

ANNEXURE C II.1.1: COMMON IRREGULARITIES/ADVERSE FEATURES IN ADVANCES ACCOUNTS(Illustrative)

Code	Nature of Irregularities/ Adverse features
1.	CREDIT APPRAISAL:
1.1	Loan application form not obtained / not on record.
1.2	Loan application not complete in all respects or not signed.
1.3	Borrower's name, whether figuring in the list of wilful defaulters of RBI not checked/ indicated.
1.4	Information not given as regards borrower being a Director of the Bank/another bank or of being an officer or a relative of any Director/ officer of the Bank.
1.5	Credit appraisal made for borrowers: <ul style="list-style-type: none"> a) in the "negative" list of the bank. b) where the borrower is a defaulter/NPA with other banks/ institutions.
1.6	All documents / annexures required with the application form not received by the Bank, including:
1.6.1	Documents evidencing nature / type and legal status of entity such as Memorandum & Articles of Association, Partnership Deed, Trust Deed etc. (not received/called for).
1.6.2	Latest financials (duly audited) and / or updated unaudited financials not obtained and / or not reviewed (including in particular the Notes on Accounts, off balance sheet disclosures and the report of the auditors on the accounts where audit is required/done);
1.6.3	Audited statements if received are incomplete – without Accounting Polices / Notes / Audit Report.
1.6.4	Half yearly/quarterly review reports (listed entities), not received/reviewed.
1.6.5	Cost / secretarial audit, if required, not got done, or no report thereof available.
1.6.6	Credit report not obtained from previous bankers / existing bankers from whom account is being shifted, and reasons for such shifting not justified.
1.6.7	Credit Reports of borrower/guarantor not obtained, or inadequate, as regards material particulars
1.6.8	Evidence on certain matters included in financial statements/financial status not obtained/ reviewed (e.g., copies of Vat/Sales tax/ Income tax/Wealth tax returns/orders).
1.6.9	Credit reports of borrowers/guarantors, not reviewed.
1.6.10	Adverse features reported upon in Inspection / audit not considered in appraisal in respect of continuing advances / for enhancement in limits. (eg. off balance sheet exposures, dealings with other bankers, major variations between audited data and QIS to branch).
1.7	Techno-economic feasibility report not obtained.
1.8.	Industry / group exposure and experience of the Bank not dealt in the appraisal note.
1.9.	Bank's policy norms for inventory/book-debts/creditors levels not followed as stipulated by the management.
1.10.	Adverse features observed in reports of concurrent Auditors/ Statutory Auditors/ RBI Inspection/LFAR not incorporated in the appraisal note, as arising from: <ul style="list-style-type: none"> a) RBI Inspection/ b) Concurrent Audit c) Inspection Audit

- d) Internal Audit
 - e) Statutory Audit/LFAR
 - f) Stock Audit
 - g) Special Audit/Credit Audit
- 1.11 Explanations not called for, or not justified, in respect of major variations between projected and actual financial data furnished.
- 1.12 Credit rating form not attached with credit appraisal note, or if attached, not reviewed.
- 1.13 Opinion reports of the associate and / or sister concerns of the borrower not called.
- 1.14 Appraisal of fresh limits made to cure existing defaults in NPA accounts.
- 1.15 Frequent resorting to short review procedures rather than full review of borrowal account.
- 1.16 Bank's rights to recompense not considered in appraisal where recoveries of earlier sacrifice are being made.
- 1.17 General level of compliance in the past not indicated.
- 1.18 Diversion of funds for purposes other than those intended, in the past not considered (including working capital funds being used for long term deployment).
- 2. SANCTIONING AND DISBURSEMENT:**
- 2.1 Proposals sanctioned without the approval of the higher authority / signature of the concerned authority.
- 2.2 Facilities disbursed before the completion of documentation and other sanction terms.
- 2.3. Adhoc limits granted pending completion of appraisal/sanction of regular limits.
- 2.4. Disbursement made without following procedures relating to confirmation of higher authority as regards completion of formalities.
- 2.5. Sanctions in excess of delegated authority.
- 3. DOCUMENTATION:**
- 3.1 Documents on record are blank, all parts not filled up and / or without signatures of Branch Manager and witnesses.
- 3.2 Documents signed by persons other than those authorised.
- 3.3 Inappropriate set of documents having no nexus to the status of the borrower.
- 3.4 Inappropriate set of documents having no nexus to the nature of the security.
- 3.5 Signatures of the executants on all the pages of the documents not found and not obtained on all corrections / endorsements in the documents.
- 3.6 Documents have become mutilated / soiled, or have expired and the bank is exposed to the risk of not enforcing the security.
- 3.7 Consortium advances – documents not yet executed or not on record.
- 3.8 Consent from other lenders for creation of security, not on record.
- 3.9 Guarantee papers not on record / not renewed.
- 3.10 Revival letters not received.
- 3.11 Certification of Registration of charges with ROC / or evidence thereof not on record, in case of companies.
- 3.12 LIC Policies (together with evidence of surrender value), not obtained or not on record.
- 3.13 Bank's FDRs (lien marked) not obtained or not on record

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- 3.14 KVPs not obtained or not on record.
- 3.15 IVPs not obtained or not on record.
- 3.16 Second charge on assets, as per terms of sanction, not created in favour of the bank.
- 3.17 Under-stamping of documents, and Stamping not being as per the amended Stamps Act (particularly for immovable properties)
- 3.18 Work completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans.
- 3.19 Original Staff and other Housing loan documents not on record at the Branch.
- 3.20 Sales / search report / Title Clearance Report from advocate in respect of immovable property not obtained or on record.
- 3.21 Mortgage for property not created, as required.
- 3.22 Clearance not obtained from Authorities concerned to permit mortgage.
- 3.23 Copies evidencing lodgment of the original conveyance / sale deeds with the sub-Registrars for registration, not on record.
- 3.24 Authority letter / Power of Attorney to the Bank to collect the original documents from the Sub-Registrar, not on record.
- 3.25 Loans granted on properties on the basis of Power of Attorney and not ownership.
- 3.26 Valuer's report in evidence of gold / gold ornaments not obtained.
- 3.27 Registration certificates, transfer certificate, driving license, duplicate keys of vehicle and insurance covers not obtained, in case of loans against vehicles.
- 3.28 "Nil Encumbrance Certificate/s " or "No Dues Certificate/s" or "No lien Letters" not on record.
- 3.29 Consent letter not obtained from borrower that the Bank would publish his name in the list of defaulters, in the event of wilful default in repayment of the Bank's dues.
- 3.30 Clause/ stipulation as regards interest rates variations to be as per RBI norms, not notified or on record.
- 3.31 Other documents stipulated as per sanction not on record (specify).

4. REVIEW / MONITORING / SUPERVISION :

- 4.1 Non compliance of major / repeated adverse features in Audit reports / inspection in relation to borrowal accounts.
- 4.2 Stock, book-debts statements / financial statements / other operational data etc., not received regularly, or belatedly received from the borrower.
- 4.3 Stock Audit not got conducted and / or latest report not on record.
- 4.4 Major discrepancies / variations in the stock and other securities (between the annual audited financial statements / stock audit report and the financial data / returns to the Branch).
- 4.5 Non-movement of goods in pledge accounts (particularly perishable goods) and accumulation of old stocks.
- 4.6 Drawing Power not properly worked out, based on non deduction of:
 - a) Non-moving stock,
 - b) unpaid for stocks,
 - c) old book debts, and
 - d) margins as stipulated.

- 4.7 Physical verification of securities not done at periodic intervals, and action not taken on major adverse observations based on Inspection reports.
- 4.8 Frequent requests for ratification of transgressions.
- 4.9 Statutory Liabilities not being paid, or being belatedly discharged, with constant fall back on the bank.
- 4.10 Age-wise break-up of debtors not on record.
- 4.11 Penal interest not charged for delay in submission of various statements.
- 4.12 Drawing power / limits not updated / revised, as per market value of securities where advances are against shares / securities.
- 4.13 End use of funds not ensured; and diversion if observed, not attended to.
- 4.14 Account is frequently / continuously overdrawn.
- 4.15 Frequently invoked LCs / guarantees
- 4.16 Actual performance is well below projections.
- 4.17 Sale proceeds not routed through Bank and credit summations are on the decline.
- 4.18 Audited statements of non-corporate borrower having limit beyond Rs. 10 lacs not received (including Notes on accounts, accounting policies and Auditors Reports).
- 4.19 Renewal proposals of advances are not received on time and/or limits not renewed/reviewed within the stipulated norms (180 days).
- 4.20 Balance confirmation and acknowledgment of debt not obtained.
- 4.21 Life Policies taken as primary / collateral not sent for assignment in favour of the bank.
- 4.22 Insurance cover is inadequate, policies not on record / not renewed / not endorsed in favour of the Bank.
- 4.23 Tendencies of expired bills/foreign currency sight bills becoming overdue frequently and not getting crystallised when due.
- 4.24 Frequent cancellation of bills and substitution of unpaid bills.
- 4.25 Confirmation as to genuineness of export transactions not obtained from Bank's foreign offices / correspondents / customs department.
- 4.26 For import credit, Bill of Entry evidencing import of goods not available.
- 4.27 Documents not obtained for bills discounted under Letters of Credit.
- 4.28 Advances requiring guarantee cover of ECGC not brought under its cover.
- 4.29 Guarantee not invoked although accounts are irregular and called back.
- 4.30 For allocated limits, full terms of sanction, stock statements, inspection reports, margin etc, not available or available with considerable delay at monitoring branches.
- 4.31 In respect of Consortium arrangements (particularly where others are categorising the borrower as NPA)
 - a) Regular meetings not held with other consortium members to review/assess performance of borrowers.
 - b) Members of the consortium not advised about the quarterly operating limits/D. P.
 - c) Minutes of the consortium meetings not found on record.
 - d) Inspection reports from the consortium member not obtained.
- 4.32 Capital of the borrower has eroded / net worth is negative / decreasing.
- 4.33 Cases where adhoc limit remained unadjusted more than 3 months after due dates.
- 4.34 Copies of invoices and other evidence in relation to purchase of assets financed by the bank not available for verification.

- 4.35 Application of wrong rate of interest, processing charges, commission, other charges, etc. (e.g. due to wrong credit rating / non-revision thereof from effective dates).
- 4.36 Account becoming a case of “quick mortality” within a short time of sanction (within 12/24 months).
- 4.37 Margins created out of book adjustments upon purchase of bills.
- 4.38 Income accrued at branch on Advances categorized as NPAs.
- 4.39 Wrong appropriation of recoveries in NPAs.
- 4.40 Right of recompense not recorded/ invoked, if stipulated at the time of sacrifice earlier made in the borrowal account.
- 4.41 Leakage of income due to PC-cum-CC limits (where PC facilities are being wrongly credited to CC to take advantage of lower interest rates)

5. ADVANCES-other Adverse features:

- 5.1 RBI prudential norms not followed (including in cases of substantial erosion of realisable security).
(Substantial erosion (of more than 50-90%) of the security to migrate the advance to Doubtful/Loss category).
- 5.2 Existence of saleable/ realisable security in serious doubt.
- 5.3 Dilution of security and / or Valuation Report of Security / collaterals, not available. Erosion in value of immovable properties, being collateral, if any in the light of recently announced in the modification in Delhi Master Plan, requires special attention.
- 5.4 Installment / interest not received regularly, and default of 90 days or more.
- 5.5 Legal or other action for recovery of advances not taken, although authorised by the Board / Controlling Authority.
- 5.6 Terms of the BIFR scheme not complied.
- 5.7 Default in fresh facilities sanctioned pursuant to BIFR orders.
- 5.8 Delays in the settlement / repayment, in respect of one time settlement / compromise proposals and sacrifice not adjusted.
- 5.9 Payment from government for invoked guarantees not received, although guarantees were unconditional, irrevocable and payable on demand.
- 5.10 Compromise proposals pending at various levels where local government / outside agencies are involved as guarantors.
- 5.11 Irregular / sick / sticky advances not reported to higher authorities.
- 5.12 Adverse decisions in litigation, not considered.
- 5.13 Credit card dues not serviced.
- 5.14 Advances to new borrowers notwithstanding that they are defaulters in other banks/ institutions.
- 5.15 Restructured Doubtful Accounts and fresh facilities by way of funding unserviced interest, not considered for categorization/provisioning.
- 5.16 Repeated rephasing/ restructuring in the same account for evergreening the account.
- 5.17 Non-reckoning of the default in borrowal accounts transferred from other banks/branches, affecting the classification thereof.

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SUMMARY OF ADVANCES OF THE BANK AS AT 31st MARCH (for information) ...1
 Amount (Rs.)

	TOTAL	1 x	2 @	3 xx
GROSS AMOUNT IN BORROWERS' ACCOUNTS	
AT THE BRANCH LEVEL (includes for credit cards and interest bearing staff advances)				
Add:				
a) Debit balances in Deposit Accounts
b) Invoked Guarantees/devolved L/Cs
TOTAL (A)
Less:				
a) Amounts pending appropriation e.g. Credit Guarantee claims, including ECGC/CGFT(SSl) claims/other amounts recovered and held as liability/ advances- related subsidies.	
b) Interest applied in borrowers' accounts but not recorded as income and held at credit in interest Suspense or similar Account
c) Income derecognised on amounts identified as NPAs during the year and included in (A) above (+)	
d) Participation on "risk sharing basis" - outstanding amounts, if held as liability
e) Bills rediscounted, if included in (A) above (as per procedure applicable at Branch level)	
f) Advances held at branches but written off/ Prudentially written off at H.O.
TOTAL (B)
GROSS ADVANCES (A-B) OF THE BANK
Less: PROVISION (For sub-standard/ Doubtful/Loss Assets) (+) @@
Balance as per Balance Sheet
x Bills purchased and discounted
@ Cash Credits, Overdrafts and Loans repayable in demand				
xx Term Loans				

Notes (Refer page ...2)

(+ Refer Note No.2

@@ Refer Chart (RBI guidelines)

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OTHER IMPORTANT ASPECTS TO BE EXAMINED IN CASE OF ADVANCES**NOTES:**

1. Advances (non-interest bearing) to employees, (such as Leave Fare Concession Advance, Festival Advance, Drought Relief Advance) should not be treated as part of the Advances portfolio but are to be considered as part of "OTHER ASSETS-Others". However, if staff advances are interest bearing, these will be part of the Advances Portfolio.
2. Where borrowers' accounts are identified for the first time as NPAs, the unrealised income recorded in the borrowers' accounts, including for Govt. advances, must be reversed, and
 - a) to the extent recorded as the current year's income, be derecognised/not treated as income; and
 - b) to the extent recorded as the income of the immediately preceding financial year, must be provided for, unless the laid down procedure of the Bank warrants the reversal of current year's income for such (earlier year's) unrealised interest.
3. Where income is accrued in advances treated as "Standard" by the Bank Management, but such accounts are re-classified as sub-standard, doubtful or loss assets in finalising the accounts, **such interest income accrued but not realised, has also to be reversed**, so that the provision can be worked out on the amounts, net of such reversal.
4. Provisions in excess of those necessary for Advances, would have to be treated as of the nature of "reserves" and not deducted from the "Advances". Provision made on adhoc basis for standard advances would also be of this nature.
5. Provisions are required to be made to the satisfaction of auditors, and if in the opinion of the auditors, provisions made/recommended by the Bank Management as per the prudential norms of RBI are lower, the auditors would have to qualify their report indicating the shortfall. With effect from 31-3-2007, provision for standard advances depends on the type of advances with sub classification, and care must be taken to determine the same properly.
6. Debit/adverse balances in Deposit Accounts would normally be 'unsecured' advances.
7. Where recoveries are made and realisation of income is recorded, it may be ensured that the credits in the borrowers' accounts are appropriated in the following order, preference being given to the oldest debits:
 - a) Charges, not recorded/reversed; thereafter
 - b) income not realised/recorded earlier;
 - Interest Suspense
 - Unapplied Interest
 - Recompense amounts (earlier deferred in cases of sacrifice). and thereafter
 - c) the principal amount,

UNLESS the realisation is accompanied by instructions otherwise from the borrower.

Care must be taken to ensure that to the extent the borrowers' accounts are credited, the unapplied charges and income, and right to recompense, are first applied and debited to the relevant accounts.

8. Interest should not be accrued as income on accounts identified as non-performing, and after the date of the last application of interest in the borrowal accounts, the interest needs to be computed and recorded in the memoranda books **on updated basis**.