversion factor of 20 percent.

Term Loans

11. Term loans are generally extended for the following purposes:

- setting up of plants, acquisition of fixed assets like land and building, plant and machinery, furniture, vehicles, implements, houses, consumer durables, etc.
- meeting expenses on education/medical treatment of self/dependants.
- meeting other personal expenses.
- Travel – Vehicle - Housing purchase and renovation.
- meeting deficit in net working capital requirements as assessed by the bank.
- Marketing / Launching / Branding etc.

12. Banks may give general purpose loans also i.e. without stipulating any end-use of funds, on the strength of a suitable security, or even without security based on the borrower's credit worthiness. Bank's policy provides guidance and documentation to be obtained for end use of funds in such cases which has to be ensured.

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13. Term loans are repayable in instalments spread over a period of time excluding the moratorium period, if granted. The moratorium period is assessed by the lender based on future cash flows and borrower requirements. If the borrower defaults in compliance with terms and conditions, the bank has the right to demand repayment of the entire loan outstanding, before due date. In few cases, there are terms for increase in interest rate as stipulated in sanction terms and conditions. The amount, periodicity of repayment, last draw down date and other terms and conditions are fixed at the time of sanction and duly recorded in the loan documents. The amount and periodicity may be uniform throughout the life of the loan, or either or both of them may differ from instalment to instalment. Besides, repayment schedule may either be drawn only for the principal amount in which case periodic interest has to be paid by the borrower separately as and when due, or a schedule may be fixed with 'equated monthly instalments' which also includes amount of interest likely to be applied to the account during its entire tenure at the rate of interest applicable at the time of sanction/documentation/first disbursement. The disbursement may happen in one tranche or more than one tranche as per the borrower requirements.

14. The interest rate for loans may be on 'fixed' terms' in which event, the rate contracted originally holds good during the entire loan currency, or it may be on 'variable' terms; where the rate may undergo changes at unspecified periods on happening of certain events as outlined in the loan agreement. This aspect is a subject matter of negotiation between the bank and the borrower. Interest is charged on reducing balance method at monthly rests.

Foreign Currency Loans (FCL)

15. Banks are authorised to lend in foreign currency. These loans are sanctioned as per the EXIM Policy and guidelines issued by RBI from time to time. FCL may be in nature of Term loans or Working Capital loans. These loans may be issued independently or through conversion of rupee term/working capital loan to FCL for a stipulated period as per RBI guidelines.

Overdrafts

16. The overdraft facility may be either secured or clean (i.e., without security) and does not generally carry a fixed repayment schedule. The most common form of security for an overdraft arrangement is term deposit receipts. Overdrafts may also be granted against other securities like immovable properties, life insurance policies, shares, bonds, NSCs, Kisan Vikas Patra, Indira Vikas Patra, etc. In case of term deposit receipts, care is taken to lien mark the deposit in the system and also on physical fixed deposit receipt (not on fixed deposit advice). Fixed deposits are generally for specific period and need to be renewed on

maturity. Care should be taken to ensure that interest rate spread between overdraft and fixed deposit is maintained. The bank has to update lien mark on the new fixed deposit. The bank has to ensure that proper margin i.e. security value and loan amount is kept while sanctioning the overdraft and at all times during the loan pendency.

Bills

17. Finance against bills is meant to finance the actual sale transactions and can be in any of the under mentioned form:

- Purchase of bills if these are payable 'on demand'.
- Discounting of bills if these are usance (or time) bills.
- Advance against bills under collection from the drawee, whether sent for realisation through the bank or sent directly by the drawer to the drawees.

18. Bills may be either 'documentary', i.e., accompanied by original documents of title to goods, or 'clean', i.e., without original documents of title to goods. In case of documentary bills, the bank releases documents of title to the drawee only against payment (in case of demand bills purchased) or against acceptance (in case of usance bills discounted). On release of documents of title after acceptance of usance bills, these assume the nature of clean bills. The bills may be domestic (denominated in rupee for domestic trade) or foreign (denominated in foreign currency for import/export).

19. A unique facility under this head is advances against bills drawn on public sector undertakings / government departments which do not accept bills. In such cases, pre-receipted challans are submitted by the borrower to the bank as an evidence for availing finance there against (a pre-receipted challan establishes genuine movement of goods and ensures usage of bank funds for sanctioned purposes only). This facility is commonly known in the banking sector as 'government bills facility' or 'supply bills facility'. The purchase / discounting of bills may be either under or without a letter of credit. In case of dishonour of bills, banks have the right to recover the amount from the drawer with penalty, additional interest, etc.

20. RBI has issued guidelines for regulation of discounting and rediscounting of bills (Ref. Master Circular No. DBR.No.Dir.BC.10/13.03.00/ 2015-16, dated July 01, 2015, "Loans and Advances-Statutory and other Restrictions").

Exports

Export Credit

21. Exporters are granted facilities in the form of cash credit and bills only. These facilities are in form of 'pre-shipment credit' and 'post-shipment credit'. All types

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of advances sanctioned to finance the production cycle – i.e. from procurement of raw materials to bringing them to the port for despatch fall under 'pre-shipment credit' category. It also includes financing of working capital expenses towards rendering of services. The advance is given based on individual order obtained, or sanctioned as an Export Packing Credit (EPC) limit and amounts disbursed on submission of individual orders; in the latter case, EPC becomes a running account. The exporter usually adjusts the account by drawing bills of exchange on the foreign buyer, which are discounted by the bank under the letter of credit and the proceeds collected from the foreign bank. The post-shipment credit relates to financing of bills raised on the overseas buyer upon shipment of goods/ services. Export credit advance may be granted in Indian Rupees or a designated foreign currency. In the latter case, the loan is disbursed in a foreign currency. Export credit is granted at concessional rates of interest. Pre-shipment credit has to be liquidated out of export proceeds only and cannot be adjusted out of rupee funds (except where raw materials required for processing exceed the FOB contract value, in which case the excess advance has to be repaid maximum within 30 days from the date of advance). Export proceeds have normally to be received within 9 months from the shipment date. This period can be extended in genuine cases, with the bank's approval or RBI approval, as permitted under FEMA Guidelines and operating instructions issued by the RBI from time to time.

22. Pre-shipment credit granted in a foreign currency is called 'Packing Credit in Foreign Currency' (PCFC) advance and has to be repaid out of export bills discounted under the Export Bills Rediscounting (EBR) scheme or out of export proceeds. Each bank designates a few select branches to handle PCFC and EBR transactions. The Rupee Export credit is also allowed to be shared between export order holders and manufacturer of the goods to be exported. Similarly, banks may extend PCFC to the manufacturer on the basis of disclaimer from the export order holder through his bank. PCFC granted to the manufacturer can be repaid by transfer of foreign currency from the export order holder by availing of PCFC or by discounting of bills. It should be ensured that no double financing is involved in the transaction and the total period of packing credit is limited to actual cycle of production of exported goods (Ref. Para 5.12 of the Master Circular No. DBR No.DIR.BC.14/04.02.002/2015-16 dated July 1, 2015, "Rupee/Foreign Currency Export Credit and Customer Service to Exporters"). PCFC may be made available to both the supplier of EOU/EPZ/SEZ unit and the receiver of EOU / EPZ / SEZ unit and PCFC for supplier EOU / EPZ / SEZ unit will be for supply of raw material/components of goods which will be further processed and finally exported by receiver EOU / EPZ / SEZ unit. The PCFC extended to the supplier EOU/EPZ/SEZ unit will have to be liquidated by receipt of foreign exchange from the receiver EOU/EPZ/SEZ unit, for which purpose, the

receiver EOU/EPZ/SEZ unit may avail of PCFC. The stipulation regarding liquidation of PCFC by payment in foreign exchange will be met in such cases not by negotiation of export documents but by transfer of foreign exchange from the banker of the receiver EOU/EPZ/SEZ unit to the banker of supplier EOU/EPZ/SEZ unit. Thus, there will not normally be any post-shipment credit in the transaction from the supplier EOU/EPZ/SEZ unit's point of view. In all such cases, it has to be ensured by banks that there is no double financing for the same transaction. The PCFC to receiver EOU/EPZ/SEZ unit will be liquidated by discounting of export bills or by receipt of export proceeds as per Master Circular DBR No.DIR.BC.14/04.02.002/2015-16 dated July 01, 2015, on "Rupee/Foreign Currency Export Credit and Customer Service to Exporters". In this context, attention is invited to RBI's Circular DBR No DIR.BC.14/04.02.002/2015-16 dated July 01, 2015 on "Rupee/Foreign Currency Export Credit and Customer Service to Exporters".

Imports

Trade Credit – Buyer's Credit

23. This facility is provided by Banks (foreign/overseas branches of Indian banks), financial institutions, foreign equity holder(s) located outside India and financial institutions in IFSCs located in India to importers of capital goods and raw material in India. The same is given against BG/SBLC issued by Indian bank, on behalf of their Indian importer customers, to enable them to receive such credit. The BG/SBLC issued by the Indian bank is duly recorded as a "contingent liability" in its books.

24. Detailed guidelines for the same are provided in paragraph 23.13 in the Chapter 23 of 'Audit of Foreign Exchange Business' of Section B of this Guidance Note.'

25. Entries of inward and outward remittances are to be recorded in the books of accounts (NOSTRO Mirror Account) of the Indian bank.

Nature of Security

26. Types of securities commonly accepted by banks for granting different kinds of credit facilities are examined in greater details in this section. Security can be in any form i.e. tangible or intangible, movable or immovable. Further, it is classified into two types namely, primary and collateral securities.

Primary and Collateral Securities

27. 'Primary Security' refers to the security offered by the borrower for bank finance or the one against which credit is extended by the bank. Primary security is the principal security for an advance. A collateral security is an additional security.

Mode of Creation of Security

28. Depending on the nature of the advance, creation of security may be in the form of a mortgage, pledge, hypothecation, assignment, set-off, or lien.

Mortgage

29. Mortgage is defined under section 58 of the Transfer of Property Act, 1882, as “the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability”.

30. Mortgages are of several kinds but the most important ones are the Registered Mortgage and the Equitable Mortgage. A Registered Mortgage is effected by a registered instrument called the ‘Mortgage Deed’ signed by the mortgagor. It registers the property to the mortgagee as a security. Equitable mortgage, is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof. The government mandates registration of all types of mortgages with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) which should be strictly followed by banks.

Pledge

31. A pledge is defined under section 172 of the Indian Contract Act, 1872, as “the bailment of goods as security for payment of a debt or performance of a promise.” A pledge involves bailment or delivery of goods by the borrower to the lending bank with the intention of creating a charge thereon as security for the advance. The legal ownership of the goods remains with the pledger while the lending banker gets certain defined interest in the goods. The pledge of goods constitutes a specific (or fixed) charge. In a pledge, the bank has all the liabilities and responsibilities of a bailee of goods. The bank may be held responsible for not carrying out their obligations as bailee.

Hypothecation

32. The term ‘hypothecation’ in commercial parlance refers to the creation of an equitable charge (i.e., a charge created not by an express enactment but by equity and reason), in favour of the lending bank by execution of hypothecation agreement in respect of the moveable securities belonging to the borrower. Neither ownership nor possession is transferred to the bank. However, the borrower holds the physical possession of the goods as an agent/trustee of the bank. The borrower periodically submits statements regarding quantity and value of hypothecated assets (stocks, debtors, etc.) to the lending banker based on which the drawing power of the borrower is fixed.

Assignment

33. Assignment represents a transfer of an existing or future debt, right or property belonging to a person in favour of another person. Only actionable claims (i.e., claim to any debt other than a debt secured by a mortgage of immovable property or by hypothecation or pledge of moveable property) such as book debts and life insurance policies are accepted by banks as security by way of assignment. An assignment gives the assignee absolute right over the moneys/debts assigned to him. The transfer of debt, right or property is subject to all the liabilities and equity to which the transferor was subject on the date of transfer. In other words, the assignee cannot get a better title than that of the assignor.

Set-off

34. Set-off is a statutory right of a creditor to adjust, wholly or partly, the debit balance in the debtor's account against any credit balance lying in another account of the debtor. A lending bank has the right of set-off in the absence of an agreement, express or implied, to the contrary with the borrower. The right of set-off enables a bank to combine two accounts (a deposit account and a loan account) of the same person provided both the accounts are in the same name and in the same right (i.e., the capacity of the account holder in both the accounts should be the same). For the purposes of set-off, all bank branches are treated as one single entity. The right of set-off can also be exercised in respect of time-barred debts.

Lien

35. Lien is creation of a legal charge with the owner's consent, which gives the lender a legal right to seize and dispose / liquidate the asset under lien.

Types of Securities

36. The characteristics of a good security from the view point of the lending bank are marketability, easy ascertainability, stability of value, clean title, realisability and transferability/transportability.

The most common types of securities accepted by banks are the following.

Fixed and Floating Charges

37. A fixed charge (also called 'specific charge') is a charge on some specific and ascertained assets. The creator of the charge (i.e., the borrower) cannot deal with the asset without the specific consent of the holder of the charge (i.e., the lender). A floating charge, is an equitable charge on the assets, present and future. A floating charge attaches to assets whose condition varies from

time to time in the ordinary course of business (e.g., work-in-process). A floating charge crystallises (i.e., becomes a fixed charge) when money becomes repayable and the holder of the charge (i.e., lender) takes necessary steps for enforcement of the security.

Personal Security of Guarantor

38. The personal security of guarantor comprises a third party guarantee for payment of loan outstanding, in the event of borrower's default. No charge is created on the guarantor's movable or immovable assets.

Margin

39. Margin on loans is upfront payment by the borrower towards the purpose of sanctioned loan. Banks provide finance after keeping suitable margin, depending on its risk perception. Margin is deducted from the asset value to take care of any downward fluctuations in the asset's market value. Generally, margin is prescribed in every sanction letter in terms of percentage of security value, as per bank's credit policy. For certain loans such as advances against gold ornaments and jewellery, RBI has defined the limits on the loan to value.

Stock Exchange Securities and Other Instruments

40. Stock Exchange securities include shares, debentures and bonds which are traded on stock exchanges. These securities are easily marketable; the market value is readily ascertainable; it is easy to ascertain the title of the depositor; and they are easy to pledge. Banks have policy for shares against which they provide loans and periodically re-assess the eligible share as security for lending. Banks also advance against instruments as gilt-edged securities, National Savings Certificates, Kisan Vikas Patras, Indira Vikas Patras, Gold Bonds, etc. Banks are not allowed to provide loans to companies for buy back of shares / securities. Banks are also not allowed to provide loans against security of its own shares.

41. These securities are usually in the possession of the bank. Wherever the shares are held as security by a bank (as primary or collateral security), banks are required to have them transferred in their own names if the loan amount exceeds the RBI prescribed ceiling). The ceiling is different for shares in dematerialised form and in physical form. In other cases, (i.e., where the loan amount does not exceed the prescribed ceiling), banks accept the aforesaid securities subject to following conditions:

- (a) in the case of physical shares, they are accompanied by blank transfer deeds duly signed by the person in whose name they are registered; in case of shares held in dematerialised form, authorisation slips should be

obtained from the borrower and passed on to the relevant depository participant who immediately marks those shares as pledged; or

- (b) the bank holds a general power of attorney from the person in whose name they are registered.

42. If the person in whose name the securities are registered is other than the borrower, the bank has to particularly satisfy itself that the person has a good title to the security. The bank also obtains a letter of renunciation from the person in whose name the securities are registered.

43. In the case of advances against bearer securities (Kisan Vikas Patras/Indira Vikas Patras), banks obtain independent/direct confirmation of the genuineness of the certificates from the issuing authorities. After obtaining such confirmation, bank possession is sufficient.

44. In case of government paper and inscribed stock, banks should get them registered in their own name while accepting them as security.

45. Before accepting shares as security, the lending bank has to ensure that provisions of section 19 of the Banking Regulation Act, 1949 are not contravened except otherwise specifically permitted by RBI regulations. This section prohibits a banking company from holding shares in any company, whether as pledge, mortgagee or absolute owner, of an amount exceeding thirty per cent of the paid up share capital of that company or thirty per cent of its own paid-up share capital and reserves, whichever is less.

Goods

46. Goods constitute a significant proportion of the securities taken by banks. They are either stock-in-trade of its trading customers or finished products of manufacturers. Raw materials, work-in-process, etc., are also accepted as security. Banks should have a system in place to ensure that the security in terms of stock offered by borrower is as per bank policy.

47. Goods may be either hypothecated to, or pledged with, the bank. As mentioned earlier, in case of hypothecation of goods, banks obtain periodic statements from the borrowers (monthly/quarterly), declaring quantity and value of the goods basis which the borrowers drawing power is fixed. The officers of the lending bank pay regular visits to borrower godowns or factories to inspect and check the correctness of records maintained by the borrowers basis which, the periodic statements are prepared by them. They also check value of the goods in stock with reference to sale bills, market quotations, etc. In the case of large advances, inventory is subject to inspection and verification (stock audit) by external agency at stipulated intervals. The Auditor

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may go through the same for determining the existence and adequacy of security and also to determine irregularity in the account, if any.

48. Stock registers are maintained by godown keepers of the lending bank in respect of goods pledged with the bank. Godowns are regularly inspected by the inspectors and other bank officers. When goods are brought into the godown, the godown keeper has to satisfy himself, by appropriate test checks, regarding the quantity and quality of goods. Banks have to exercise care to ensure that frauds are not perpetrated against them by pledging packages not containing the specified goods and later on holding them responsible for the goods supposed to have been pledged as per the documents.

49. The goods are insured against fire and other risks involved and the insurance policies are either in the name of, or endorsed in favour of, the bank. In case the borrower is a company, the bank has to ensure registration of charge with the Registrar of Companies.

Documents of Title to Goods

50. A document of title to goods is a negotiable or quasi-negotiable instrument. According to section 2(4) of the Sale of Goods Act, 1930, a document of title is any document used in the ordinary course of business as proof of the possession or control of goods, or authorising or purporting to authorise, either by endorsement or by delivery, the possessor of the document to transfer or receive the goods represented thereby.

51. Documents of title include:

- Bill of lading
- Railway receipt
- Transporter's receipt
- Dock warrant
- Warehouse-keeper's certificate
- Wharfinger's receipt
- Warrant or order for delivery of goods

Before being pledged with the bank, these documents have to be appropriately endorsed in bank's favour.

Gold Ornaments

52. Gold ornaments are accepted by banks as security on the basis of assessor's certificate regarding the content, purity, weight and value thereof. Valuation, keeps on changing as a result of market fluctuations. Loans are

given only on the basis of gold content of ornaments, without considering gold making charges. RBI, vide Master Circular No. DBR.No.Dir.BC.10/13.03.00/2015-16 on Loans and Advances-Statutory and Other Restrictions dated July 1, 2015, directed banks to give preference to hallmarked jewellery for granting advances. RBI vide Circular No. DBOD.BP.BC.No.86/21.01.023/2013-14 on "Lending against Gold Jewellery" dated January 20, 2014 read with Master Circular No. DBR.No.Dir.BC.10/13.03.00/2015-16 on Loans and Advances-Statutory and Other Restrictions dated July 1, 2015, issued guidance in respect of "Advances against Gold Ornaments and Jewellery for purpose of Medical Expenses and Meeting Unforeseen Liabilities". In this context, attention is invited to RBI's Circular No. DBOD.No.BP.79/21.04.048/2013-14 on "Non-Agriculture Loans against Gold Ornaments and Jewellery" dated December 30, 2013 read with circular no. RBI/2014-15/142 DBOD.No.BP.BC.27/21.04.048/2014-15 dated July 22, 2014 on "Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses" dated July 22, 2014 and Master Circular No. DBR.No.Dir.BC.10/13.03.00/2015-16 on Loans and Advances-Statutory and Other Restrictions dated July 1, 2015 containing guidelines on bullet repayment of loans extended against pledge of gold ornaments and jewellery for other than agricultural purposes.

Life Insurance Policies

53. Life insurance policies have to be assigned in bank's favour and such assignment has to be registered with the insurer. The surrender value of the policy is the basis of valuation.

Plantations

54. Advances are made to agriculturists such as tea gardeners to finance their growing crops. When the produce is harvested, processed and sold, the money is repaid to the bank.

55. The basis of calculating the amount of the advance is the estimated crop of the season. This depends upon the area under cultivation, expected yield, etc. Separate advances are made for each season's crop.

56. The crop to be produced is hypothecated to the bank. Generally, fixed assets of the plantation are also mortgaged with the bank as collateral security. Finance is taken from the bank to incur expenditure on the crop. The amount of the advance increases as the crop grows.

Immovable Property

57. Before advancing money on mortgage of immovable property, the lending bank has to satisfy itself that the borrower has a clear and unencumbered title to the property that is marketable and adequately insured. Banks ascertain

whether the property in question has already been mortgaged to any other financial institution and if so, details of charges already created on the property. In respect of advances to public companies against mortgage of a block of assets, it is essential that provisions of section 180(1)(a) of the Companies Act, 2013 are duly considered.

Third Party Guarantees

58. Advances covered by third party personal guarantees (except banks and government) in addition to borrower's personal security are not classified as 'secured' advances and are classified as 'unsecured' advances.

59. The guarantee bond executed by the guarantor in favour of the bank may be in bank's own prescribed form or otherwise. Such bonds are generally executed by holding companies, overseas customers, overseas principals, insurance companies, etc. A letter of continuity is also obtained from the guarantor.

Banker's General Lien

60. A lending bank also has a general lien under law. A lien represents the right of retaining the goods/securities unless a debt due by a debtor is paid to the creditor (retainer), provided there is no agreement, express or implied, to the contrary. A lien is a statutory right, which does not require any separate agreement. Under section 171 of the Indian Contract Act, 1872, a banker may, in the absence of an agreement to the contrary, retain as security for a general balance of account, any goods and securities bailed to him. This is called banker's general lien.

61. Two conditions necessary for creating such lien are:

- (a) Securities must be placed in a banker's hand by his customers; and
- (b) Securities are not specifically appropriated.

62. Securities over which a banker has general lien are credit balance in any other account, bonds and coupons deposited for collection, securities allowed to remain in banker's hands after repayment of a secured advance, etc.

63. Securities on which a banker does not have a general lien are securities deposited for safe custody, money deposited or earmarked for a specific purpose, documents executed for a special purpose, etc. Lien is applicable even in respect of the borrower's obligations as a surety. The banker's right of general lien over the security is not barred by the law of limitation and can be exercised in case of unenforceable or time-barred debts also.

64. 'Negative lien' refers to an undertaking given by the borrower to the bank

that no charge such as lien, pledge, hypothecation, or mortgage, over his immovable and moveable properties and assets including uncalled capital will be created without bank's prior permission. Negative lien relates to goods, securities, etc., not in Bank's possession. Negative lien does not require registration with Registrar of Companies or similar authorities.

Statutory Restrictions

Advances against Bank's own Shares

65. In terms of Section 20(1) of the Banking Regulation Act 1949, a bank cannot grant any loan or advance against the security of its own shares.

Advances to Bank's Directors

66. Section 20(1) of Banking Regulation Act, 1949 lays down restrictions on loans and advances to directors and firms in which they hold substantial interest.

67. Banks are prohibited from entering into any commitment for granting any loans or advances to or on behalf of any of its directors, or any firm in which any of its directors is interested as partner, manager, employee or guarantor, or any company (not being a subsidiary of the banking company or a company registered under Section 8 of the Companies Act, 2013 or a Government company) of which, or the subsidiary or the holding company of which any of the directors of the bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or any individual in respect of whom any of its directors is a partner or guarantor. Certain exemptions are given in the aforesaid Master Circular in this regard.

68. For the above purpose, the term 'loans and advances' shall not include:

- (a) Loans or advances against Government securities, life insurance policies or fixed deposit.
- (b) Loans or advances to Agricultural Finance Corporation Ltd.
- (c) such loans or advances as can be made by a banking company to any of its directors (who immediately prior to becoming a director, was an employee of the banking company) in his capacity as an employee of that banking company and on terms and conditions as would have been applicable to him as an employee of that banking company, if he had not become a director of the banking company. Banking company includes every bank to which provisions of Section 20 of Banking Regulation Act, 1949 apply.
- (d) such loans or advances granted by the banking company to its Chairman and Chief Executive Officer, who was not an employee of the banking

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company immediately prior to his appointment as Chairman/Managing Director/CEO, for the purpose of purchasing a car, personal computer, furniture or constructing/ acquiring a house for his personal use and festival advance, with prior approval of RBI and on such stipulated terms and conditions.

- (e) Such loans or advances granted by a banking company to its whole time director for the purpose of purchasing furniture, car, personal computer or constructing/acquiring house for personal use, festival advance with RBI prior approval and on such stipulated terms and conditions.
- (f) Call loans made by banking companies to one another.
- (g) Facilities like bills purchased/discounted (whether documentary or clean and sight or usance and whether on D/A basis or D/P basis), purchase of cheques, other non-fund based facilities like acceptance/co-acceptance of bills, opening of L/Cs and issue of guarantees, purchase of debentures from third parties, etc.
- (h) Line of credit/overdraft facility extended by settlement bankers to National Securities Clearing Corporation Ltd.(NSCCL)/ Clearing Corporation of India Ltd. (CCIL) to facilitate smooth settlement.
- (i) Credit limit granted under credit card facility provided by a bank to its directors to the extent the credit limit so granted is determined applying the same criteria as applied by it in normal conduct of credit card business.

Purchase of or discount of bills from directors and their concerns, which is in the nature of clean accommodation, is reckoned as 'loans and advances' for purposes of Section 20 of the Banking Regulation Act, 1949.

Restrictions on Power to Remit Debts

69. Section 20A of the Banking Regulation Act, 1949 stipulates that notwithstanding anything to the contrary contained in Section 180 of the Companies Act, 2013, a banking company shall not, except with RBI's prior approval, remit, in whole or in part, any debt due to it by -

- any of its directors, or
- any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor, or
- any individual, if any of its directors is his partner or guarantor.

Any remission made in contravention of the above provisions shall be void and shall have no effect.

Restriction on Holding Shares in Companies

70. As per Section 19(2) of Banking Regulation Act, 1949, banks should not hold shares in any company except as provided in sub-section (1) whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30 percent of the paid-up share capital of that company or 30 percent of its own paid-up share capital and reserves, whichever is less, except otherwise specifically permitted by RBI regulations.

71. In terms of Section 19(3) of the Banking Regulation Act, 1949, banks should not hold shares whether as pledgee, mortgagee or absolute owner, in any company in the management of which any managing director or manager of the bank is in any manner concerned or interested.

72. While granting loans and advances against shares, provisions of Sections 19(2) and 19(3) should be strictly observed, except otherwise specifically permitted by RBI regulations.

Restrictions on Credit to Companies for Buy-back of their Securities

73. As per Section 68 of the Companies Act, 2013, companies are permitted to purchase their own shares or other specified securities out of their:

- Free reserves.
- Securities premium account.
- Proceeds of any shares or other specified securities.

subject to compliance of various conditions specified in sub-section (2) of section 68 of Companies Act, 2013. Therefore, banks should not provide loans to companies for buy-back of shares/securities.

Regulatory Restrictions

Granting Loans and Advances to relatives of Directors

74. Without prior approval of the Board or its knowledge, no loans and advances should be granted to relatives of bank's Chairman/Managing Director or other Directors, Directors (including Chairman/Managing Director) of other banks and their relatives, Directors of Scheduled Co-operative Banks and their relatives, Directors of Subsidiaries/Trustees of Mutual Funds/Venture Capital Funds set up by the financing banks or other banks. However, banks may

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grant loan or advance to or on behalf of spouses of their Directors in cases where the spouse has his/her own independent source of income arising out of his/her employment or profession and the facility so granted is based on standard procedures and norms for assessing the borrower creditworthiness. Such facility should be extended on commercial terms. Accordingly, Banks should not grant loans and advances without approval of the Board of Directors/Management Committee aggregating Rupees twenty five lakhs and above to –

- a. directors (including the Chairman/Managing Director) of other banks.
- b. any firm in which any of the directors of other banks is interested as a partner or guarantor.
- c. any company in which any of the directors of other banks holds substantial interest or is interested as a director or as a guarantor.
- d. any relative other than spouse and minor/dependent children of their own Chairmen/Managing Directors or other Directors.
- e. any relative other than spouse and minor/dependent children of the Chairman/Managing Director or other directors of other banks.
- f. any firm in which any of the relatives other than spouse and minor/dependent children as mentioned in (d) & (e) above is interested as a partner or guarantor.
- g. any company in which any of the relatives other than spouse and minor / dependent children as mentioned in (d) & (e) above hold substantial interest or is interested as a director or as a guarantor.

Restrictions on Grant of Loans and Advances to Officers and the Relatives of Senior Officers of Banks

75. No officer or any Committee comprising, *inter alia*, an officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to his/her relative. Such a facility shall ordinarily be sanctioned only by the next higher sanctioning authority. Credit facilities sanctioned to senior officers of the financing bank should be reported to the Board. Loans and advances and award of contracts to relatives of senior officers of the bank or proposals for credit facilities to the relatives of senior officers of the bank sanctioned by the appropriate authority should be reported to the Board. Further, when a credit facility is sanctioned by an authority, other than the Board, to:

- any firm in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a partner or guarantor;

or

- any company in which any of the relatives of any senior officer of the financing bank holds substantial interest, or is interested as a director or as a guarantor, such transaction should also be reported to the Board.

Credit facility will not include loans and advances such as housing loans, car advances, consumption loans, etc., granted to an officer of the bank under any scheme applicable generally to bank employees.

Restriction on Advances against Sensitive Commodities under Selective Credit Control (SCC)

76. To prevent speculative holding of essential commodities with the help of bank credit and the resultant rise in their prices, in exercise of powers conferred by Sections 21 & 35A of the Banking Regulation Act, 1949, RBI, issues, from time to time, directives to all commercial banks, stipulating specific restrictions on bank advances against specified sensitive commodities.

The Auditor should be updated as to which commodities are under selection credit control during the audit period under review.

Restriction on payment of commission to staff members including officers

77. Section 10(1)(b)(ii) of Banking Regulation Act, 1934, stipulates that a banking company shall not employ or continue employment of any person whose remuneration or part of whose remuneration takes the form of commission or a share in the profits of the company. Clause (b) of Section 10(1)(b)(ii) permits payment of commission to any person who is employed only otherwise than as a regular staff. Therefore, banks should not pay commission to staff members and officers for recovery of loans.

Restrictions on offering incentives on any banking products

78. Banks are not permitted to offer any banking products, including online remittance schemes etc., with prizes /lottery/free trips (in India and/or abroad), etc. or any other incentives having an element of chance, except inexpensive gifts costing less than Rs. 250/-, as such products involve non-transparency in the pricing mechanism. Such products, if offered, by banks are considered as violation of extant guidelines and banks concerned are liable for penal action.

Restrictions on Other Loans and Advances

Loans and Advances against Shares, Debentures and Bonds

79. Banks are required to strictly observe regulatory restrictions on grant of loans and advances against shares, debentures and bonds as detailed in Master Circular no. RBI /2015-16/95 DBR.No.Dir.BC. 10/13.03.00/2015-16

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dated July 01, 2015 on “Loans and Advances – Statutory and Other Restrictions”. The restrictions on loans and advances against shares and debentures, are:

- (a) No loans to be granted against partly paid shares.
- (b) No loans to be granted to partnership/proprietorship concerns against the primary security of shares and debentures.

80. RBI’s Master Circular No. RBI/2015-16/95 DBR. No. Dir. BC. 10/13.03.00/2015-16 “Loans and Advances - Statutory and Other Restrictions” contains guidelines for granting Loan and Advances against Shares, Debentures and Bonds as follows:

Advances to individuals

81. Banks may grant advances against security of shares, debentures or bonds to individuals subject to following conditions:

- (i) **Amount of advance:** Loans against security of shares, debentures and bonds should not exceed Rs. 10 lakhs per individual if the securities are held in physical form and Rs. 20 lakhs per individual if securities are held in dematerialised form. Auditors should note updated limits from time to time.
- (ii) **Margin:** Banks should maintain a minimum margin of 50 percent of the market value of equity shares / convertible debentures held in physical form. In case of shares / convertible debentures held in dematerialised form, a minimum margin of 25 percent should be maintained. These are minimum margin stipulations and banks may stipulate higher margins for shares whether held in physical or dematerialized form. Margin requirements for advances against preference shares / nonconvertible debentures and bonds may be determined by banks themselves.
- (iii) **Lending policy:** Each bank should formulate with their Board of Directors, approval, a Loan Policy for grant of advances to individuals against shares / debentures / bonds keeping in view RBI guidelines. Banks should obtain a declaration from the borrower indicating the extent of loans availed of by him from other banks as input for credit evaluation. It would also be necessary to ensure that such accommodation from different banks is not obtained against shares of a single company or a group of companies. As a prudential measure, each bank may also consider laying down appropriate aggregate sub-limits of such advances.

82. Advances to Share and Stock Brokers/ Commodity Brokers

- (i) Banks and their subsidiaries are not permitted to finance 'Badla' transactions. Banks can grant advances only to SEBI registered share and

stock brokers complying with capital adequacy norms prescribed by SEBI / Stock Exchanges. This would be towards need based overdraft facilities / line of credit against shares and debentures held by them as stock in trade. A careful assessment of need based requirements for such finance should be made taking into account the borrower's financial position, operations on his own account and on behalf of clients, income earned, average turnover period of stocks and shares and the extent to which broker's funds are required to be involved in business operations. Banks may also grant working capital facilities to such stock brokers to meet cash flow gap between delivery and payment for DVP transactions undertaken on behalf of institutional clients viz. FIs, FII, mutual funds and banks, duration of such a facility will be short and based on an assessment of financing requirements keeping in view cash flow gaps, the broker's funds required to be deployed for the transaction and overall financial position of the broker. Utilization has to be monitored based on individual transactions.

Banks may institute adequate safeguards and monitoring mechanisms. A uniform margin of 50 per cent is required to be applied on all advances/ financing of IPOs/ issue of guarantees on behalf of share and stockbrokers. A minimum cash margin of 25 per cent (within the 50% margin) shall be maintained in respect of guarantees issued by banks for capital market operations. The above minimum margin will also apply to guarantees issued by banks on behalf of commodity brokers in favour of commodity exchanges viz. National Commodity and Derivatives Exchange (NCDEX), Multi Commodity Exchange of India Ltd. (MCX) and National Multi Commodity Exchange of India Ltd. (NMCEIL), in lieu of margin requirements as per commodity exchange regulations. These margin requirements will also be applicable in respect of bank finance to stock brokers by way of temporary overdrafts for DVP transactions. Banks may issue guarantees on behalf of share and stock brokers/commodity brokers in favour of stock exchanges in lieu of security deposit to the extent it is acceptable in form of bank guarantee as laid down by stock exchanges. Banks may also issue guarantees in lieu of margin requirements as per stock exchange regulations.

- (ii) The requirement relating to transfer of shares in bank's name in respect of shares held in physical form mentioned at Sl. No. (ix) of Paragraph 2.3.1.14 of Master Circular on Loans and Advances would not apply in respect of advances granted to share and stock brokers provided such shares are held as security for a period not exceeding nine months. In case of dematerialised shares, the depository system provides a facility for pledging

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and banks may avail this facility. In such cases, there will not be a need to transfer the shares in the bank's name irrespective of the period of holding. The share and stock brokers are free to substitute shares pledged by them as and when necessary. In case of a default in the account, the bank should exercise the option to get the shares transferred in its name.

Bank finance for market makers

83. Necessary guidelines for the same as stated in the Master Circular to be noted wherever applicable cases exist in the Branch.

Financing of Initial Public Offerings (IPOs)

84. Banks should ensure that no advances exceed Rs. 10 lakhs to any individual against security of shares, convertible bonds, convertible debentures, units of equity oriented mutual funds and PSU bonds for subscribing to IPOs. Banks should not extend any credit or financing to Corporates for investment in other companies' IPOs and to NBFCs for further lending to individuals for IPOs.

85. Bank Finance to assist employees to buy shares of their own companies

- (i) Banks may extend finance to employees for purchasing shares of their own companies under Employees Stock Option Plan (ESOP)/ reserved by way of employees' quota under IPO to the extent of 90% of the purchase price of the shares or Rs. 20 Lakhs, whichever is less. Banks are not allowed to extend advances including advances to their employees/ Employees' Trusts set up by them for purposes of purchasing their own banks' share under ESOPs/IPOs or from the secondary market irrespective of whether the advances are secured or unsecured. Follow-on Public Offers (FPOs) will also be included under IPO.
- (ii) Banks should obtain declaration from the borrower indicating details of loan/advances availed against shares and other securities specified above, from any other bank/s to ensure compliance with the prescribed ceilings.

86. Advances to other borrowers against shares / debentures / bonds

- (i) The question of granting advances against primary security of shares and debenture including promoters' shares to industrial, corporate or other borrowers should not normally arise except for secured loans granted towards working capital or for other productive purposes other than NBFCs. In such cases, Banks should accept shares only in dematerialised form. Banks may accept shares of promoters only in dematerialized form wherever demat facility is available.

- (ii) Banks may obtain collateral security of shares and debentures by way of margin for a temporary period of one year from borrowers other than NBFCs in the course of setting up of new projects or expansion of existing business or for purposes of raising additional working capital. Banks have to satisfy themselves regarding the capacity of the borrower to raise the required funds and to repay the advance within the stipulated period.

Bank Loans for Financing Promoters Contribution

87. The promoters' contribution towards the equity capital of a company should come from their own resources and bank's should not normally grant advances to take up shares of other companies. However, banks are permitted to extend loans to corporate against security of shares (as far as possible in dematerialised form) held by them to meet promoters' contribution to equity of new companies in anticipation of raising resources subject to terms and conditions detailed in the loan policy of the bank, in addition to general guidelines given in para 2.3.1.14 of the Master Circular no. RBI/2015-16 /95 DBR. No. Dir. BC. 10/13.03.00/ 2015-16 dated July 1, 2015 on Loans and Advances – Statutory and Other restrictions.

- i) Margin and loan repayment period may be determined by the banks.
- ii) Loans sanctioned to a corporate against security of shares (as far as possible, demat shares) for meeting promoters' contribution to the equity of new companies in anticipation of raising resources, should be treated as bank's investments in shares coming under the ceiling of 40 percent of the bank's net worth as on March 31 of the previous year prescribed for the bank's total exposure including both fund and non-fund based exposure to capital market in all forms. These loans will be subject to individual/group of borrowers exposure norms and statutory limit on shareholding in companies, detailed in Master Circular no. RBI/2015-16/70 DBR.No.Dir.BC.12/ 13.03.00/2015-16 dated July 1, 2015 on Exposure Norms.
- iii) Banks may extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a Board approved policy, duly incorporated in the bank's loan policy. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.
- iv) Restriction on grant of bank advances for financing promoters' contribution towards equity capital would also extend to bank finance to activities related

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to acquisitions like payment of non-compete fee, etc. These restrictions would also apply to bank finance to such activities by overseas branches / subsidiaries of Indian banks.

- v) With the approval of the Board of Directors, banks should formulate internal guidelines with appropriate safeguards for this purpose.
- vi) Under refinance scheme of Export-Import Bank of India, banks may sanction term loans on merits to eligible Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries, provided the term loans are approved by EXIM Bank for refinance.

Advances against Units of Mutual Funds

88. While granting advances against units of mutual funds, banks should adhere to the following guidelines:

- i) Units should be listed in Stock Exchanges or repurchase facility for the Units of mutual fund should be available at the time of lending.
- ii) Units should have completed the minimum lock-in-period stipulated in the relevant scheme.
- iii) Amount of advance should be linked to the Net Asset Value (NAV) / repurchase price or market value, whichever is less and not to face value.
- iv) Advance against units of mutual funds (except units of exclusively debt oriented funds) would attract quantum and margin requirements as applicable to advance against shares and debentures. However, the quantum and margin requirement for loans/ advances to individuals against units of exclusively debt-oriented mutual funds may be decided by individual banks themselves in accordance with their loan policy.
- v) Advances should be purpose oriented, taking into account the credit requirement of the investor. Advances should not be granted for subscribing to or boosting up the sales of another scheme of mutual funds or for purchase of shares/ debentures/ bonds etc.

89. For exposure norms w.r.t. advances against units of Mutual Funds, refer to Para 4.6 of the Master Circular No. RBI/2015-16/70 DBR.No.Dir.BC.12/13.03.00/2015-16 dated July 1, 2015 on "Exposure Norms".

Margin Trading

90. Banks may extend finance to stockbrokers for margin trading. The Board of each bank should formulate detailed guidelines for lending for margin trading, subject to the following parameters:

- (a) Finance extended for margin trading should be within the overall ceiling of

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40% of net worth prescribed for capital market exposure.

- (b) Minimum margin of 50 per cent to be maintained on the funds lent for margin trading.
- (c) Shares purchased with margin trading to be in dematerialised mode under pledge to the lending bank. Bank to put in place an appropriate system for monitoring and maintaining the margin of 50% on an ongoing basis.
- (d) Bank's Board should prescribe necessary safeguards to ensure that no "nexus" develops between inter-connected stock broking entities/ stockbrokers and the bank in respect of margin trading. Margin trading should be spread out by the bank among a reasonable number of stockbrokers and stock broking entities.

91. The Audit Committee of the Board should periodically monitor bank's exposure by way of financing for margin trading and ensure that Board guidelines, subject to the above parameters, are complied. Banks should disclose the total finance extended for margin trading in "Notes on Account" to their Balance Sheet.

Financing for Acquisition of Equity in Overseas Companies

92. Banks may extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a Board approved policy, duly incorporated in the bank's loan policy. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. While the Board may frame its own guidelines and safeguards for such lending, such acquisition(s) should be beneficial to the company and the country. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

Refinance Scheme of Export Import Bank of India

93. Under the refinance scheme of Export Import Bank of India (EXIM Bank), banks may sanction term loans on merits to eligible Indian promoters for acquisition of equity in overseas joint ventures / wholly owned subsidiaries, provided that term loans are approved by the EXIM Bank for refinance.

Arbitrage Operations

94. Banks should not undertake arbitrage operations themselves or extend credit facilities directly or indirectly to stockbrokers for arbitrage operations in Stock Exchanges. While banks are permitted to acquire shares from the secondary market, they should ensure that no sale transaction is undertaken without holding

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the shares in their investment accounts.

General guidelines applicable to advances against shares / debentures / bonds

95. Statutory provisions regarding grant of advances against shares contained in Sections 19(2) and (3) and 20(1) (a) of the Banking Regulation Act, 1949 should be strictly observed. Shares held in dematerialised form should also be included for the purpose of determining limits under Section 19(2) and 19(3).

96. While considering grant of advances against shares / debentures banks must follow normal procedures for sanction, appraisal and post sanction follow-up.

97. Advances against primary security of shares / debentures / bonds should be kept distinct and separate and not combined with any other advance.

98. Banks should satisfy themselves about the marketability/ reliability of the shares / debentures and the net worth and working of the company whose shares / debentures / bonds are offered as security.

99. Shares/ debentures/ bonds should be valued at prevailing market prices when they are lodged as security for advances.

100. Banks should exercise particular care when advances are sought against large blocks of shares by a borrower or a group of borrowers. It should be ensured that advances against shares are not used to enable the borrower to acquire or retain a controlling interest in the company/ companies or to facilitate or retain inter-corporate investments.

101. No advance shall be granted against partly paid shares.

102. No loans to be granted to partnership/ proprietorship concerns against primary security of shares and debentures.

103. Whenever the limit/limits of advances granted to a borrower exceed Rupees Ten lakhs, it should be ensured that the said shares / debentures / bonds are transferred in the bank's name and that the bank has exclusive and unconditional voting rights in respect of such shares. For this purpose the aggregate of limits against shares / debentures / bonds granted by a bank at all its offices to a single borrower should be taken into account.

104. Where securities are held in dematerialised form, the requirement relating to transfer of shares in bank's name will not apply and banks may take their own decision in this regard.

105. Banks should, however, avail of the facility provided in the depository system for pledging securities held in dematerialised form under which the securities pledged by the borrower get blocked in favour of the lending bank. In

case of default by the borrower and on the bank exercising the option of invocation of pledge, the shares and debentures get transferred in the bank's name immediately.

106. Banks may take their own decision in regard to exercise of voting rights and may prescribe procedures for this purpose.

107. Banks should ensure that the scrip lodged with them as security are not stolen / duplicate / fake / benami. Any irregularities coming to their notice should be reported immediately to the RBI.

108. Banks operating in India should not be a party to transactions such as making advances or issuing back-up guarantees favouring other banks for extending credit to clients of Indian nationality / origin by some of their overseas branches, to enable borrowers to make investments in shares and debentures / bonds of Indian companies.

109. A uniform 50 per cent margin shall apply on all advances against shares/financing of IPOs/issue of Guarantees. A minimum 25 per cent cash margin (within margin of 50 per cent) shall be maintained in respect of guarantees issued by banks for capital market operations. These margin requirements will also apply in respect of bank finance to stock brokers by way of temporary overdrafts for DVP transactions.

Advances against Fixed Deposit Receipts issued by Other Banks

110. Instances have come to light where fake term deposit receipts, purported to have been issued by some banks, were used for obtaining advances from other banks. RBI has hence, advised banks to desist from sanctioning advances against FDRs, or other term deposits of other banks.

Advances to Agents/Intermediaries Based on Consideration of Deposit Mobilisation

111. Banks should desist being part to unethical practices of raising of resources through agents/intermediaries to meet credit needs of existing/prospective borrowers or from granting loans to intermediaries, based on consideration of deposit mobilisation, who may not require funds for genuine business requirements.

Loans Against Certificate of Deposits (CDs)

112. Banks cannot grant loans against CDs. Banks are also not permitted to buy-back their own CDs before maturity. However, these restrictions on lending and buy back in respect of CDs held by mutual funds have been relaxed.

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113. While granting such loans to mutual funds, banks should keep in view provisions of Paragraph 44(2) of the SEBI (Mutual Funds) Regulations, 1996. Further, such finance, if extended to equity-oriented mutual funds, will form part of banks' capital market exposure.

Finance for and Loans/Advances against Indian Depository Receipts (IDRs)

114. Banks are not permitted to grant any loan / advance for subscription to Indian Depository Receipts (IDRs). No loans/ advances can be granted against security / collateral of IDRs issued in India.

Bank Finance to Non-Banking Financial Companies (NBFCs)

115. RBI, vide Master Circular No. RBI/2021-22/149 DOR.CRE.REC.No.77/21.04.172/2021-22 on Bank Finance to Non-Banking Financial Companies (NBFCs) dated January 05, 2022 states:

- a) Ceiling on bank credit linked to Net Owned Fund (NOF) of NBFCs has been withdrawn in respect of all NBFCs statutorily registered with RBI and engaged in principal business of asset financing, loan, factoring and investment activities. Accordingly, banks may extend need based working capital facilities and term loans to all NBFCs registered with RBI and engaged in infrastructure financing, equipment leasing, hire-purchase, loan, factoring and investment activities.
- b) Banks may finance NBFCs against second hand assets financed by them.
- c) Banks may formulate suitable loan policy with the approval of their Boards of Directors within RBI prudential guidelines and exposure norms to extend various kinds of credit facilities to NBFCs subject to the condition that the activities as indicated in the Master Circular are not financed by them.

116. In terms of RBI Master Direction on "Exemptions from the provisions of RBI Act, 1934" dated August 25, 2016 (Updated as on November 24, 2020), few categories of non-banking financial companies are exempted from certain provisions of the Reserve Bank of India Act, 1934 (the RBI Act, 1934), including the need for registration with the Reserve Bank. For such NBFCs not needing registration with the RBI, banks may take their credit decisions on the basis of usual factors like the purpose of credit, nature and quality of underlying assets, repayment capacity of borrowers as also risk perception, etc.

117. Banks are prohibited from providing credit for the following NBFC activities:

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- (i) Bills discounted/rediscouted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from sale of –
 - (a) commercial vehicles (including light commercial vehicles), and
 - (b) two-wheeler and three-wheeler vehicles, subject to following conditions:
 - bills should have been drawn by the manufacturers on dealers only.
 - bills should represent genuine sale transactions as may be ascertained from the chassis/engine numbers.
 - before rediscounting the bills, banks should satisfy themselves about the *bona fides* and track record of the NBFCs discounting the bills.
- (ii) Investments of NBFCs both of current and long term nature, in any company/entity by way of shares, debentures, etc. However, Stock Broking Companies may be provided need-based credit against shares and debentures held by them as stock-in-trade.
- (iii) Unsecured loans/inter-corporate deposits by NBFCs to/in any company.
- (iv) All types of loans/advances by NBFCs to their subsidiaries, group companies/entities.
- (v) Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings (IPOs) and for purchase of shares from secondary market.

Other Prohibition on Bank Finance to NBFCs

Bridge loans / interim finance to NBFCs

119. Banks should not grant bridge loans of any nature, or interim finance against capital / debenture issues and / or in form of loans of a bridging nature pending raising of long-term funds from the market by way of capital, deposits, etc. to all categories of Non-Banking Financial Companies, i.e., equipment leasing and hire-purchase finance companies, loan and investment companies and also Residuary Non-Banking Companies (RNBCs).

120. Banks should strictly follow these instructions and ensure that they are not circumvented in any manner whatsoever by purport and / or intent by sanction of credit under a different nomenclature like unsecured negotiable notes, floating rate interest bonds, etc., as also short-term loans, repayment of which is proposed / expected to be made out of funds to be or likely to be mobilised from external / other sources and not out of surplus generated by use of the asset(s).

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Advances against collateral security of shares to NBFCs

121. Shares and debentures cannot be accepted as collateral securities for secured loans granted to NBFCs borrowers for any purpose.

Restriction on Guarantees for placement of funds with NBFCs

122. Banks should not execute guarantees covering inter-company deposits / loans thereby guaranteeing refund of deposits / loans accepted by NBFCs / firms from other NBFCs / firms. The restriction would cover all types of deposits / loans irrespective of their source, including deposits / loans received by NBFCs from trusts and other institutions. Guarantees should not be issued for purposes of indirectly enabling placement of deposits with NBFCs.

Bank Finance to Equipment Leasing Companies

123. Banks should not enter into lease agreements departmentally with equipment leasing companies as well as other Non-Banking Financial Companies engaged in equipment leasing.

Bank Finance to Factoring Companies

124. Necessary guidelines given in the master circular should be noted in applicable cases if any in branches.

Restrictions regarding investments made by banks in securities/ instruments issued by NBFCs

125. Banks should not invest in Zero Coupon Bonds (ZCBs) issued by NBFCs unless the issuer NBFC builds up sinking fund for all accrued interest and keeps it invested in liquid investments / securities (Government bonds).

126. Banks are permitted to invest in Non-Convertible Debentures (NCDs) with original or initial maturity up to one year issued by NBFCs. While investing in such instruments banks should be guided by the extant prudential guidelines in force, ensure that the issuer has disclosed the purpose for which the NCDs are being issued in the disclosure document and such purposes are eligible for bank finance.

Advances Against NR(E) and FCNR(B) Deposits

127. Grant of advance against NR(E) and FCNR(B) deposits would be subject to guidelines issued under Foreign Exchange Management Act, 1999.

Advances Against Bullion/Primary Gold

128. Banks are prohibited from granting any advance against bullion/ primary gold. However, specially minted gold coins sold by banks are not treated as

“bullion” or “primary gold” and hence are acceptable as security upto 50 gms per customer. Such loans may be covered under the policy framed by the bank’s Board, in terms of RBI circular DBOD.No. BC. 138/21.01.023/94 dated November 22, 1994. Where advances have been granted against gold coins it should be ensured that end use of funds is for approved, non- speculative purposes. Banks should desist from granting advances to silver bullion dealers which are likely to be utilised for speculative purposes.

Loans for Acquisition of KVPs

129. Banks should ensure that no loans are sanctioned for acquisition of/investing in Small Savings Instruments including Kisan Vikas Patras.

Advances against Gold Ornaments and Jewellery

130. RBI vide Master Circular No. RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on “Loans and Advances – Statutory and Other Restrictions” states that hallmarking of gold jewellery ensures quality of gold used in the jewellery as to carat fineness and purity. Hence, granting of advances against security of such hallmarked jewellery is safer and easier. Preferential treatment is given to loans against hallmarked jewellery as it is also in the long-term interest of consumer, lenders and industry. Based on gold purity and content, bank decides on margin and rates of interest.

Loan to Value Ratio for Loan against Gold Ornaments and Jewellery

131. RBI vide Master Circular No. RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on “Loans and Advances – Statutory and Other Restrictions” provides that loans (including bullet repayment loans) sanctioned by banks against pledge of gold ornaments and jewellery for non-agricultural purposes should not exceed 75 per cent of the value of gold ornaments and jewellery. The RBI issued circular DoR.No.BP.BC/6/21.04.048/2020-21 dated August 06, 2020 on “Loans against Gold Ornaments and Jewellery for Non-Agricultural End-uses”, wherein the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes was increased from 75% to 90%, to enable the borrowers to tide over their temporary liquidity mismatches on account of COVID 19. The said enhanced LTV is applicable upto March 31, 2021 and fresh loans which are sanctioned subsequently, i.e., from April 01, 2021 onwards shall attract LTV ratio of 75%.

132. In order to standardize the valuation and make it more transparent to the borrower, gold ornaments and jewellery accepted as security / collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd. [Formerly

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known as the Bombay Bullion Association Ltd. (BBA)]. If the gold is of purity less than 22 carats, bank should translate the collateral into 22 carat and value the exact grams of the collateral.

133. Loans extended against pledge of gold ornaments and jewellery other than for agricultural purposes, where both interest and principal are due for payment at maturity of the loan will be subject to following conditions:

- (i) Banks, as per their Board approved policy, may decide upon the ceiling with regard to the quantum of loan that may be granted against pledge of gold jewellery and ornaments for non-agricultural end uses.
- (ii) Period of the loan shall not exceed 12 months from sanction date.
- (iii) Interest will be charged at monthly rests and recognized on accrual basis if the account is a 'standard' account. This will also apply to existing loans.
- (iv) Such loans shall also be governed by other extant norms pertaining to income recognition, asset classification and provisioning which shall be applicable once the principal and interest become overdue.

Gold (Metal) Loans

134. Nominated banks can extend Gold (Metal) Loans to exporters of jewellery who are customers of other scheduled commercial banks, by accepting stand-by letter of credit or bank guarantee issued by their bankers in favour of the nominated banks subject to authorised banks' own norms for lending and other conditions stipulated by RBI. Banks may also extend the facility to domestic jewellery manufacturers, subject to the conditions specified by RBI's Master Circular RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on "Loans and Advances - Statutory and Other restrictions".

135. Nominated banks may continue to extend Gold (Metal) Loans to jewellery exporters subject to following conditions:

- Exposure assumed by the nominated bank extending the Gold (Metal) Loan against stand-by LC / BG of another bank will be deemed as an exposure on the guaranteeing bank and attract appropriate risk weight as per extant guidelines.
- The transaction should be on back-to-back basis i.e. nominated banks should extend Gold (Metal) Loan directly to the customer of a non-nominated bank, against the stand-by LC / BG issued by the latter.
- Gold (Metal) Loans should not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.

- Banks may calculate their exposure and compliance with prudential norms daily by converting into Rupee the gold quantity by crossing London AM fixing for Gold / US Dollar rate with the rupee-dollar reference rate announced by RBI.

136. Banks should recognise overall risks in extending Gold (Metal) Loans and in extending SBLC / BG. Banks should lay down appropriate risk management / lending policy in this regard and comply with Ghosh Committee recommendations and other internal requirements relating to acceptance of guarantees of other banks to obviate possibility of frauds.

137. Nominated banks are not permitted to enter into any tie up arrangements for retailing of gold / gold coins with any other entity including non-banking financial companies / co-operative banks / non-nominated banks.

Loans and advances to Micro and Small Enterprises (MSEs)

138. RBI has issued Master Directions on Lending to Micro, Small and Medium Enterprises (MSME) sector vide Master Directions no.FIDD.MSME and NFS.12/06.02.31/2017-18 dated July 24, 2017 (updated April 25, 2018), in which definition of MSME and common guidelines/instructions for lending to MSME section are given.

Working Capital Finance to Information Technology and Software Industry

139. Following the recommendations of the “National Taskforce on Information Technology and Software Development“, the RBI has framed guidelines for extending working capital to the said industry. Banks are free to modify the guidelines based on their own experience without reference to the RBI to achieve the purpose of the guidelines in letter and spirit.

140. Salient features of these guidelines are as under:

- (i) Banks may consider sanction of working capital limits based on track record of the promoter’s group affiliation, composition of the management team, their work experience and infrastructure.
- (ii) For borrowers with working capital limits of up to Rs 2 crore, assessment may be made at 20 percent of the projected turnover. In other cases, banks may consider assessment of MPBF based on monthly cash budget system. For borrowers enjoying working capital limits of Rs 10 crore and above from the banking system, guidelines regarding the loan system would be applicable.
- (iii) Banks may obtain collateral security wherever available. First/ second charge on current assets, if available, may be obtained.

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- (iv) Rate of interest as prescribed for general category of borrowers may be levied. Concessional rate of interest as applicable to pre-shipment/post-shipment credit may be levied.
- (v) Banks may evolve tailor-made follow up system for such advances. Banks could obtain quarterly statements of cash flows to monitor operations. In case the sanction was not made based on cash budgets, they can devise a reporting system, deemed fit.

Guidelines for bank finance for PSU disinvestments of Government of India

141. In terms of RBI circular DBOD No. Dir.BC.90/13.07.05/98 dated August 28, 1998, the promoters' contribution towards equity capital of a company should come from their own resources and bank should not normally grant advances to take up shares of other companies. Banks should ensure that advances against shares are not used to enable the borrower to acquire or retain a controlling interest in the company/companies or to facilitate or retain inter-corporate investment.

142. The instructions of the 1998 circular would not apply in the case of bank finance to the successful bidders under the PSU disinvestment program of the Government, subject to the following:

- Banks' proposals for financing the successful bidders in PSU disinvestment programme should be approved by their Board of Directors.
- Bank finance should be for acquisition of shares of PSU under a disinvestment programme approved by Government of India, including the secondary stage mandatory open offer, wherever applicable and not for subsequent acquisition of PSU shares. Bank finance should be made available only for prospective disinvestments by Government of India.
- Companies, including promoters, to which bank finance is to be extended, should have adequate net worth and an excellent track record of servicing loans availed from the banking system.
- Amount of bank finance provided should be reasonable with reference to the banks' size, its net worth, business and risk profile.

143. In case the advances against PSU disinvestment is secured by shares of the disinvested PSUs or any other shares, banks should follow RBI's extant guidelines on capital market exposures on margin, ceiling on overall exposure to the capital market, risk management and internal control systems, surveillance and monitoring by the Audit Committee of the Board, valuation and disclosure, etc. In this regard, banks may be guided by the Master Circular no. RBI /2015-

16/70 DBR.No.Dir.BC.12 /13.03.00/2015-16 dated July 1, 2015 on “Exposure Norms”.

Stipulation of lock-in period for shares

144. Banks may extend finance to the successful bidders even though the shares of the disinvested company acquired/ to be acquired by the successful bidder are subjected to a lock-in period/ other such restrictions which affect their liquidity, subject to fulfilment of following conditions:

- (a) Documentation between Government of India and the successful bidder should contain a specific provision permitting the pledgee to liquidate the shares during lock-in period that may be prescribed in respect of such disinvestments, in case of shortfall in margin requirements or default by the borrower.
- (b) If the documentation does not contain such a specific provision, the borrower (successful bidder) should obtain waiver from the Government for disposal of shares acquired under PSU disinvestment program during the lock-in period.

145. As per the terms and conditions of PSU disinvestments by Government of India, the pledgee bank will not be allowed to invoke the pledge during the first year of lock-in period. During the second and third year of the lock-in period, in case of inability of the borrower to restore the margin prescribed for the purpose by way of additional security or non-performance of the payment obligations as per the repayment schedule agreed upon between the bank and the borrower, the bank would have the right to invoke the pledge. The pledgee bank's right to invoke the pledge during the second and third years of the lock-in period, would be subject to documentation terms and conditions between Government and the successful bidder, which cast certain responsibilities on the pledgee banks.

146. The RBI has clarified that the concerned bank must make a proper appraisal and exercise due caution about creditworthiness of the borrower and the financial viability of the proposal. The bank must satisfy itself that the proposed documentation, relating to the disposal of shares pledged with the bank, are fully acceptable and do not involve unacceptable risks.

147. In terms of IECD Circular No. 10/ 08.12.01/ 2000- 2001 dated 8thJanuary 2001, banks are precluded from financing investments of NBFCs in other companies and inter-corporate loans / deposits to/ in other companies.

148. Special Purpose Vehicles (SPVs) which comply with the following conditions would not be treated as investment companies and hence not as NBFCs:

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- a) They function as holding companies, special purpose vehicles, etc., with not less than 90 per cent of their total assets as investment in securities held for the purpose of holding ownership stake.
- b) They do not trade in these securities except for block sale.
- c) They do not undertake any other financial activities.
- d) They do not hold/accept public deposits.

Financing Housing Projects

149. Master Circular No.DBR.No.DIR.BC.13/ 08.12.001/2015-16 dated July 1, 2015 on "Housing Finance" provides guidance in respect of housing finance provided by banks. Banks could deploy funds under housing finance allocation in any of the following three categories as per norms provided in the Master Circular:

- Direct finance.
- Indirect finance.
- Investment in bonds of NHB/HUDCO, or combination thereof.

150. The Master Circular contains guidelines, including conditions wherein a bank cannot extend credit for housing purposes. These conditions are as follows:

- (i) In case of *lending to housing intermediary agencies*, banks should ensure compliance with National Housing Board (NHB) guidelines, in terms of which, a housing finance company's total borrowings, by way of deposits, issue of debentures/ bonds, loans and advances from banks or from financial institutions including any loans obtained from NHB, should not exceed 16 times its net owned funds (i.e., paid up capital and free reserves less accumulated balance of loss, deferred revenue expenditure and intangible assets).
- (ii) Banks are not permitted to extend fund and non-fund based facilities to private builders for acquisition of land even as part of a housing project.
- (iii) Banks cannot grant finance for construction of buildings meant purely for Government/Semi-Government offices, including Municipal and Panchayat offices. However, banks may grant loans for activities refinanced by institutions like NABARD.
- (iv) *Projects undertaken by public sector entities* which are not corporate bodies (i.e., public sector undertakings not registered under Companies Act or

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which are not Corporations established under the relevant statute) cannot be financed by banks.

- (v) In terms of Delhi high court's orders, banks cannot grant loans in respect of:
- Properties falling under unauthorised colonies unless and until they are regularised and development and other charges paid.
 - Properties meant for residential use but which the applicant intends to use commercially and declares so while applying for the loan.

Loan to Value (LTV) ratio

151. To prevent excessive leveraging, LTV ratio and risk weight and standard as set provisioning in respect of individual housing loans have been prescribed. RBI Vide Circular No. RBI/2016-2017/317 DBR.BP.BC.No.72/08.12.015/2016-17 dated June 7, 2017 "Individual Housing Loans: Rationalisation of Risk –Weights and Loan to Value (LTV) Ratios" revised LTV ratios is applicable for all loans sanctioned post June 7, 2017 are as under:

Category of loan	LTV ratio (%)	Risk Weight (%)
Upto Rs. 30 lakh	≤ 80	35
	> 80 and ≤ 90	50
Above Rs. 30 lakh and upto Rs. 75 lakh	≤ 80	35
Above Rs. 75 lakh	≤ 75	50

152. Following LTV ratios, Risk Weights and Standard Asset Provision set out in circular DBR.BP.BC.No.44/08.12.015/ 2015-16 dated October 8, 2015 "Individual Housing Loans: Rationalisation of Risk-Weights and LTV Ratios", shall continue to apply to loans sanctioned up to June 6, 2017.

Category of loan	LTV ratio (%)	Risk Weight (%)
Upto Rs. 30 lakh	≤ 80	35
	> 80 and ≤ 90	50
Above Rs. 30 lakh and upto Rs. 75 lakh	≤ 75	35
	> 75 and ≤ 80	50
Above Rs. 75 lakh	≤ 75	75

153. The LTV ratio should not exceed the prescribed ceiling in all fresh cases of sanction. In case the LTV ratio is currently above the ceiling prescribed for any reason, efforts should be made to bring it within limits.

Waiver of EMI in case of regular payment of home loans

154. Some banks have introduced certain incentives to home loans to

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borrowers who have been making regular payment of EMI/dues. As per this feature, the borrower gets waiver of some EMI amount either at the end of the loan or on some periodical basis. The Auditor needs to ensure that the bank has made sufficient provision for future waiver of EMI in the books in the books.

Innovative Housing Loan Products – Upfront Disbursal of Housing Loans

155. Some banks have introduced certain innovative Housing Loan Schemes in association with developers / builders, e.g. upfront disbursal of sanctioned individual housing loans to the builders without linking the disbursals to various stages of construction of housing project, interest / EMI on the housing loan availed of by the individual borrower being serviced by the builders during the construction period / specified period, etc. This might include signing of tripartite agreements between the bank, the builder and the buyer of the housing unit.

156. These loan products are popularly known by various names like 80:20, 75:25 Schemes. Such housing loan products are likely to expose the banks as well as their home loan borrowers to additional risks e.g. in case of disputes between individual borrowers and developers / builders, default / delayed payment of interest / EMI by the developer / builder during the agreed period on behalf of the borrower, non-completion of the project on time, etc. Further, any delayed payments by developers / builders on behalf of individual borrowers to banks may lead to lower credit rating / scoring of such borrowers by credit information companies (CICs) as information about servicing of loans gets passed on to the CICs on a regular basis. In cases where bank loans are also disbursed upfront on behalf of their individual borrowers in a lump-sum to builders / developers without any linkage to stages of construction, banks run disproportionately higher exposures with concomitant risks of diversion of funds.

157. In view of the higher risks associated with such lump-sum disbursal of sanctioned housing loans and customer suitability issues, banks are advised that disbursal of housing loans sanctioned to individuals should be closely linked to the stages of construction of the housing project / houses and upfront disbursal should not be made in cases of incomplete / under-construction / green field housing projects.

158. Banks while introducing any kind of product should consider customer suitability and appropriateness issues and also ensure that the borrowers / customers are made fully aware of risks and liabilities under such products.

Retail loans

159. Banks generally provide various retail advances namely:

- Home loans and loans against property.
- Vehicle loans.
- Personal loans.
- Consumer durable loans.
- Credit cards.

160. Loans are either sourced through direct selling agents or bank's own branches. Banks have a credit policy which defines process to be followed for sanction and disbursement of loan and various documents required.

161. The credit assessment process is not as detailed and followed in corporate loans. Bank generally collects following documents:

- Completely filled loan application form with customers' signature.
- Income proof like salary slip, financial statement, Income tax returns, Bank statement.
- Photograph.
- Business continuity proof (e.g. Shops and Establishment Act, any other govt. certificate for doing business).
- Residence proof.
- Identification proof.
- Contact Point – Mobile No. of applicants is mandatory.
- Age proof.
- PAN Card.

162. Banks generally have a system in which various information collected are keyed into the system and the system automatically runs a credit filter report. The credit Filter report is based on pre-defined criteria as per credit policy like minimum income criteria, Aadhaar, employment details, age, telephone etc. and the score is system generated.

163. As a part of loan sanction process, bank runs CIBIL score and only if CIBIL score is above a specific number, the bank considers further sanction.

164. Bank also conducts field investigations on the proposed customer which generally involve residential and office visits. Few banks also have a process of Fraud Containment Unit (FCU) screening of selected sample files. At the FCU,

an official screens through the genuineness and authenticity of the documents for traces of fraud.

165. Post the above verification by FCU, the bank also initiates a Positive De dupe check for positive database, wherein if the customer is an existing customer of the bank, the system gets the popup of such links on his screen.

166. The credit officer initiates a negative de dupe check on the negative database through system, Negative De dupe check is against RBI defaulters list, Terrorist list and declined applications. Such list is uploaded in the system by the bank's central team. If the customer is traced under such negative listing then loan application is rejected by the credit officer. Once, all the processes are completed and based on favorable results, bank sanctions the loan.

Financing Infrastructure Projects

167. RBI has revised the definition of 'infrastructure Lending' vide Master Circular no. "RBI/2015-16 /95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on Loans and Advances – Statutory and Other Restrictions read with Circular No. RBI/2012- 13/297 DBOD.BP.BC.No 58/08.12.014/ 2012-13 dated November 20, 2012 on "Second Quarter Review of Monetary Policy 2012-13 - Definition of 'Infrastructure Lending". The RBI has periodically added certain sectors as infrastructure lending from time to time.

168. The revised definition of 'infrastructure lending' is effective from the circular date. Exposure of banks to projects under sub-sectors included under previous definition of infrastructure, but not included in the revised definition, will continue to get benefits under 'infrastructure lending' for such exposures till completion of the projects. However, any fresh lending to these sub-sectors from the circular date will not qualify as 'infrastructure lending'.

169. The definition of Infrastructure Lending includes credit facility extended by Lenders (i.e., Banks and Selected AIFIs) to a borrower for exposure in various infrastructure sub-sectors as per paragraph 2.3.7.2 of Master Circular no. RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015 on Loans and Advances- Statutory and Other Restrictions, read with Circular No. RBI/2013-14/378 DBOD.BP.BC.No.66/08.12.014/2013-14 on "Financing of Infrastructure – Definition of 'Infrastructure Lending'" dated November 25, 2013.

170. Banks/FIs are free to finance technically feasible, financially viable and bankable projects undertaken by public and private sector undertakings subject to following conditions:

- i. Amount sanctioned should be within overall ceiling of prudential exposure norms prescribed by RBI for infrastructure financing.

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- ii. Banks/ FIs should have the requisite expertise for appraising technical feasibility, financial viability and bankability of projects, with particular reference to risk and sensitivity analysis.
- iii. In respect of projects undertaken by public sector units, such term loans should not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement budgetary resources if such supplementing was contemplated in the project design. Banks/FIs are, advised to follow the above instructions scrupulously, even while making investment in bonds of sick State PSUs as part of rehabilitation effort.
- iv. Banks may lend to SPVs in the private sector, registered under Companies Act for directly undertaking infrastructure projects which are financially viable and not for acting as mere financial intermediaries. Banks may ensure that bankruptcy or financial difficulties of the parent/ sponsor should not affect the financial health of the SPV.
- v. In few cases where completion of the project gets delayed, RBI *vide* its Master Circular No. RBI/2021-2022/104 DOR.No.STR.REC.55/21.04.048/2021-22 dated October 1, 2021 on “Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances” provides detailed guideline on classification and provision for project loans. RBI *vide* Circular No. RBI/2016-17/122 DBR.No.BP.BC.34 /21.04.132/2016-17 dated November 10, 2016 on “Schemes for Stressed Assets – Revisions” provides guidelines for project companies where change of ownership happen/ are happening after date of commencement of commercial operation ('DCCO').
- vi. The Auditor should obtain a list of all outstanding project loans of the bank. Details should also include information about original DCCO and revision of DCCO, if any. The Auditor should verify that the revision of the project DCCO is based on technical and financial study and is approved by competent authority. The Auditor should also verify the revision in DCCO, and check whether the same is permissible under extent RBI guidelines. The Auditor should apply professional judgment and skepticism while evaluating/ accessing and concluding on compliance of the said guidelines for deferment of DCCO and retaining standard/standard restructured classification. To verify compliance, the Auditor shall obtain documentary evidences like legal documents for Court cases, Lead engineers report/ Review note/ consortium meeting minutes specifying the event that is beyond promoter’s control etc., as the case may be.
- vii. The RBI has issued a mail box clarification on assessment and revision in project cost. The clarification provides guidance on classification of loan in

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case revision of project cost is above a certain percentage of original project cost. The Auditor should ensure compliance with this clarification.

Types of Financing by Banks

- (i) In order to meet financial requirements of infrastructure projects, banks may extend credit facility by way of working capital finance, term loan, project loan, subscription to bonds and debentures/ preference shares/ equity shares acquired as a part of the project finance package which is treated as "deemed advance" and any other form of funded or non-funded facility.
- (ii) Take-out Financing - Banks may be guided by the instructions regarding take-out finance as per Circular No.DBOD.BP.BC.144/21.04.048/2000 dated February 29, 2000 on "Income Recognition, Asset Classification and Provisioning and Other Related Matters and Adequacy Standards -Takeout Finance".
- (iii) Inter-institutional Guarantees: Banks are permitted to issue guarantees favouring other lending institutions in respect of infrastructure projects, provided the bank issuing the guarantee takes a funded share in the project at least to the extent of 5 per cent of the project cost and undertakes normal credit appraisal, monitoring and follow-up of the project.
- (iv) Financing promoter's equity: In terms of Circular No.DBOD.Dir.BC.90/13.07.05/98 dated August 28, 1998 - Banks are advised that promoters' contribution towards equity capital of a company should come from their own resources and Banks should not normally grant advances to take up shares of other companies. However, under certain circumstances, an exception may be made to this policy for financing acquisition of promoters' shares in an existing company, engaged in implementing or operating an infrastructure project in India.

Conditions, subject to which an exception may be made, are as follows:

- Bank finance would be only for acquisition of shares of existing companies providing infrastructure facilities. Further, acquisition of such shares should be in respect of companies where existing foreign promoters (and/ or domestic joint promoters) voluntarily propose to disinvest majority shares in compliance with SEBI guidelines, where applicable.
- Companies to which loans are extended should, *inter alia*, have a satisfactory net worth.
- Company financed and promoters/ directors of such companies should not be a defaulter to banks/ FIs.
- Bank finance should be restricted to 50% of the finance required for acquiring promoter's stake in the company being acquired.

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- Finance extended should be against security of the assets of the borrowing company or the assets of the company acquired and not against the shares of that company or the company being acquired. Shares of the Borrower Company / Company being acquired may be accepted as additional security and not as primary security. Security charged to the banks should be marketable.
- Banks should ensure maintenance of stipulated margins at all times.
- Tenor of the bank loans may not be longer than seven years. However, the Boards of banks can make an exception in specific cases, where necessary, for financial viability of the project.
- Financing to be subject to compliance with statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.
- Financing of acquisition of equity shares by promoters should be within the regulatory ceiling of 40 per cent of their net worth as on March 31 of the previous year for the aggregate exposure of the banks to the capital markets in all forms (fund and non-fund based).
- Proposal for bank finance should have the approval of the Board.

System of Base Rate and Interest Rate/Marginal Cost of Funds based Lending Rate (MCLR)

171. The RBI *vide* Master Direction no. DBR.Dir.No.85/13.03.00/ 2015-16 dated March 03, 2016(Updated as on February 26, 2020) on “Reserve Bank of India (Interest Rate on Advances) Directions, 2016” requires banks to freely determine lending rates on the advances as per their Board approved policy subject to the guidelines contained in the circular. The Base Rate system was operational between July 1, 2010 and March 31, 2016 aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy.

- All rupee loans sanctioned and credit limits renewed w.e.f. April 1, 2016 will be priced with reference to Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes. The Auditor should verify whether new loans sanctioned and credit limits renewed post April 1, 2016 are under the new MCLR regime.
- MCLR will comprise of marginal cost of funds, negative carry on account of CRR, Operating costs and Tenor premium.
- All new floating rate personal or retail loans and floating rate loans extended by banks to Micro and Small Enterprises from October 01, 2019

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and floating rate loans to Medium Enterprises from April 01, 2020 shall be benchmarked to one of the following:

- RBI policy repo rate
 - GOI 3months Treasury bill yields published by FBIL
 - GOI 6 months Treasury bill yields published by the FBIL
 - Any other benchmark market interest rate published by the FBIL.
- Banks may offer such external benchmarked loans to other types of borrowers as well.
 - Banks to adopt uniform external benchmark within a loan category.

172. Spread

- (i) Banks should have a Board approved policy delineating components of spread charged to a customer. Price differentiation should be consistent with bank's credit pricing policy.
- (ii) Bank's internal pricing policy must spell the rationale for, and range of, the spread in case of a given category of borrower, as also, delegation of powers in respect of loan pricing. Rationale of the policy should be available for supervisory review.
- (iii) The spread charged to an existing borrower should not be increased except on account of deterioration in the credit risk profile of the customer or change in the tenor premium. Any such decision regarding change in spread on account of change in credit risk profile should be supported by a full-fledged risk profile review of the customer. Change in tenor premium should not be 'borrower specific' or 'loan class specific' and should be uniform for all types of loans for a given residual tenor.
- (iv) Guidelines contained in sub-paragraph (iii) above are not applicable to loans under consortium/ multiple banking arrangements.

Accounting and Auditing Aspects

Balance Sheet Disclosure

173. The Third Schedule to the Banking Regulation Act, 1949 requires classification of advances made by a bank from three different angles, viz., nature of advance, nature and extent of security, and place of making advance (i.e. whether in India or outside India). Accordingly, advances are classified in Schedule 9 to the balance sheet as follows:

- A. (i) Bills purchased and discounted
- (ii) Cash Credits, Overdrafts and Loans repayable on demand

- (iii) Term loans
- B. (i) Secured by tangible assets
- (ii) Covered by bank/government guarantees
- (iii) Unsecured
- C. I. Advances in India
 - (i) Priority sectors
 - (ii) Public sector
 - (iii) Banks
 - (iv) Others
- II. Advances outside India
 - (i) Due from banks
 - (ii) Due from others
 - (iii) Bills purchased and discounted
 - (iv) Syndicated loans
 - (v) Others

Classification Based on Nature of Advance

174. Different classifications are as follows:

- (a) In classification under section 'A', all outstandings – in India as well as outside India – less provisions made, will be classified under three heads.
- (b) Outstandings in credit card operations should be shown as part of advances under the head 'cash credits, overdrafts and loans repayable on demand'.
- (c) Term loans will be loans not repayable on demand and would include overdue instalments.
- (d) All interest bearing loans and advances granted by the bank to its employees should be shown as part of advances.

Classification Based on Nature and Extent of Security

175. Different classifications are as follows:

- (a) All advances or part of advances, which are secured by tangible assets, whether in India or outside India, should be shown under the heading 'Secured by tangible assets'. Advances against book debts may be

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included under the head 'Secured by Tangible Assets', and presented in Schedule 9 (Advances) as follows:

"B Secured by Tangible Assets" (includes advances against book debt).

- (b) Advances in India and outside India to the extent they are covered by guarantees of Indian and foreign governments and Indian and foreign banks and DICGC and ECGC are to be included under the head 'advances – covered by bank/government guarantees'.
- (c) Unsecured advances will include advances not classified under (i) & (ii) of section B.

176. Classification based on Place of Making Advances

- a) Advances to sectors, classified as priority sectors according to the instructions of the RBI, are to be classified under the head 'priority sectors'. Such advances should be excluded from, 'Advances to Public Sector'.
- b) Advances to Central and State Governments and other government undertakings including government companies and corporations which are, according to the statutes, to be treated as public sector companies, are to be included in the category 'Public Sector'.
- c) All advances to the banking sector including co-operative banks will come under the head 'Banks'.
- d) All remaining advances will be included under the residual head 'Others'; typically this category will include non-priority advances to the private, joint and co-operative sectors.

Consideration of Drawing Power/Limits in respect of stocks hypothecated

177. In respect of credit facilities against hypothecation of stocks (inventories) being the primary security, Bank's system of appraisal for determining the maximum permissible finance to borrowers and fixing of limits, *inter alia*, should take into consideration the level of sundry creditors. The sanction is expected to be in tune with the appraisal so made. While sanctioning such credit facility, the bank is expected to stipulate in the documents, that for computing the Drawing Power, the value of declared stocks is to be considered only net of the stipulated margin; and that declared stocks shall not cover the borrower's liability outstanding in form of sundry creditors for goods or covered by LCs/ guarantees/ co-acceptances or Buyer's Credit availed for procurement of material. The bank should also insist on such information from borrowers. In case of consortium accounts, drawing power calculation and allocation made by the Lead Bank is

binding on all Member Banks.

178. The RBI has issued guidelines on treatment of unpaid stocks while arriving at the drawing power available in borrower accounts. The thrust of the guidelines is avoidance of double financing on unpaid stocks, if such stocks are taken as eligible for computation of drawing power.

179. The matter having been re-examined by RBI vide directive No. IECD.No.32/08.10.01/92-93 dated 28th April, 1993, banks were advised as regards the treatment of unpaid stocks while arriving at the drawing power available in the borrower accounts, wherein the thrust is avoidance of the double finance on the unpaid stock, if such stocks are taken as eligible for computation of drawing power. Thus, it would be unrealistic to assume that the composition of the stock items, the level of stock held and the portion of unpaid stock considered at the time of appraisal would be static and should be presumed to be at the same level for subsequent period. For the said reason, the drawing power needs to be recomputed based on variations, not only in composition and level of stock but also in the unpaid portion of stocks before the stipulated margin is applied as per the sanction terms of working capital finance.

180. The Auditor should review the bank policy for any inherent weakness in the credit system, where the stringency in appraisal, is relaxed while sanctioning the advances, having consequential effect on monitoring and supervision, and may have effect on the classification status of the borrower, where the drawing power falls short of the outstanding.

181. Banks usually consider credit facilities by way of hypothecation of stocks and a charge on the sundry debtors. The Drawing Power is required to be computed net of the stipulated margin, based on and applied to the total eligible current assets comprising of:

- Net Value of Stock as stated above; and
- Net Value of Debtors (i.e., eligible Trade Debtors Less Bills Discounted with Bank). The bank usually prescribes conditions as to what comprise of “eligible trade debtors”, and stipulates the period for debts being considered as current and good on which the margin is computed.

182. For purposes of classification of advances, computation of drawing power based on realistic value of hypothecated stocks (net of unpaid for stocks, whether covered by Buyer’s Credit, LCs/ Guarantees/ Co-acceptances or otherwise) and margin as stipulated, is vital, particularly in cases of default, and in border-line cases where health status of borrowers may be in question, to gauge slippages.

183. Due care is required to be exercised by the auditor in case of

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- Documents retained in original at centralised offices where these are not available at the branches that are advised of drawing power limits; and
- consortium advances, where bank, not being the leader, gets related figures of drawing power from the leader bank, without related evidence of computation or appropriateness of drawing power.

184. The Auditor needs to look into this aspect to verify that there is no slippage of the account into NPA classification.

185. These days most of the banks have their 'advances' statements generated through the system. The Auditor should ensure that the fields which system copies from last year are the same and he should take extra care in relation with the date of NPA and date of becoming doubtful asset as these facts have great bearing on the provisioning. The auditor should obtain audit trail from the bank to verify whether there are any changes or not.

186. The RBI has issued guidelines on treatment of unpaid stocks while arriving at the drawing power available in borrower accounts. The thrust of the guidelines is avoidance of double financing on unpaid stocks, if such stocks are taken as eligible for computation of drawing power.

187. The Auditor should review the bank's policy for any inherent weakness in the credit system, where the stringency in appraisal, is relaxed while sanctioning the advances, having consequential effect on monitoring and supervision, and may have effect on the classification status of the borrower, where the drawing power falls short of the outstanding.

188. Banks usually consider credit facilities by way of hypothecation of stocks and a charge on the sundry debtors. The Drawing Power is required to be computed net of the stipulated margin, based on and applied to the total eligible current assets comprising of:

- Net Value of Stock as stated above; and
- Net Value of Debtors (i.e., eligible Trade Debtors Less Bills Discounted with Bank). The bank usually prescribes conditions as to what comprise of "eligible trade debtors", and stipulates the period for debts being considered as current and good on which the margin is computed.

Non fund based facilities

189. Letter of credit: A Letter of Credit (LC) is a promise by a banker to honour the payments to be made by its customer (the buyer or importer) to the seller or exporter. This type of payment facility is generally used in international trade. In this type of facility, at the request of the buyer, his banker opens an LC, which is sent to the seller. Based on such LC, the seller despatches the goods and then

sends the bills and other documents through his banker to the buyer's banker, which has opened the LC, to make payment of the bill. The buyer then makes the payment and routes it through his banker to the seller's banker. In case, the buyer fails to make the payment (also known as devolvement of LC), the buyer's banker which has opened the LC is liable to make the payment to the seller. RBI has mandated banks not to discount bills drawn under LCs or otherwise for beneficiaries, who are not their regular clients.

190. Bank Guarantee: A bank guarantee is a written contract given by a bank on behalf of customer. By issuing this guarantee, a bank takes responsibility for payment of a sum of money in case, it is not paid by the customer on whose behalf the guarantee has been issued. In return, a bank gets some commission for issuing the guarantee. Anyone can apply for a bank guarantee, if his or her company has obligations towards a third party for which funds needs to be blocked in order to guarantee that his or her company fulfils its obligation (For example carrying out certain works, payment of debt, etc.) In case of any changes or cancellation during the transaction process, bank guarantee remains valid until the customer duly releases bank from its liability. In the situations where customer fails to pay the money, bank must pay the amount within 3 working days. This payment can also be refused by bank if claim is found unlawful. Guarantees are of two types—financial guarantee, wherein the guarantor (the bank) promises to pay the stated amount to the beneficiary, if the person for whom the guarantee is given, fails to pay the same (also referred to as invoking the guarantee); performance guarantee, wherein the guarantor promises to pay the beneficiary a stated sum of amount, if the person for whom the guarantee is given, fails to perform, as expected, in a given period of time. Banks are generally discouraged from issuing performance guarantees. Guarantee transaction usually comprises two independent but related components— one is the guarantee issued by the banker (of the buyer) to the beneficiary (i.e., seller) and the other is a counter guarantee given by the buyer to his banker, who has issued the guarantee.

191. Generally, guarantees should not be issued on behalf of customers, who do not enjoy credit facilities with the bank. Since guarantees invoked could get converted into funded advance to a borrower, banks should not encourage borrowers to over extend their commitments solely on the basis of guarantees. Guarantees could be for specific transaction (called specific guarantee) or it could be for multiple transactions within a specific time frame (called continuing guarantees). Guarantees should generally be for short durations; in any case, it should not have a maturity period of more than 10 years. Unsecured Guarantees to a particular borrower should generally not exceed 10% of the total exposure. Banks should also not concentrate its unsecured guarantees to a particular borrower or a group. The Ghosh Committee has recommended certain

precautions to be taken by banks while issuing guarantees. Guarantees are generally issued by keeping margins, either in the form of cash/term deposit or some other security. In case of guarantees issued on behalf of share and stock brokers, the RBI has advised that banks should obtain a minimum margin of 50% (with 25% being cash margin). RBI has laid restrictions on guarantees of inter-company deposits/loans and inter institutional guarantees. In the above mentioned circular, the RBI has also given extensive guidelines on issue of guarantees on behalf of exporters and importers.

192. Co-Acceptance of Bills: In this type of facility, the seller despatches the goods and raises the bill on the buyer. The buyer accepts the bill and then it is co-accepted by buyer's banker. The seller's banker then discounts this bill. This type of facility is often used by customers to float accommodation bills (i.e., bills which are not supported by genuine sale and purchase of goods) and hence auditors should be careful while examining such bills.

Procedure for Sanction, Documentation, Disbursement, and Supervision

193. Each bank has its own procedures for sanctioning, disbursal, documentation, supervision and renewal of advances. The procedures are stated in the Credit policy which is generally updated at annual intervals. The auditor should obtain the last updated credit policy and circulars issued post the credit policy. The Auditor should ensure that the credit policy is in sync with RBI Master Circulars especially the one on "Loan and Advances – Statutory and Other Restrictions".

Sanction

Loan Application

194. Initiation of process of sanction of advance is on receipt of a formal request from the applicant. The request may be in the form of a standard format (Loan Application Form) of the bank or in the form of a letter in which case the Bank requests the intending borrower to furnish the standard format duly filled in. All applications are entered in a "loan applications received register" (the exact nomenclature may vary from bank to bank). The required supporting documents are to be furnished along with the application. The Bank should ensure that the documents are obtained from respective borrowers as per the Loan policy of the Bank.

Credit Appraisal

195. The proposal is evaluated in the context of the directions of the RBI including prudential exposure limits and the bank's own credit policy and risk management guidelines. The primary purpose is to ascertain the cash flows and the repayment capacity of the borrower to repay the loan within the

stipulated timelines that would be prescribed. The proposal is mainly appraised to find the Default Risk or the possibility of the borrower not repaying the loan amount that would be sanctioned or disbursed, either in full or in part. This process entails conducting a detailed SWOT – (Strengths – Weakness – Opportunity Threat) analysis of the borrower. Besides, the proposal is appraised on the following parameters to ensure technical feasibility, economic viability and commercial acceptability (the degree of scrutiny depends largely on the amount of the advance):

- Performance of the unit *vis-a-vis* other similar units.
- Conduct of its accounts with the lenders.
- Experience, competence and profile of the management of the unit.
- Guarantees and collateral securities offered.
- Trend and ratio analysis to see that the unit's growth is healthy, financials are sound, liquidity is comfortable and the promoters have a reasonable stake in the unit.
- Availability of inputs for production – right time and price.
- Market condition – fast changing tastes and preferences.
- Technology in use – factoring in obsolescence in technology.
- Unit's capability to achieve the projected operating and performance levels and to service the debt.
- Applicability of norms/benchmarks relating to scale of finance, e.g., Nayak Committee recommendations for SSI units, scale of finance fixed by the bank for agricultural finance to be extended in the local area, etc.
- CIBIL, RBI List of defaulter, Credit and confidential reports from other banks. These are to be checked from respective websites.
- Various disclosure/notices issued by the government/government authorities such as with regard to shell companies, defunct companies, directors of these types of companies, etc.
- Latest Government Policy about particular industry / locational restriction, etc.
- In the current complex scenario both internally and externally – VUCA world as some describe it for an environment characterized by Volatility, Uncertainty, Complexity and Ambiguity, assessment of cash flows over longer term period is a challenge. The auditor should exercise greater diligence while reviewing the appraisal process for such long tenor advances.
- Diligence will be higher if the units are resorting to funding for the first time

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ever or with the bank. In case of existing facilities for renewal – review, there is a past performance or availability of data to base credit decisions. For new units, validating the projections or estimated will need deeper scrutiny.

196. Banks generally have a Turn Around Time (TAT) for disposing off loan applications – i.e. the time from receipt of Loan application to its rejection or sanction. Causes for rejection also have to be noted in a Loan Rejection Register or similarly named Register, The cases of appraisals have to be within TAT. Deviations from TAT are monitored for process efficiency.

Sanctioning Authority

197. If the official concerned finds the proposal acceptable, a detailed appraisal note is submitted along with necessary supporting documents with recommendations to the authority having powers to sanction it. Each official who has been vested with powers to sanction advances has a monetary ceiling up to which he/she can sanction advances to the specified kind of borrowers (like individuals, partnerships, companies, etc.) and/or for the specified activities (like agriculture, industry, professional education, business, etc.) and / or for the type of facility (term loan, overdraft, cash credit, etc.). Such powers are properly documented and circulated by the bank to all its offices by way of delegation of powers. The officials at the branch can sanction only those advances, which fall within their delegated powers. For advances, which require to be sanctioned by higher authorities, the branch has to carry out the appraisal and send the proposal along with its recommendations to its controlling office for necessary sanction. As and when the advance is sanctioned by the competent authority (which could be an official, a committee of officials or the Board of Directors of the bank, depending on the amount involved), the fact of sanction along with detailed terms and conditions of the sanction are communicated by the controlling office to the branch.

198. The auditor should ensure that all issues noted in the credit appraisal process have been duly factored while preparing the Sanction Note and the sanction letter and no significant issue is missed out. Clarifications on any issues noted in the appraisal process should be duly documented. The Auditor has to ensure that the sanctioning is done within the powers of the competent authority. Any deviation noted will have to be reported appropriately.

199. Processing fees as applicable should be collected as per the bank's policy before the disbursement. Banks have a practice of debiting Cash Credit accounts for processing fees. While this is in order for existing accounts, for new facilities sanctioned, the same should be collected separately up-front rather than being a part of disbursement.

Documentation and Disbursement

200. After the sanction of the advance, the branch communicates the terms and conditions of the sanction to the applicant and obtains its consent for the arrangement. Thereafter, the documents as prescribed by the bank are obtained, charges created and, the bank's charge over the unit's assets noted with the authorities concerned, e.g., Registrar of Companies, Road Transport Authority, Insurance Company, Land Records Authority, CERSAI, etc. In the case of an advance to a partnership firm, while the account is opened in the trade name of the firm, the security documents are got executed from the partners in both their individual capacity (i.e., without mentioning the name of the firm or affixing the stamp of the firm) and in their capacity as partners of the firm. This is to ensure that the advance may be recovered from the assets of the firm as well as from the individual assets of the partners. The bank generally records the sanction details and stipulation in the system. In many cases, the system is updated for pre-sanction, pre-disbursement documents for each loan. The document discrepancy report then acts as a check for documents received and pending for monitoring purposes.

201. After the above formalities have been completed, the advance is released in the following manner:

202. Term loans (granted generally for acquisition of fixed assets, etc.) are disbursed on the basis of quotations/ proforma invoices obtained by the borrower from the vendors and submitted to the bank either along with the application or later. In case of large projects, the schedule and status of completion of projects have also to be seen. Banks generally stipulate a stated percentage of the cost to be met by the borrower from his own funds. Once the borrower provides his contribution to the bank, the branch debits the Term Loan account with the balance amount and pays the amount to the vendor directly along with a letter stating the purpose of the funds. The term loan may be released in one or more instalments. As and when the asset is received by the borrower, the bank officials inspect it, record the particulars in their books, and obtain copies of the final invoices for their record from the borrower.

- There may be instances where, on business considerations, the borrower has already acquired the asset. In such a case, he submits the documentary evidence to the branch and seeks reimbursement to the extent permissible. The branch officials inspect the asset and verify the books of account of the borrower and, if satisfied, credit the eligible amount to the borrower's account (current / cash credit, as desired by the borrower) by debiting his term loan account.

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- Cash credit advances are released on the basis of drawing power calculated as per the stock statements submitted by the borrower as per the periodicity laid down in the terms of sanction. The branch officials verify the stock statements and calculate the 'drawing power' based on the security held by the borrower and the margin prescribed in the sanction. In case of consortium accounts, the drawing power calculation and allocation is made by the Lead Bank and is binding on the Member Banks (Circular No. C&I/Circular/2014-15/689 dated 29 September 2014 issued by the Indian Banks Association). This 'drawing power' is noted in the system in respect of Cash Credit accounts and is a guide to the official concerned while authorising debits to the account.
- The procedures of many banks require the branch manager to periodically submit a certificate to the controlling authority (i.e., regional or zonal office) that all disbursements during the relevant period have been made only after completion of the necessary formalities.
- Banks also require submission of End-Use certificates from Chartered Accountants. Some banks have a format in which the same is to be issued. It should be ensured that certificates are issued in the prescribed format. In all other cases, it should be ensured that the certificate is as per the requirements of the ICAI guidelines on special purpose certification.
- Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) - The Auditor needs to keep abreast of the mandatory requirements related to registration of mortgages and compliance thereof by the lender bank, as applicable to the various forms of securities offered as security for the advances.
- The Auditor has to ensure that all sanction terms and conditions have been complied with. Pending sanction terms should be waived off by the appropriate sanctioning authority or a time frame, post disbursal for their obtention, be approved. In no case, the disbursal should take place without a formally approved waiver.
- Banks should maintain an updated tracker of all sanction terms still not complied with. If the due dates for their obtention are breached, causes for the same should be noted for closure.

Monitoring and Supervision

203. The primary purpose of monitoring and supervision is to ensure that there is no diversion or siphoning of funds. Any adverse features have to be pro-actively tracked using technology to the fullest. Annex II of RBI Master Direction No. RBI/DBS/2016-17/28 DBS.CO.CFMC.BC.No.1/23.04.001/2016-17 dated July 01,

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2016 (Updated as on July 03, 2017) on “Fraud – Classification and Reporting by commercial bank and select FIs” gives indicators for Early Warning Signals (EWS) which have to be followed up for possible Red Flagging.

204. Banks have to ensure that EWS are tacked through system, pro-actively so that early signs of liquidity problems are known and followed up with the borrower for possible re-structuring or rehabilitation to preserve the economic value of the account and avoid it to slip into a NPA.

205. The following are the procedures usually adopted by banks for monitoring and supervision of advances after disbursement:

- Regular inspection of the borrower's assets and books. The main purposes of inspection are as follows:
 - To ensure that the amounts disbursed have been utilised for purposes for which the advance was sought.
 - To check that the borrower has not acquired / disposed of any asset without the consent / knowledge of the bank, depending upon the terms of the advance. Acquisition of fixed assets from working capital funds may amount to diversion of short-term funds which, from the viewpoint of the bankers, is not a sign of financial prudence.
 - To cross-check the figures declared in the stock statements with the books maintained by the borrower (including excise and other statutory records, as applicable) as well as to physically verify the stock items, to the extent possible.
 - To check that the unit has been working on projected levels particularly in the areas of sales and production and the general working of the unit is satisfactory.
 - To ensure that the borrower has not availed of finance against stocks for which it has itself not made the payment.
 - To ensure that the borrower has not availed of unauthorised finance from any other lender.
 - To ensure that the borrower has not defaulted on payment of Statutory Liabilities.
 - To ensure that the borrower has not made any investment in, or advances to, its associates without the bank's approval, if such approval is required as per the terms of the loan or otherwise diverted the funds.
 - To check that there is a regular turnover of stocks and the unit does not carry any obsolete, unusable stocks. Generally, banks place a

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limit on the age of stocks which are eligible for bank finance; the items older than such limit are not financed. Similarly, in the case of book debts, debts outstanding beyond a specified period are also not eligible for bank finance. Also to check sundry creditors for goods.

- To ensure that the borrower continues to be engaged in the activity for which the loan has been granted.
- Periodic review of the progress in implementation of the project (to note whether project timelines given at the time of processing loan are being adhered to. If there are delays, it may hamper the project completion and may affect servicing of loan). Generally, in large and complex projects, banks appoint lead engineering agency to who provide the status of the project periodically.
- Review of the conduct of the account.
- Obtaining and scrutinising stock statements.
- Obtaining other relevant financial data periodically and analysis of the data. Banks obtain information at monthly / quarterly / half yearly / yearly intervals about on the levels of sales, production, profit, cash accruals, break up of assets and liabilities, cash flows etc. The analysis covers the following points:
 - Comparison of the data with the projections contained in the appraisal note to find out the deviations, the reasons thereof, and the corrective action to be taken, wherever necessary.
 - Comparison of the unit's performance, on an on-going basis, with other similar units.
 - Ratio analysis based on the provisional data submitted by the unit to find out the liquidity and solvency position and any diversion of short-term resources towards long term uses.

Observing the credits to the account

206. Whenever the above analysis indicates weaknesses in operations, or the need for additional documentation or security, a dialogue is held with the borrower, with consequent follow-up.

207. RBI, *vide* its circular no. DBS.CO.PPD.BC.No. 5 /11.01.005/2010-11 dated January 14, 2011 on "End Use of Funds - Monitoring", has advised banks to evaluate and strengthen the efficacy of the existing machinery in the banks for post-sanction inspection by the bank officers, supervision and follow-up of advances. There needs to be a proper process of stock audit of the borrowers.

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Effective monitoring of the end use of funds lent is of critical importance in safeguarding a bank's interest. Further, this would also act as a deterrent for borrowers to misuse the credit facilities sanctioned, and in the process, help build a healthy credit culture in the Indian banking system.

Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair recovery of lenders – Framework for revitalisation of distressed assets

208. The RBI has issued guidelines for classification of standard assets into three sub-categories, viz., SMA-0, SMA-1 and SMA2 in order to recognise the financial distress in any performing asset at an early stage, besides regulatory compliances like forming of Joint Lender's Forum, reporting to CRILC, etc. for specified categories of Special Mention Accounts (SMA). In case the bank does not follow the said regulatory compliances, such accounts are subjected to accelerated provisions.