

SIRC of ICAI

Bank Branch Audit -

IRAC Norms &

Restructuring of Advances¹ :



Assets Classification

- Whether need to verify following loans
 - Agricultural gold loans sanctioned in last 2 years
 - Loans against KVP, NSC, IVP, LIC, FD if dues < the realisable value
 - Direct Agri loans sanctioned in last 18 months
 - Staff loans for existing employees
 - All CC / OD / adhoc/ demand loan/ TL sanctioned in last 90 days
 - Education Loans sanctioned in last 2 yrs

Assets Classification

- Where to start
 - Last year classification schedules for date of NPA, outstanding, security value etc
 - Last quarterly / half yearly review Schedules
 - Critical Accounts in August & November
- In case of interest On TLs whether NPA is determined on quarterly / monthly basis
- A/c with temporary deficiencies NPA as at the Balance Sheet Date
- Renewal not done for 90 / 180 days

Assets Classification

- Agri Gold loan renewed with principal & interest outstanding after 24 months of original sanction
- NPA consumer loan (except vehicles) & cattle loans
- Credits from group accounts on quarter end
- Large account with less outstanding but huge collateral

New Loans to Probable NPAs

- Loan sanctioned against residual securities as a mortgage loan, used for payment of irregular portion of NPAs
- If instead of against residual security, its sanctioned against a fresh security
- If the loan is sanctioned in some other borrower & used it for the same purpose
- If such loan is sanctioned by some other branch of the bank

Income Recognition

- Income on advances against FDs, KVPs, IVPs, NSCs, LICs etc
- Restructuring processing Fee
- Funded Interest

Valuation of securities on NPAs

- Consumer loans except Vehicles
- Loans against animals / cattle
- Immovable Assets: distress value / Market value
- Other fixed assets like Plant & Machineries etc - WDV OR ...
- P & M of units closed
- Stock & debtors older than 6 months
- Stock Audit

Provisioning

- Reversal of income on NPAs to the extent not recovered: Current period / past periods.
- Unsecured exposure ab-initio
- Doubtful Advances & guaranteed by ECGC
- Advance covered by CGTMSE
- FITL

RESTRUCTURING OF ADVANCES



- Grants Concessions to the borrower
- Modification of terms of the advances like alteration of repayment period / repayable amount /the amount of instalments /rate of interest.

RESTRUCTURING OF

ADVANCES

- All types of assets can be restructured.
- Can't restructure with retrospective effect.
- Normally, restructuring takes place with the formal consent / application of the debtor. However, it can be initiated by bank in deserving cases subject to customer agreeing to the terms and conditions.
- Viability should be determined.
- Borrowers indulging in frauds and malfeasance may be done with Board's

RESTUCTURING NORMS


- Accounts be downgraded on restructuring
- Restructuring during implementation period
- Upgraded only when all the accounts perform satisfactorily during the specified period*
- If the restructured asset is a NPA & is subjected to restructuring on a subsequent occasion, its asset classification will be reckoned from the date it became NPA 1st time.
- Income in respect of restructured accounts -On standard assets on accrual basis On NPA on cash basis

* Specified period means a period of 1 year from the commencement of the 1st payment of interest /principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package


REVIEW OF RESTUCTURED ACCOUNT

- The provision for diminution in the fair value of restructured accounts should continue to be maintained by banks as per the existing instructions.
- In addition, the banks are required to disclose:
 - Details of accounts restructured on a cumulative basis excluding the standard restructured accounts which cease to attract higher provision;
 - Provisions made on restructured accounts under various categories;
 - Details of movement of restructured accounts.


Banks should disclose in their published Annual Balance Sheets, under “Notes on Accounts”, information relating to number and amount of advances restructured & the amount of diminution in the fair value of the restructured advances as per the RBI format.



*What
is the meaning of implementation of the restru
cturing
scheme within 120 days?
If some of the critical
conditions of the scheme like promoters
contribution infusion etc is not complied with c*



*How
the Fees and commissions earned
by the banks as a result of re-
negotiations or*

- 
- These income shall be recognized on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.
 - It shall be recognized on the basis of total period of renegotiation or rescheduled

Other issues in Restructuring

- Promoters contribution
- Advances not eligible for restructuring being rescheduled
- Viability not ascertained/documentated

Systemic Failure to Report

- When basis data / input like repayment schedule etc is not correct in the system for some advances
- When the system doesn't classify the accounts / recognise the income as per Norms
- When the date of NPA of earlier years found changed

Other Practical issues

- Classification in several accounts found wrong
- MOC is not agreed upon by the branch

Constraints

- *Time*
- *Volume of Work*
- *Discussion & Debate*

Approach



- Where to Start
- What to Cover
- Whats the approach
- When to prepare Report

Questions???



Thank You!!!