DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Letter No.VI (4)122/2013 4307(16) /Audit-2 Dated. 09/07/18

To

The Assistant A.G.C.S of all circles.

Sub: Guide lines for auditors to study loan files of Cooperative Banks under different types of loan as regard to credit appraisal, sanction, disbursement, documentation and post sanction follow up.

Madam/Sir,

In inviting a reference to the subject cited above, it is to intimate that Professional Development Committee of Institute of Chartered Accountants of India (ICAI) has brought out a guidance note on audit of Cooperative Banks with due coordination and involvement of the NABARD senior officials.

A portion of this guidance note containing verification and audit of loan operation of Cooperative Banks under different types of loans as regard to credit appraisal, sanction, disbursement, documentation and post sanction follow up is enclosed herewith for guidance of all auditors of your circle. A guideline of JLG finance was also previously forwarded, which is to be refered alongwith this.

Hence, you are requested to circulate the guide lines as enclosed among all the auditors of your circle to equip them to study various loan files of Cooperative Banks.

Yours faithfully

Enclosures: As above.

Auditor General of
Cooperative Societies, Odisha.

Copy to Audit-4 Seat/ Audit-8 seat/

Computer Cell with enclosure.

AKS.

Guidelines for Auditors
to
Study Loan files of Co-operative Banks under different types of Loans as regard to Credit appraisal, Sanction, disbursement, documentation and post-sanction follow up.

Chapter 12
Verification and Audit of Advances

12.1 Legal Aspects of Advances and Documentation

1. Identification of the borrower by the branch beyond any doubt by proper introduction, photograph etc.
2. To ensure that the borrower is competent to enter into a legal contract.
3. In respect of a partnership firm, a copy of the partnership deed is to be obtained and ensure that the amount borrowed by the firm is for the purpose of carrying on the firm's business as stated in the deed.
4. In respect of credit facilities to companies, the following points have to be examined:
    a. Whether the company is a Private Limited Company or a Public Limited Company.
    b. Whether the company has submitted the following:-
        (i) Certificate of Incorporation, in respect of Private Limited Company.
        (ii) Memorandum and Articles of Association.
        (iii) List of Directors and Managers.
        (iv) Names of the persons authorised to operate the bank account.
        (v) Names of the persons authorised to execute the documents.
        (vi) Names of the persons in whose presence the common seal of the company will have to be affixed on the documents.
        (vii) Names of the persons authorised to deposit the title deeds.
        (viii) Certified copy of the resolution seeking credit facilities from the bank.

(ix) Whether the credit facilities sought are within the borrowing powers of the company as restricted by its Memorandum of Association or Section 293 (1) (d) of the Companies Act, 1956.

(x) Whether the borrowing is for the purpose of achieving the objectives of the company as stated in the Memorandum of Association otherwise the contract will be unenforceable at law and ultra vires.

(xi) Whether the branch holds on record a resolution passed by the Board of Directors certifying that the borrowings including the proposed borrowings by the company are within the limits specified by the Memorandum/Companies Act or the limit sanctioned by the shareholders at the general meeting.

(xii) In case, a company has offered its guarantee, whether the company is expressly authorised by its Memorandum to stand a guarantor and the guarantee has been offered only after a resolution was passed by the shareholders and also a specific resolution was passed by the Board of Directors.

(xiii) Whether in respect of advances to societies, the Bye-laws have been studied, borrowing powers have been ascertained, requisitie resolutions have been passed by the Managing Committee.

5. Whether a no-objection letter ceding second charge has been obtained from the first charge holder.

6. Whether a letter ceding Pari Passu charge has been obtained from other financial institutions.

7. Whether the borrower(s)/guarantors have duly acknowledged the sanction letter and copy thereof is held by the branch along with the document.

8. Whether, in respect of advances to companies, the terms of sanction conveyed by the bank have been accepted by the company by means of a resolution passed by the Board of Directors.

9. Whether all the documents have been adequately stamped and properly cancelled prior to execution of the document.

10. Whether search at the office of the Registrar of Companies was carried out to rule out any prior charges over the assets/properties charged/mortgaged to the bank.

11. Whether search of the Register of Charges maintained by the Company in terms of Section 143 of the Companies Act, 1956 was carried out to cross-check the particulars of the prior charges registered with the Registrar of the Companies under section 125 of the Companies Act and also to ascertain the particulars of other charges like pledge etc.

12. When immovable property was offered as security, whether search was carried out at the Registrar of Assurances to rule out any prior mortgages/charges.

13. Whether Encumbrance Certificate was obtained.

14. Whether clearance from the legal advisor was obtained before creating the mortgage and the property was physically inspected by the branch functionaries.

15. Whether mortgage has been properly created? Whether in respect of simple mortgage obtention of mortgage deed duly attested by two witnesses has been ensured.

16. Whether in respect of equitable mortgage, deposit of only original title deeds by the owner of the property or by his authorised agent, creation of mortgage at a notified centre, entry of particulars in the title deeds register and confirmation letter from the mortgagor dated subsequent to the date of deposit having deposited the title deeds by means of a registered post have been ensured.

17. The following points are to be adhered to by the bank while obtaining the documents that:

    (a) no amount was released until all the requisite documents were properly executed by all the parties concerned including the guarantor.

    (b) the documents were executed in the presence of the branch manager or any other officer of the bank so as to be able to identify the borrower(s)/ guarantor(s) personally.

    (c) all the blanks filled up were authenticated by the borrower under his initials.

    (d) each document and schedule attached thereto was completed in one sitting and in the same handwriting.

(e) all types of cuttings, deletions, additions, alternations, modifications etc., were authenticated by the borrower under his full signature.

(f) the documents were executed in the branch premises and that the date and place of execution was mentioned by the borrower under his full signature.

(g) in case of an illiterate borrower, the contents of the documents were explained to him in a language that he could understand.

(h) the borrower has signed in full and in the same style throughout all the documents.

(i) if a borrower had signed in left hand, a small note was annexed to the document recording that the borrower had signed in left hand.

(j) the borrower's full signature was obtained in each page and also across the fold of the document in such a manner that the signature runs on both the pages.

(k) the borrower's full signature was obtained at the end of each document and also at the end of each schedule attached thereto.

(l) in case there was a change in the ink or pen, a suitable endorsement was recorded at the same point in the document under the full signature of the executants.

(m) in case of documents to be executed by companies, it is essential to ensure that the seal is affixed as required by the Article of Association.

(n) the documents taken were entered in the documents execution register, wherever necessary.

(o) the documents were executed by the borrowers in the proper manner appropriate to their status/capacity.

(p) in respect of partnership firm, all the partners have signed all the documents and that all the partners have also signed individual guarantee agreement.

(q) the date on the promissory note and the date on other documents is the same and that the documents were taken on

the bank's standard forms wherever available and never on photostat copies.

18. Whether as a post-sanction follow-up in respect of simple mortgage, Mortgage Deed was registered with the Registrar of Assurances within four months from the date of its execution?

19. Whether in respect of company advances, charge was created with the Registrar of Companies under Section 125 of the Companies Act together with the instrument if any, creating or evidencing the charge within 30 days of creation of charge.

20. Whether the branch has adequately insured all the assets including the collateral security charged to the bank and that the Policy is in the joint names of the Borrower and the bank.

21. Whether the insurance policies have been taken with "Bank Clause" wherever the policies were taken solely in the name of the borrower.

22. Whether the branch has obtained periodical search reports from the office of the Registrar of Companies and/or Registrar of Assurances after release of the amount during the time of review or renewal.

23. Whether the branch has obtained revival letter/balance confirmation at periodical intervals.

24. Whether revival letters were obtained before the expiry of limitation period as revival letters obtained after expiry of the limitation period will not revive the documents.

25. Whether revival letters were obtained even in case of term loans within three years from the date of execution to keep the borrower's personal liability in tact so that the bank can also proceed against the other personal assets of the borrower.

26. Whether revival letters were obtained from both the borrowers and the guarantors or their duly authorised agents to extent limitation against both of them.

27. Whether in case of joint borrowers, revival letters were obtained from all the joint borrowers, to extend the limitation against each one of them.

28. Whether in case of more than one guarantor, revival letters were obtained from all the guarantors, to extend the limitation against each one of them.

29. Whether in case of time barred documents, the branch has obtained fresh documents and DP Note for the balance outstanding as on the

date of execution of fresh set of documents with fresh guarantee deed from the old guarantor, if possible, or from a new guarantor as the case may be.

30. Whether the branch had obtained agreements on a proper stamp paper from the legal heirs of the deceased borrower/guarantor to keep the documents alive.

31. Whether the branch is maintaining the record of due dates of documents for timely obtention of revival letters so that the bank's interest is not jeopardized.

32. Whether the pay-in-slips (credit vouchers) paid into the bank as part payment before expiry of the limitation period were duly signed by the borrower-or by his authorised agent in order to extend the period of limitation.

33. Whether the adhesive stamps were duly cancelled by the branch manager to ensure that they cannot be used again.

34. Whether the contents of the documents were typed on the reverse side of the non-judicial stamp papers.

35. Whether the revenue stamps affixed on a DP note were properly cancelled by signing across the stamp by the executants failing which the document becomes invalid.

36. Whether attestations were obtained for all mortgages from two respectable persons and their addresses recorded along with their signatures.

37. Whether the stamp papers were purchased by the executants in their own name.

38. Whether the date of document is always subsequent to the date of purchase of the stamp paper (or date of embossing of adhesive stamps).

39. Whether the suits were filed in a court which has proper territorial and pecuniary jurisdiction.

40. Whether all suit filed accounts are being properly followed-up with the advocates.

41. Whether in respect of mortgage suits, application for final decree have been filed wherever courts have granted preliminary decree within the limitation period.

42. Whether the branch has filed EPs in respect of all decreed accounts.

43. Whether the branch has filed suits within the period of limitation as applicable to various types of documents.

12.2 While auditing loans to societies, in addition to checking of legal framework, following checks should be carried by the audit team depending on the type of loans/ advance.

12.2.1 Crop Loans

The auditor should check/examine/confirm/verify the following detailed aspects:-

Whether the bank followed the systems and procedures as prescribed for financing societies for Seasonal Agricultural Operations (SAO) with particular reference to the following:

1. Methodology followed for fixation of Scale of Finance (SoF). Is it in accordance with the guidelines on production oriented system of lending issued by NABARD, whether the SoF fixed as a range showing minimum and maximum amount that can be financed for a particular crop in the particular location.

2. Adoption of SoF fixed by the Technical Group (TG) – whether the SoF was fixed by TG followed uniformly by all the branches/PACS. If the scale of finance fixed by TG was used as indicative, whether the range of variation was reasonable?

3. Proper maintenance of register of rights in lands of members, posting it up-to-date, annual verification of entries therein with revenue records, verification of cropping pattern of borrowing members indicated in the Normal Credit Limit (NCL) Statement with the land records for avoiding inflated/ghost acreage for crops carrying higher scales of finance, etc.,

4. Preparation and submission by the societies of NCL Statement and drawal applications.

5. Whether all the borrowers of crop loans were issued Kisan Credit Card (KCC). If not, the reasons and the extent to which covered under KCC.

6. Whether the drawals of KCC were allowed by branches of DCCBs or by PACS only. If farmers were allowed to operate KCC at branches, whether 'mirror' account was maintained in PACS. The efficacy of the system including the margin sharing may be examined and commented upon.

7. Were there any restrictions by the bank/societies in the disbursement of cash component? Whether farmers allowed to take kind component in cash subject to production of vouchers.

8. Whether there was undue delay in disbursement of loans to members of societies and making payment/adjustment at the bank's level in respect of the fertilizers and other inputs supplied by marketing societies/other agencies to the PACS on behalf of borrowing members.

9. Disparity in the scales of finance and actual disbursements-specific reasons may be ascertained and commented in cases where the banks had higher scales of finance but disbursements were made at a very low level.

10. If the share croppers/tenants/oral lessees etc., were financed for Seasonal Agricultural Operations (SAO), whether they were financed on the same scales of finance as fixed for owner cultivators? If not, the basis adopted/steps taken by the bank for financing such cultivators.

11. Examine the system of financing Joint Liability Groups (JLG) and bring out the deficiencies observed.

12. Norms of security prescribed/followed by the bank of financing members of societies for SAOs. Limit for issue of surety loan for SAOs and its adequacy vis-a-vis the requirements of the cultivators in the area according to the scales of finance fixed by the bank.

13. If the scheme of linking of credit with marketing had been introduced by the bank in its area of operation, effectiveness or otherwise of its working (with relevant figures of recoveries effected through linking arrangements, etc., and concrete suggestions for improvement, if the arrangement is not effective).

14. Action taken by banks in implementing the various production programmes sponsored by GoI/State Government.

15. Whether separate credit limits were sanctioned to PACS for financing cultivation of oilseeds covered under Oilseeds Production Programme (OPP), pulses under National Pulses Development Programme (NPDP) and Development of Tribal Population (DTP) for financing Tribals.

16. Whether separate Demand, Collection and Balance (DCB) register was maintained for cultivation of oil seeds covered under OPP? If not, reasons thereof.

17. Whether the norms for identifying small farmers are those fixed by Nationalised Bank? If not, the actual norms followed by the bank.

18. Whether Registrar of Co-operative Societies (RCS) had imposed any restrictions on financing societies? If so, details thereof. Whether such restrictions affected the flow of credit to new and non-defaulting members of PACS.

19. In the case of ineligible PACs, arrangements made for ensuring adequate flow of credit to new and non-defaulting members. Whether RCS had fixed any recovery norms for financing PACS and whether such norms had come in the way of flow of credit to new and non-defaulting members.

20. Examine the Crop Insurance Scheme introduced in the area of operation of the bank covering the following aspects:

    (a) Names of blocks in the district where the scheme is in operation.

    (b) Crops covered.

    (c) Farmers covered - No. of farmers to whom loans were disbursed.

    (d) Area (in hectares) covered crop-wise.

    (e) Amount of loans disbursed crop-wise.

    (f) Sum insured (100% of (e) subject to a maximum limit of ₹10,000 per farmer)

    (g) Insurance charges recovered.

21. Amount of subsidy obtained/to be obtained in the case of small and marginal farmers.

22. Whether insurance premium deducted out of loans has been passed on to the General Insurance Corporation (GIC).

23. On receipt of claim amount from GIC/State Insurance Fund, whether the Central Co-operative Bank (CCB) has passed on the amounts to the concerned PACS giving full details of the notified area/crop to which the claim relates and the percentage of the sum insured or loan which has been reimbursed.

24. On receipt of claim amount, whether PACS had worked out the actual amount of claim relating to each of the loan accounts covered by the claim and credited the amounts to the respective accounts.

25. Examine as to how the insurance claim received has been adjusted at CCB and PACS level. Whether the adjustments were in conformity with the objectives of the scheme/instructions issued by Nationalised Bank/GoI.

26. In addition to the above, in respect of Interest Subvention Scheme of GoI, the auditor should check the following:

    (a) Whether the bank had ensured that the interest charged on crop loans by the societies to the ultimate borrowers was as per the Interest Subvention Scheme of GoI.

    (b) Whether the DCCB has compiled the claims for interest subvention correctly and discrepancies, if any, observed.

12.2.2 Medium Term (Conversion)

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Whenever natural calamity occurs, steps taken by the bank to provide relief to the borrowers of co-operative credit system such as issue of land revenue certificate from the district authorities, issue of instructions to the PACS for conversion of ST (SAO) loans into Medium Term (Conversion) Loans, issue of guidelines to the PACS, etc.

2. Examine whether the bank had granted conversion of ST (SAO) loans into Medium Term (Conversion) Loans and the amount converted during the period covered by the inspection.

3. Examine the balance in the Agricultural Credit Stablisation Fund (ACSF) and the amount utilised by the bank for conversion during the year. In case the balance in the ACSF was not sufficient, how the bank had met their share.

4. Whether the bank had adhered to the criteria and procedures laid down by the RBI/NABARD for granting conversion facilities to the PACS.

5. Whether any 'overdue' loans were converted.

6. Whether the bank had ensured that the benefit of conversion had been granted in time to the ultimate borrowers at the society level.

7. Whether the security obtained for conversion loans was in accordance with the norms prescribed by the RBI/NABARD.

8. Whether the bank had met 15% share in conversion. If not, how the share was met.

9. Whether the recoveries under MT (C) were passed on promptly to the SCB.

10. Whether the bank had ensured that the farmers, for whom conversion was allowed had been granted fresh loan by the PACS concerned.

12.2.3 Medium Term Loans for Agricultural Purposes

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Whether the bank had framed policy and procedures for grant of medium term loans for agricultural purposes.

2. The purposes for which MT loans are generally advanced and adequacy of standard outlays laid down as per unit cost/per acre basis in respect of any item of investment.

3. The manner of working out repaying capacity of borrowers for different types of investment credit.

4. In fixing the repayment schedule, whether the bank had taken into account the repaying capacity of the borrower.

5. Whether economics of the projects was worked out and pre-sanction appraisal was carried out including borrower appraisal.

6. Whether security obtained for various medium term loans were as per the norms fixed by the RBI from time to time.

7. Method followed for valuation of land and its reasonableness.

8. Whether the due dates were fixed in accordance with the cash flow.

9. Whether utilisation/end-use of the credit was monitored and records available for visits carried out by the field staff.

10. Whether insurance of assets acquired was insisted and whether available during the pendency of the loan.

12.2.4 Cash Credits for Non-agricultural Purposes

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Policy followed for sanction of cash credit limits to PACS, Marketing Societies, Processing Societies etc., for meeting working capital requirements.

2. Security and margin – whether as per the norms fixed by RBI/NABARD from time to time.

3. Adequacy of cover for clean advances.
4. Instructions issued by HO for custody of the goods pledged in case of loans against pledge.
5. HO instructions regarding insurance of stocks and adequacy.
6. Compliance with the directions of RBI on financing sensitive commodities.
7. Whether the loans/limits sanctioned to a single society is within the 'net owned fund' of the society. If not, steps taken by the bank for bringing the exposure within the net owned funds over a period of time say, three years.

12.2.5 Salary Earners' Societies

The auditor should check/examine/confirm/verify the following detailed aspects:-

8. Whether the bank had formulated a policy for financing Salary Earners' Co-operative Societies and issued policy circular.
9. Examine the major items contained in the policy circular and ensure that they are in tune with the overall policy of the bank.
10. Examine the number of Salary Earners Co-operative Societies functioning in the area of operation of the bank and number of societies borrowing.
11. Whether the bank has obtained all required documents before sanctioning the limits i.e., application in the prescribed format, resolution of the board of the society, financial particulars of the society for the last 2/3 years, audit reports, list of members for whom the society proposes to finance and assessment of financial requirements.
12. Whether drawls were allowed based on requirements and how it is ensured by the HO.
13. Whether the bank had ensured that the outstanding borrowing by the society is fully covered by the outstanding loans to members and how frequently it is watched.
14. During visit to branches, the operations on the limit may be examined and commented.

12.2.6 Financing of Self Help Groups (SHGs)

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Whether the bank had formulated policy and operational guidelines for financing Self Help Groups (SHGs).
2. Examine the guidelines issued by the bank to the branches in this regard and ensure that the same are in conformity with the guidelines issued by NABARD for SHG-Bank Linkage.
3. Examine the application format and appraisal format for SHG financing and comment on the same.
4. Examine the progress in financing SHGs by the bank vis-a-vis number of SHGs having SB accounts.
5. Whether the bank had developed any 'Rating' Model for SHGs and advised the branches.
6. Whether the bank had conducted any evaluation of the SHG-Bank Linkage.

12.2.7 Financing of Joint Liability Groups (JLG)

The auditor should check/examine/confirm/verify the following detailed aspects:-

The inspecting officer may examine the financing of JLGs by the bank keeping in view the following broad aspects:

A Joint Liability Group (JLG) is an informal group comprising of 4-10 individuals coming together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee. Generally, the members of a JLG would engage in a similar type of economic activity in the non farm sector. The members would offer a joint undertaking to the bank that enables them to avail loans. JLG members are expected to provide support to each other in carrying out occupational and social activities.

12.3 Audit of Loans And Advances Under Retail Credit to Individuals and Others

12.3.1 Advances Against Deposits

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify all loan documents and they are properly obtained, stamped and executed. Confirm that document contain discharged deposit receipts.
2. Verify at random, the lien noting on the deposit receipts as well as in the ledger and confirm that they are authenticated by an officer.
3. Verify whether any loan has been granted against the deposit of other branches and the branch is holding proper lien acknowledgement letters.
4. Verify whether any loan has been granted against term deposit issue from the compensation amount awarded by any tribunal and/or court with specific instruction.
5. Whether deposit section officer is verifying the signature of the depositor.
6. Confirm that all closed loan accounts are authenticated with full signature by the officer.
7. Verify whether any advance is continuing where the deposit remains unadjusted towards the outstanding even after maturity of the deposit.
8. Verify that the branch is maintaining the required margin as per the guidelines.
9. Verify whether the balance exceeds the permissible limit.
10. When loan is arranged against minor's deposit, the purpose of the loan is to be indicated by the guardian and he has to certify that the advance is for the benefit of the minor/for meeting the necessities of the minor. Verify loans against minor's deposits and confirm that the branch is following guidelines.
11. When term deposit is withdrawn before completion of a minimum term period interest at commercial rate as communicated from time to time shall be charged on the advances granted against such term deposits. Confirm branch is obtaining undertaking letter from borrower agreeing to pay normal rate of interest on loan/overdraft in such cases.

12. Verify at random the closed loan/overdraft account documents to confirm that there are no fictitious advances arranged.
13. Verify branch is reporting all the loans/overdrafts sanctioned against third party deposits over a certain amount to head office as per the policy and check the rate of interest on such advances is being charged as per the guidelines issued.
14. Whether the deposit is the refunded at reduced rate of interest before maturity, interest on loan/overdraft shall be charged the prescribed rate. Test check whether the branch is allowing the concession.
15. As per RBI directives, loans and advances cannot be granted against securities on composite basis. Verify from the branch for compliance.
16. In case of deposit standing in joint names, irrespective of the conditions regarding repayment, all the parties to the deposit should discharge the deposit receipt and sign all the papers and documents be executed by borrowers. Verify such account for compliance.
17. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.2 Advances Against Commodities Under Pledge

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the movement of keys is properly recorded in the Key Custody Register.
2. Whether the duplicate set of godown keys duly sealed are held under dual control.
3. Confirm holding of the original invoices/lodgement letters and properly executed delivery orders.
4. Confirm that the goods pledged are fully paid for.
5. Verify delivery goods are against payment and not against pledge of goods.
6. The value of the goods pledged is as per the invoices and the invoices are in the borrower's names.
7. Whether proper stipulated margin is maintained.
8. Confirm that the pledged goods values are not inflated to accommodate excess drawing power.

9. Identify the accounts secured by long outstanding unsold/stale/obsolete stock. Furnish the steps taken by the bank/branch to close such loans.
10. Examine the suitability of the godown.
11. Confirm that the bank's name plate is displayed.
12. Whether letter of access is obtained wherever necessary.
13. Verify whether the goods pledged are properly stored and identifiable.
14. Carry out a test check of weight, contents and quality of goods pledged in the presence of the borrower or his representatives.
15. Confirm that there are no other goods/stock stored in the godown other than the goods pledged to the bank.
16. Verify whether godown chart and godown registers are maintained and it is up to date.
17. Whether the drawing power is revised and recorded from time to time.
18. Verify whether advances against commodities like cotton, tobacco requiring licence/permits for dealings/storing/transportation are obtained and held with the bank/branch.
19. Confirm that the goods pledged are properly insured and bank's interest is noted in the insurance policy.
20. Ensure that the description of goods and godowns agrees with that mentioned in the policy.
21. Verify whether the branch is maintaining market report book for local commodity and recovering the additional margin whenever the prices fall.
22. Verify whether the locks used have the bank's name engraved there on.
23. Confirm by test check that the goods pledged are as permitted in the sanction.
24. Whether the branch conducts surprise visits to the godown.
25. Confirm whether all the borrowers under the scheme have been admitted as associate members of the bank.
26. Quantity in the godown and size of the godown – any mismatches to be checked.
27. Verify whether the Interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.3 Advances Against Commodities Under Hypothecation

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the drawing power is properly fixed by taking into account paid stock as per stock statement on monthly basis.
2. Ensure that there is no inflated valuation of stock to accommodate fixing of higher drawing power.
3. Ensure that the stock shown in the stock statement does not cover unpaid stock, stock which are already under pledge, stocks covered under letter of credit unpaid and stock of no value.
4. Verify whether the stock declared in the stock statements match with that shown in the financial statement, whether the description of the hypothecated stock is given in stock statements.
5. Test check the goods hypothecated with the invoices stock books and confirm that they are in order and up to date.
6. Confirm that the goods hypothecated are fully paid for.
7. Verify whether physical verification of stock is done periodically with reference to stock statement and stock registered and duly authenticated by officer verifying in the stock.
8. Confirm that the goods hypothecated are insured for the full value as per the guidelines.
9. Whether the insurance policies are renewed regularly on due date.
10. Whether details of policy are recorded in insurance policy register.
11. Verify whether the policies are assigned to the bank/ bank's lien is noted on the policies.
12. Whether the location of the go down is correctly stated in the policy.
13. List out cash credit accounts where the turnover in the account is not satisfactory.
14. Verify the stock statement obtained by the branch/bank and comment on promptness in obtaining stock statement, levying of penal interest for non submission. Whether columns of stock statement are properly filled up.
15. Comment on turnover in the account and stock statement.

16. Confirm whether all the borrowers under the scheme have been admitted as associate member of the bank.

17. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.4 Vehicle Loan

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the branch holds the following papers/document:
   (a) True copy of the (Registration Certificate) with bank's hypothecation charge duly noted there in.
   (b) Copy of the valid route permit (for public vehicles).
   (c) Valid comprehensive insurance policy with bank clause included.
   (d) Duplicate switch key or letter in lieu thereof.
   (e) Original invoice stamped receipt and/or valuation report (for second hand vehicle).
   (f) Whether clause of hypothecation recorded in Registration Certificate.
2. Verify whether loan proceeds are released specifically to the seller/supplier of the vehicle and obtained acknowledgement from the borrower.
3. Whether the latest vehicle inspection report is on record.
4. In case of default in payment of installments whether the branch makes arrangement to seize the vehicle.
5. Confirm whether all the borrowers under the scheme have been admitted as associate members of the bank.
6. Verify whether the Interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.
7. Whether the branch had conducted periodic verification of the condition of the vehicle.

12.3.5 Advances for Mechanised Boats/Trawlers/Deep Sea Fishing Vessels

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Confirm that the branch is holding the following papers/documents:
   (a) Registration Certificate showing the Bank's lien.
   (b) Certificate of Registration issued by the Port Authorities.
   (c) Certificate of Registration of Mortgage/Hypothecation Charge.
   (d) Certificate of Life of the Boat/Trawler/Vessel.
   (e) Sea Worthiness Certificate.
   (f) Valid Marine/Fire Insurance Policy with bank clause and risk of insurance with partial losses clause stipulated.
   (g) Periodical Inspection Report.
2. Verify whether the release of fund is made specifically to the suppliers of Boat/Trawler/Vessel.
3. Confirm that the subsidies from the Government are received in all eligible cases and they are duly appropriated to the loan dues.
4. Confirm whether all the borrowers under the scheme have been admitted as associate member of the Bank.
5. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.6 Letter of Credit – Credit Facility

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Whether letter of credit (LC) facility is sanctioned after duly processing the credit needs of the unit/borrower along with overall working capital/term loan requirements.
2. Verify whether the LCs are supported by sanction.
3. Whether all the terms/conditions of the sanction are complied with. If not, identify the cases, reasons there of/approval sought/obtained etc. and report.
4. Verify whether the LC register has been properly maintained and the outstanding entries therein have been periodically balanced and tallied with the General Ledger.

5. Verify whether the bills under LCs are retired promptly on presentation of bills/on arrival of goods. If not identify the cases and steps taken to realize the bills.
6. Verify whether the expired LCs are squared up in the books and the contingent liability is reversed after observing formalities in this regard.
7. Whether the dates of expiry of LCs noted in register and action taken to reverse the expired LCs.
8. Ensure that the margin money is refunded only after all the bills drawn under the LC are received and retired.
9. In case of goods directly supplied to the buyers under special arrangements (heavy machinery), verify that the necessary letter of undertaking has been obtained from the buyers and credit provides for prompt advice regarding dispatch of goods by the beneficiary directly to the opening branch.
10. In case of revolving LC verify whether a clause to the effect that the amount of the credit will be restored only on receipt of advice from the opening branch that the earlier bills have been paid, is included in the terms of condition of the LC.
11. Comment on arrangement made, such as, sanction of credit facility earmarking in current account for clearing liability under LC on presentation of documents etc.
12. Confirm whether all the borrowers under the scheme have been admitted as an associate member of the bank.
13. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.7 Unsecured Advances

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Confirm that the over drawls allowed are as per the HO instructions/ procedure, if not, identify the cases and report separately.
2. Verify and list out the parties who are frequently enjoying the clean loans, over drawals in current account exceeding in over draft account disproportionately and beyond the limits of discretionary powers.
3. Confirm that clean loans, overdrawals in current account, exceeding in overdraft accounts are not arranged/allowed to meet the margin requirement under other secured advance to the borrower, other parties/sister associate concerns, related interested parties.

4. Confirm that the register of overdrawals is maintained on the lines prescribed and it is up to date.
5. Whether exceeding beyond discretionary powers are reported separately to controlling authority.
6. Verify whether the request letter of overdrawals is obtained and permission recorded therein.
7. In case of demand loans verify whether the branch has sanctioned the same after assessing repayment capacity of the borrowers. Confirm documentation as prescribed is obtained in all cases.
8. Confirm whether all the borrowers under the scheme have been admitted, as an associate member of the bank.
9. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.8 Advances Against Government Securities/NSCs

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Ensure that the signature of endorsers tally letter to letter with the name/s of endorsees in previous endorsements.
2. If there are too many endorsements, insist on renewal of securities by sending them to Public Debt Office of the RBI.
3. Whenever a customer approaches for loan against Government Securities held in demat after ensuring that the same can be taken as security as per HO guidelines, verify whether the branch has complied with all HO guidelines.
4. Verify whether NSCs taken as security has been transferred in the name of the bank and lien is noted in bank's favour before releasing the loan/overdraft. Verify whether proper margin is maintained.
5. Verify whether all the joint holders of the NSCs have signed the borrowing documents.
6. Verify whether interest is collected on Government securities promptly and a register is maintained for issuing income tax deduction certificates.
7. Verify whether interest is collected on NSCs periodically whereever applicable and steps taken to adjust the same to loan account on due dates.

8. Verify whether on the date of maturity, the Head Office/Branch has made arrangements to collect the proceeds of NSCs and adjusted towards loan account. Ensure that Head Office/Branch is maintaining due date register.
9. Confirm whether all the borrowers under the scheme have been admitted as an associate member of the bank.
10. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.9 Advances Against Shares, Debentures and Units of Mutual Funds

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether units taken as security do not have any prohibitive clause for pledging the same.
2. Verify whether the branch holds the blank transfer deeds/forms signed by the registered holder.
3. Verify whether the units are transferred in the name of the bank, in the absence of blank transfer forms.
4. Verify whether the branch has obtained a letter of authority from the units holder, authorizing the bank to collect the dividend on the pledged units from the trust/fund on behalf of the borrower and is forwarded to mutual funds with a forwarding letter in the prescribed form.
5. Ensure that the shares/debentures/bonds accepted as security are of reputed companies, regularly quoted, fully paid (as far as possible approved companies) and are in marketable lots and satisfy that the scrips/bonds pledged are bonafide and genuine by verifying latest dividend warrant/interest warrant in the name of the borrower.
6. Verify whether loans against partly/fully convertible debentures, that the shares received on such conversion are taken as security for the advance.
7. Verify and report whether the amount received on the redemption of the debenture is adjusted to the loan accounts.
8. Verify that the shares and debentures are not clubbed together as security to sanction loan/advance as per the RBI directives.

9. Verify that the bank/branch holds valid and endorceable blank transfer forms for each marketable lot/folio and for each certificate odd lots, duly signed and witnessed without date.

10. Verify whether the branch is keeping a watch on the periodical fluctuations in the market rate of shares noting them in share quotation register and revise the drawing power accordingly? Ensure that the stipulated margin is being maintained and shortfall if any, is recovered as per guide lines.

11. Verify whether lien notices have been forwarded by registered acknowledgement due to the companies and their acknowledgement or refusal letters are kept with the loan paper.

12. Ensure that the part of security released has been recorded and acknowledged by the borrower.

13. Ensure that the dividend/interest received from the company/are credited to the concerned borrower's account.

14. Verify whether dividend mandates have been obtained and registered with the respective companies.

15. Whenever a customer approaches for loans against shares held in demat after ensuring that the shares can be taken as securities as per bank's approved list and guidelines, the branch shall, after sanction of facility by the competent sanctioning authority, furnish to customers the regions pledge account member with Stock Holding Corporation of India (SHCIL)/National Securities Depository Limited (NSDL), so that customer's Depository Participants (DP) (either SHCIL or any other DP) can create pledge in bank's favour. Subsequent to confirmation of creation of pledge the loan can be released.

16. Confirm whether all the borrowers under the scheme have been admitted as an associate member of the bank.

17. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.10 Advances Against Gold Ornaments (Jewel Loan)

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Confirm whether all the borrowers under the scheme have been admitted as an associate member of the bank

2. Confirm that the officer has followed the instruction/guidelines issued to establish the proof of identity of the borrower before issue of Jewel Loan Application (Ration Card, Driving License, Employer Identity Card, Bank Pass Book, Telephone Bill etc.)

3. Confirm that all the jewels have been appraised by the duly appointed jewel appraiser and also confirm that the jewels are appraised in the branch premises itself.

4. Verify that the appraiser's seal has been affixed on the knot in such a way that it is not possible to untie the knot without tampering the appraiser seal.

5. Ensure that the jewels received from every borrower shall be separately bunched and kept separately under joint custody.

6. Verify whether the branch is following the stipulation made by Head Office in repayment of interest/principal/any dues and such stipulation is in conformity with RBI instructions.

7. Test check random jewels pledge with regard to number of items, description, gross weight, net weight, appraised value, margin etc.(where interest is in arrears for more than 3 months are to be invariably checked).

8. Confirm that deposit and withdrawal of jewels are being done according to the procedure stipulated and ensure that maintenance of the "Jewel Bags Stock Register" is up to date.

9. Verify whether any jewel loan has been granted to the jewel appraiser or his relatives. If yes, who has appraised the jewels pledged in such loan – comment giving details of such loans.

10. Verify whether the branch has sent periodical statements connected with the issue of jewel loan to Head office.

11. Confirm that the branch has maintained overdue jewel loans register and follow up action is taken.

12. Ensure that the stipulated margin is maintained and furnish a list of over advanced loans. Branch to collect the deficit in margin to maintain necessary margin.

13. Verify the jewel loan register and report whether borrower's discharge has been obtained at the time of redemption.

14. On repayment of the loan, whether the branch is taking proper care to

obtain signature of the borrower for taking delivery of jewels pledged and officer delivering the jewels verifies the signature of the borrowers and signs for having delivered the jewels.

15. Verify whether any death claims are pending against pledged items and comment.

16. Verify whether timely action is taken to action the jewel pledged, pertaining to the overdue loan. Confirm whether there are any clean jewel loans after adjustment of auction proceeds.

17. Verify whether action is on irregular loans such as sending registered notices, auction notices etc., are initiated by the bank/branch. Whether all procedures have been followed for conducting the auction and auction proceeds are properly accounted as per procedure.

18. In case of priority sector activity including agriculture, branch to confirm that the borrower is pursuing the relevant activity. Documentary proof to that effect has to be obtained and kept along with loan application. Ensure that applicable interest rates and margin are being followed according to the guidelines stipulated. Verify and comment.

19. Verify jewel loan appraiser's file and ensure that a condition has been stipulated that the appraiser is solely responsible for the purity, gross and net weight of the jewels.

20. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.11 Cash Credit Limit – Traders

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the beneficiary is a wholesale/retail trader and possessing a certificate of registration under General Sales Tax Act or a sole proprietor.

2. Verify whether the activity for which cash credit has been sanctioned is in the approved list of General Sales Tax.

3. Verify whether the activity proposed is being undertaken with in the area of operation of sanctioning office.

4. Verify whether the applicant has been admitted as an associate member before sanction of cash credit limit.

5. Verify whether the renewals of cash credit limits have been made before it is expired and by taking into consideration of the previous years' performance.
6. Ensure the valuation of stock has been done on the basis of cost price or market price whichever is less.
7. Verify whether the drawing power has been fixed after deducting the margin amount and from the value of paid stocks and permitted level of book debts.
8. Verify whether the outstanding under each cash credit account is with in the limits/drawing power prescribed.
9. Verify and ensure that the documentation is in order, viz.,
   (a) Duly executed promissory note.
   (b) Hypothecation/Pledge Deed/Agreement duly executed by the applicant.
10. Verify whether all the documents are in custody of the officer/executive who is authorized for this purpose.
11. Verify whether there is a provision in the agreement to inspect the trading concern.
12. Verify whether the stock in trade has been insured in the joint names of the bank and the trading concern.
13. Verify whether the procedure laid down has been followed to initiate action to regularize the overdues.
14. Verify whether the stock statements are being submitted periodically before the due dates fixed for submission.
15. Verify the charging of interest to the account - frequency - daily/ monthly and its correctness.
16. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.12 Salaried Employees

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the loan has been sanctioned as per the loan policy of the bank.
2. Verify whether the applicant has been admitted as associate member.

3. Verify whether the applicant has executed an undertaking to the effect that he will not borrow from any financial institutions/co-operative society against his salary until the loan is fully discharged.

4. Verify the take-home salary of the applicant and guarantors and it should not be less the 25% of gross salary.

5. Ensure that the applicant is maintaining savings bank account with the bank.

6. Verify the applicant and guarantor's remaining period of service, and it should not be less than 2 years.

7. Verify whether the guarantors are his co-employees with good standing.

8. Verify whether the sanction of loan has been as per the terms and conditions laid down by the Head Office.

9. Verify the documents submitted by the applicant along with the loan application and ensure that they are complete and in order viz.,

   (a) Salary certificate of the applicant and guarantors.

   (b) Self declaration duly counter-signed by the pay disbursing officer as to the fact that applicant is working in a non-transferable post.

   (c) Pro-note duly executed jointly by the applicant and guarantors.

   (d) The irrevocable letter produced by the applicant from his employer addressed to the bank to the effect that the monthly installments of principal, accrued interest, penal interest, charges under the loan account will be deducted from the concerned employee's salary every month and remitted to the bank regularly until the entire loan is cleared.

10. Ensure that the repayment period is within the maximum period as stipulated by HO.

11. Verify whether the details of disbursement have been intimated to pay disbursing officer.

12. Check the rate of interest and ensure that rate is as per the regulations and interest is applied properly.

13. Verify whether the installments are being made regularly on or before the stipulated date and in case of any belated payment, penal interest has been collected.

14. Verify whether the branch is closely monitoring the recoveries and borrowers who have committed default have been reminded regularly to clear their over dues.

15. Verify whether the defaulted cases have been referred to Head Office for legal action/arbitration proceedings as per the norms prescribed.

16. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.13 Loan Against Mortgage of Property

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify that loan on mortgage of building/property has been granted/sanctioned for any one of the purposes mentioned in the rules/regulation governing the grant of mortgage loans.

2. Verify that loans have been sanctioned to individuals or group of individuals who are owning a building/property.

3. Verify whether the loan sanctioned against building/property is within the area of operation of the bank/branch.

4. Verify whether the amount of loan sanctioned is within the maximum limit prescribed for different type of borrowers.

5. Ensure that whether the loans sanctioned have been restricted/limited to 50% of the estimated value of the property (or as prescribed by the bank).

6. Confirm that the documents obtained by the branch are in order and enforceable.

7. Verify Head-Office/Branch holds the following documents.

   (a) Legal opinion from the approved panel lawyer and got approved from bank's legal cell/section wherever required.

   (b) List of title deeds.

   (c) Original property documents recited in the legal opinion.

   (d) Blue print plan copy.

   (e) Photograph of the building.

   (f) Valuation report given by two officers of the bank who surveyed the property along with approved valuer.

   (g) Property/water tax payment receipts.

(h) Comprehensive insurance policy standing in the joint names of the bank/borrower and covering all risks.

8. Age of the building.

9. Ensure that the value of the site has been assessed as per the guidance value.

10. Verify whether the relevant documents are properly filled in/completed with date and executed by the mortgagors/all joint holders of the property/borrowers.

11. Whether the Head Office/branch has incorporated all the clauses as per the guidelines/circulars issued from time to time in this regard.

12. Verify whether the legal adviser (lawyer) has scrutinized the documents and encumbrance certificate for 13 years and confirm that legal opinion has certified that the mortgagor has clear marketable title to the property to be mortgaged.

13. Also verify whether the lawyer has scrutinised the flow of title to the property proposed to be mortgaged to the bank, for a period of 25 years and certified that there is clear title to the property.

14. Ensure that the borrower has mortgaged the property in favour of the bank for the loan amount and registered with the concerned Sub-Registrar's office before sanction of the loan.

15. Ensure that the borrower has produced further encumbrance certificate of the property for verification after such registration and before getting disbursement of the loan.

16. Ensure that the borrower has given his acceptance/consent to retain all the original documents with the bank pertaining to the property as advised by the legal advisor till the loan is cleared in full.

17. Confirm that the Head-Office/Branch has complied with the provisions of Urban Land Ceiling Act or any other similar Acts, wherever applicable.

18. Verify whether the branch has obtained Encumbrance Certificate (EC) Land Tax receipts periodically and any alteration of property has been noted while sanctioning the EC.

19. Verify whether the Head Office/Branch has inspected the mortgaged property periodically and maintained record for the visits.

20. Ensure that the period of repayment of the loan has not exceeded the period prescribed by the bank.

21. Ensure that the borrower's repaying capacity has been properly assessed i.e. his/her monthly income is adequate to repay the monthly installments towards principal and interest and also ensure that the monthly repayment installment should be within his repaying capacity.

22. Ensure that the borrower has been admitted as associated member before sanction of the loan.

23. Verify the loan application and ensure that the borrowers have furnished additional document namely wiz. building permit, plan, estimate of construction etc., as required under the loans scheme in the event of availing the loan for extension/repair/renovation of building.

24. Ensure that Head Office/Branch has obtained a letter of undertaking from the borrower that he will not alter or alienate the property mortgaged to the bank in any form without the prior permission of the bank.

25. Ensure that Head Office/Branch is closely monitoring and follow up action is being taken promptly to avoid loan becoming overdue or NPA.

26. In the event of overdue/NPA Loans, verify whether the Head Office/Branch has initiated step to regularise the bad loans.

27. Verify any legal restrictions for sale of property.

28. Verify whether the Interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.14 Housing Loan

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the member who desires to obtain a loan under Housing Loan Scheme has submitted the application in the prescribed form along in the following documents?

   (a) Title deed in original together with parent deed.

   (b) Encumbrance Certificate (EC) for 13 years till date.

   (c) Opinion of bank's legal advisor to prove the title to the property.

   (d) Site plan and building plan approved by the competent authority viz., Town Planning Authority in case of construction/out right purchase of house/flat and up gradation where addition to the living space is involved.

(e) Age proof of the borrower.

(f) Estimates for cost of construction certificate by the approved engineer.

(g) Estimated value of the house/flat certified by the approved engineer along with documentary proof for the life of the building.

(h) Salary certificate from his employer/other income proof as prescribed.

(i) Original agreement with flat promoter in the case of purchase of flat.

(j) Second encumbrance certificate from the date of issue of first encumbrance certificate.

2. Confirm that the documents obtained by the Head-Office/Branch are in order and enforceable.

3. Verify whether the building/flat proposed to be purchased by the borrower has been inspected and report is kept and confirm that the report does not contain adverse features?

4. Verify whether the lawyer has scrutinized the documents and EC for 13 years and confirm that legal opinion has certified that the proposed seller has clear marketable title to the property to be sold?

5. Verify whether any affidavit cum–undertaking has been obtained from the person applying for such credit facility to the effect that he shall not violate the sanctioned plan and construction shall be strictly as per the sanctioned plan?

6. Verify whether the loans are sanctioned directly to individuals who are above 18 years of age and within the maximum age as fixed by the bank?

7. Ensure that the borrower has been admitted as an associate member before sanction of loan.

8. Ensure that the loan has been sanctioned for the construction of house on plots under layouts approved by appropriate authority.

9. Ensure that the house purchased by the borrower under the scheme is in good tenantable condition and normal useful age and remain in such condition at least for a minimum period of 20 years from the date of purchase?

10. Verify whether the loan sanctioned is within the purview of "purpose" mentioned in the terms of conditions stipulated and satisfied all conditions?

11. Ensure that the quantum of loan sanctioned is within the limits prescribed for different purposes.

12. Ensure that the property offered as security for loan stands in the name of applicant and unencumbered.

13. Verify and comment whether the property is in joint names, all the concerned parties have given consent and join in execution of registered documents.

14. Ensure whether the loan eligibility in favour of each borrower has been properly assessed and sanctioned as per norms prescribed?

15. Ensure that the borrower has satisfied/fulfilled all conditions stipulated by the HO viz., a) Not more than one loan has been granted b) The borrowers are having a regular and adequate source of income. c) Left over service is at least 5 years for attaining the age of superannuation.

16. Ensure that the loanee has mortgaged the plot and the house to be constructed in favour of the bank by registering the same.

17. Ensure that in the case of purchase of flat the undivided share in the land and the flat has been mortgaged by the loanee.

18. Ensure that the mortgage deed is signed by the loanee and two witnesses.

19. Ensure that the original deed is with the head office/Notified Branch as per the policy of the bank.

20. Ensure that evaluation fees has been collected from the loanee.

21. Ensure that Head Office/Branch has obtained an affidavit cum undertaking to the effect that the built up property has been constructed as per the sanctioned plan and/or building bye laws.

22. Ensure that the disbursement of loan has been done in installments as per percentage of loan amount prescribed for each stage of construction.

23. Ensure that in the event of acquiring a house/flat the payments have been made directly to the sellers.

24. Ensure that in the event of up gradation of the existing house whether the loan amount has been disbursed in 2 or 3 installments.

25. Ensure that the construction of the house/flat or up-gradation in the existing house has been carried out exactly in accordance with the approved plan, specifications estimates on the basis of which the amount of loan has been computed and sanctioned.

26. Ensure that the repayment schedule has been fixed as per the income stream of the borrower but not exceeding the period fixed by the bank.

27. Verify whether there are any cases of default and in such cases penal interest, stipulated under the scheme has been collected over and above the normal rate of interest.

28. Verify that interest charged on the loans is as per the rate fixed by the bank.

29. Ensure that the construction has been completed within the stipulated time from the date of first installment of the loan is paid to the borrower.

30. Verify whether the annual inspection is being carried out in respect of houses constructed by availing loan from the Branch/Head Office to ensure that the House is maintained well.

31. Ensure that the original documents of title to the plot and property under mortgage have been obtained from the mortgagor and kept in safe custody along with mortgage deed.

32. Whether the house/flat constructed/purchased and house/flat in which up gradation has been made out of the loan sanctioned by the bank has been Insured in the joint names of the borrower and the bank with the insurance company against fire, flood, cyclone and earthquake etc.

33. Verify whether the Interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

34. Ensure that the housing loan granted is as per the RBI/NABARD guidelines.

Housing Loan Orders of the Delhi High Court Implementation of Directions

Ref:- RBI/2006 -07/187 RPCD. R.F. B.C. 35/07.40.06/2006-07 Dated 22/11/06 (the circular is given in the CD along with the Guidance Note). The Monitoring Committee constituted by the Hon'ble High Court of Delhi regarding unauthorized construction, misuse of properties and encroachment on public land has issued the following directions:-

A. Housing Loan for Building Construction

(i) In cases where the applicant owns a plot/land and approaches the banks/financial institutions for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of a person applying for such credit facility must be obtained by the banks/financial institutions before sanctioning the home loan.

(ii) An affidavit cum undertaking must be obtained from the person applying for such credit facility that he shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executants to obtain completion certificate within 3 months of completion of construction, failing which the bank shall have the power and the authority to recall the entire loan with interest, costs and other usual bank charges.

(iii) An architect appointed by the bank must also certify at various stages of construction of building that the construction of the building is strictly as per sanctioned plan and shall also certify at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

Ensure that the above conditions are satisfied.

B. Housing Loan for Purchase of Constructed Property/Built Up Property

(i) In cases where the applicant approaches the banks/financial institutions for a credit facility to purchase the built up house/flat, it should be mandatory for him to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and/or building Bye-laws and as far as possible has a completion certificate also.

(ii) An architect appointed by the bank must also certify before disbursement of the loan that the built up property is strictly as per sanctioned plan and/or building Bye-laws.

C. No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.

D. No loan should be given in respect of properties meant for residential use, but which the applicant intends to use for commercial purposes and declares so while applying for loan.

All the banks have been advised to strictly comply with the above directions.

12.3.15 Loan for Purchase of Consumer Durables

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the loans for purchase of consumer durables under the bank's scheme have been sanctioned only after obtaining signature of two guarantors who satisfy the prescribed eligibility norms.
2. Ensure that loans sanctioned to persons as per the policy of the bank.
3. Verify whether the borrower and guarantors have been admitted as associate members before sanctioning the loan?
4. Verify the articles enlisted in the Invoice, submitted along with the loan application are eligible for purchase under the bank's scheme and also verify whether the Invoices are obtained from authorized dealers/co-operative super markets.
5. Verify whether the applicant is eligible as per the scheme formulated by the bank.
6. Verify the guarantors' networth and ensure that he/she has the repaying capacity in case of default by the borrower.
7. Verify whether the following documents have been furnished:
   (a) Certificate issued by the employer duly signed by the competent authority.
   (b) Pro-note executed by the applicant and guarantors jointly.
   (c) Hypothecation deed/agreement duly executed by the applicant and guarantors jointly.
   (d) Proforma Invoice from an authorized dealer/co-operative super market.
   (e) Other than the salaried employees viz., business people and professionals have to submit copy of Income Tax. returns/assessment order for the past 3 years.
8. Ensure that all documents are with the custody of person authorized for the purpose.
9. Verify whether the loan has been sanctioned by competent authority.
10. Verify whether the eligibility criteria has been arrived on the basis of salary/income of the applicant.

11. Verify whether the applicant has remitted margin money as stipulated under the scheme.

12. Verify whether the repaying capacity of the borrower has been properly assessed to fix the loan installments to be repaid under Equated Monthly Instalments (EMI).

13. Verify whether the payment has been made directly to supplier/manufacturer out of the loan sanctioned to the applicant.

14. Verify whether the loan repayment period under EMI has been restricted within the period stipulated by the bank.

15. Verify whether the EMI has been arrived after charging interest at the rate prescribed.

16. Verify the repayments made under the scheme are regular and is there any overdue payments (made after due date) in such cases whether the bank has collected penal interest as prescribed.

17. In cases where default persists, continuously for 3 months, whether the bank has exercised the right to recall the loan and send notice to take possession of the articles purchased with the bank's advance.

18. Verify whether the goods have been properly insured by the borrower as prescribed.

19. Verify whether the over due recovery procedure has been followed to regularize the over dues as prescribed.

20. Verify whether the bank/branch has initiated action to file arbitration proceedings in cases whether the loan recoveries are not forth coming even after giving sufficient time to regularize.

21. Verify whether the Interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.16 Advances against Inland Bills/Cheques Purchased/Discounted

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Ensure that discount facility has been extended to customers only against the bills/cheques issued by the Government departments, reputed companies and Bank Drafts.

2. Verify cases where bills have been purchased/discounted in excess of the limits and ensure that the excess have been promptly reported to the higher authorities.

3. Verify whether the cheques/bills discounted/purchased are being dispatched promptly as per mode stipulated, depending upon the amount of the cheque/bill. In case of bills accompanied by Lorry Receipt (LR)/Railway Receipt (RR), they are invariably sent by registered post.

4. Incase of return/dishonour of bills/cheques, whether notice of dishonour has been served and the amount of dishonoured bills/cheques being recovered with interest promptly and a distinct note is made against the bills in the concerned register.

5. Verify whether branch is continuing the practice of debiting returned bills to cash credit/over draft accounts by over drawing these account or to current accounts causing debit balance.

6. Verify whether the consignments of the returned bills are got rebooked, if they remain unadjusted.

7. Verify whether any cheque discounted returned item is being time barred/pending recovery. Full details are necessary for fixing up accountability.

8. Verify whether the cheques discounted are not for accommodation. If so, identify the cases and steps taken by the branch. (any kite flying involved to be seen).

9. Verify whether immediate credit facility is segregated from general discounting. Whether self drawn cheques are discounted under this arrangement.

10. Verify whether discount/purchase charges have been collected in addition to commission charges for collecting the bills/local and outstation cheques as prescribed by the bank from time to time.

11. Verify whether the following documents have been collected from the parties to whom a bills purchase limit is granted.

    (a) Application for sanction of bills/cheques

    (b) Stamped bills purchase agreement

    (c) Demand promissory note

(d) Securities such as FD Receipts, NSC Certificate, Title Deeds etc.,

12. Verify whether the person has been admitted as an associate member before extending this facility.

13. Ensure that this facility has been extended to a customer who is maintaining an account in his own name to the satisfaction of the bank at least for a period of one year or such other period prescribed by the bank.

14. Verify whether this facility extended to customer within the ceiling permitted.

15. Verify whether the Interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.17 Advances against Life Insurance Policies

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Confirm that life insurance policies assigned to the bank are in the names of borrowers/parties to the borrowing transactions and assignments are duly registered with LIC.

2. Ensure that the life insurance policies are not under the Married Women's Property Act, 1974, Children Endowment, Children Deferred Policies etc.

3. Whether the age is admitted in life insurance policies and is inscribed on the face of the policy.

4. Whether the branch has maintained the prescribed margin.

5. Whether the premium, on all the assigned policies is paid up to date and the receipts are properly held.

6. Whether premia are paid promptly.

7. Ensure that loan or advances have been granted to customers of good standing against endowment life insurance policy.

8. Ensure that following precautions have been taken/observed while granting advances against insurance policies.

   (a) Insurance must be in force.

   (b) Premia on the policies has been paid up to date.

   (c) Latest premium receipt has been obtained and kept in record.

(d) The original policy duly stamped and signed by the issuing authority should be obtained.

(e) If the duplicate policy is produced by the borrower it should be got confirmed from LIC before the grant of advance.

(f) Policy should be free from encumbrances.

(g) A nomination will be cancelled by a subsequent transfer or assignment.

(h) Verify whether it contains any clause which restricts its assignment.

(i) Verify whether any advance/loan have been granted against the following policies since they are not eligible for advances.

  (i) A policy in which a minor is recited as a NOMINEE.

  (ii) Policy which has been assigned to MINOR.

  (iii) Children endowment are children deferred policies.

  (iv) A policy taken by a partnership concern.

  (v) A policy which restricts its assignment.

(j) Verify whether the terms and conditions prescribed under the scheme has been followed while fixing the limit in relation to percentage of the surrender value.

(k) Verify whether the advance is granted only after policy is assigned in favour of the bank and duly attested by a person other than the relative.

(l) Verify whether the notice of assignment and the policy have been sent to LIC for registration and collected it back. There should be a condition clause in agreement that the assured should pay all the future premia and in case of default, the advance will be treated as overdue and recalled.

(m) Verify the repaid loan and advances and ensure that in such cases polices have been reassigned in favour of the policy holder only.

(n) In case the policy matures, verify whether the bank has sent completed claim voucher together with the policy duly discharged to LIC to receive the amount.

(o) Upon receipt of the amount, whether the bank has adjusted the same to loan account.

(p) Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.18 Temporary Overdraft (TOD)

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify whether the overdraft has been sanctioned to a valued customer with regular and satisfactory operations.
2. Ensure that no cash drawls have been permitted under TOD Account.
3. Ensure that no TOD has been allowed to staff members.
4. Verify the letter of request submitted by the customer with a specific request to sanction temporary accommodation.
5. Ensure, that the customer who availed TOD facility has been admitted as associate member of the bank before extending the facility.
6. Whether the customer has executed pro-note for the amount required as temporary accommodation.
7. Ensure that a fresh pro-note has been obtained as and when TOD is entertained.
8. Ensure that the temporary overdraft has been sanctioned only by the officer/executive who is competent to sanction TOD.
9. Verify whether the outstanding in the TOD accounts are within the delegated limits prescribed by Head Office from time to time to different category of Officers/Executives.
10. Verify whether the temporary accommodation availed by the customers are regularised by making remittances within the stipulated time limit.
11. Verify whether the interest has been charged to the Current Account holders who have availed the facility of temporary accommodation as per the guidelines issued by Head Office from time to time.
12. In the event of Overdue accounts, ensure whether the penal interest has been charged as per the regulations prescribed over and above the regular rate of Interest.
13. Verify whether the Head Office/Branch has insisted the borrower to provide security by way of assigning LIC Policy, NSC, FD receipts

etc., if so, whether proper lien has been marked in the Deposit Ledgers with appropriate authority.

14. Verify the TOD accounts and ensure that outstanding in the account has not exceeded the TOD limit fixed in favour of each customer, even after charging interest to the account at monthly rests.

15. Ensure that Head Office/branch has followed the time gap limitation as specified under this facility while renewing/sanctioning of TOD for second and subsequent times.

16. Ensure that the classification of overdues has been done properly as per guidelines issued and prompt action has been initiated against defaulters to clear the outstanding by issuing demand notices/final demand notices within the time frame work prescribed.

17. In the event, outstanding is not cleared even after final demand notice has been issued, ensure whether Head Office/branch has initiated legal action by referring the matter to legal department at head office is respect of all overdue loans.

18. Ensure that right to recall the advance condition clause has been incorporated in the terms and conditions to sanction TOD and communicated the same to customer.

19. Ensure that temporary overdraft register has been updated with all details viz., name of the customer to whom TOD limit is sanctioned, date of availment, amount availed, due date for repayment etc.

20. Verify whether the periodical return on the loans sanctioned has been sent by the branch to the HO.

12.3.19 Educational Loan

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Verify the purpose and ensure that the purpose mentioned in the application is in line with the purpose for which the scheme has been designed.

2. Verify the course mentioned in the application to obtain loan under the scheme and ensure that whether it is under the enlistment of courses eligible for sanction.

3. Verify whether the college/polytechnic/Institution in which the borrower has admitted his son/daughter/ward has been approved and

recognized by the State Government University/University Grant Commission (UGC) as well as the degree/diploma to be awarded is recognized by the University and any other agency namely All India Council for Technical Education (AICTE)/Government.

4. Whether proper appraisal has been made to assess the repaying capacity of the borrower to pay loan installments as per schedule.

5. Verify whether the bank/branch has obtained the certificate from the college, Institute or University as the case may be confirming the studentship, the course admitted, duration of the course, the approximate expenditure towards the entire course with annual break-up.

6. Verify the loan amount sanctioned is as per the provisions of the scheme viz., percentage of the total cost, maximum amount prescribed for each course etc.

7. Verify the security aspect for the loan disbursed and ensure that the deeds executed by sureties are as per the stipulations made under the scheme.

8. Verify the valuation certificate issued by the competent authority and ensure that the property value is equal to the loan amount, if the security offered is property.

9. Verify the period and procedure fixed for repayment and ensure that it is as per the regulations laid down.

10. Verify the agreement executed and confirm that it is in order.

11. Verify the interest charged/collected from the borrower whether it is as per the procedure prescribed and if any deviation is noticed call for explanation and record the same.

12. Verify whether any rebate in interest has been as per the scheme of GoI/State Government to students and if so, verify whether the rebate has been extended in such cases.

13. Verify whether proper follow up action has been initiated in default/over due cases.

14. Ensure that the education loan is sanctioned as per RBI instructions.

15. Verify whether the interest and penal interest have been collected as per the terms and conditions from the borrowers periodically.

12.3.20 Swarnajayanti Gram Swarozgar Yojana (SGSY)

The auditor should check/examine/confirm/verify the following detailed aspects:-

1. Ensure that the beneficiaries identified under SGSY are duly approved by the Gram Sabha.
2. Verify the list of beneficiaries prepared includes, landless labourers, educated unemployed and disabled as per the scheme.
3. Verify the repayment period has been fixed as stipulated in the scheme after giving due consideration for gestation.
4. Verify the system of formation of a group with the main objective of poverty reduction.
5. Ensure that subsidy extended and received under the scheme is kept separately and passed on the benefit to the members only after settlement of all dues to the bank.
6. Verify whether the preference has been given for group activities.
7. Verify whether the initiative has been taken to bring every assisted family above the poverty line by providing income generating assets.
8. Whether the main objective of build up mutual trust and confidence between the bankers and the rural poor has shown any encouragement.
9. Whether the philosophy of the linkage has established expected results viz., the poor has capacity to save, the poor is bankable, the credit follows the thrift etc.
10. Verify whether the groups formed are within the optimum level i.e. between 15 and 20 members.
11. Whether the bank has extended financial assistance in a quick and flexible manner.
12. Whether any initiative has been taken by the bank to open SB account in favour of SHGs members to promote savings habit. Verify whether the SB accounts have been opened in favour of SHG only.
13. Study the percentage of recovery of dues from out of the loans extended to SHGs by comparing the percentage of recovery of dues from others.
14. Verify whether the loans have been extended to SHGs who have satisfied all eligible criteria.

15. Verify the system and procedure followed by the bank in credit rating to ensure that it is as per the regulations laid down and selection of group has been made accordingly.

16. Verify whether the quantum of loan sanctioned to groups is linked to savings.

17. Verify whether financial assistance has been extended either under loan or cash credit facility or under both the facilities to group.

18. Verify whether the bank and SHGs have executed agreement before sanction of loan.

19. Verify whether the disbursements of loan by the bank to SHG and SHG to members are simultaneous.

20. Verify whether any provision has been made in the agreement with regard to repayment of loans to bank by SHG. If so, ensure that the period of repayment should not exceed 5 years.

21. Verify that documents executed by the SHG to bank at the time of availing Loan/C.C.

22. Verify whether any District Level Monitoring Review Committee has been formed to monitor the performance of SHGs.

12.4 Irregularities to be Verified and Taken Care of during the Reporting

Item	IRREGULARITY
1	CREDIT APPRAISAL
1.1	Loan application not on record at branch
1.2	The appraisal form was not filled up correctly and thereby the appraisal and assessment was not done properly
1.3	Loan application is not in the form prescribed by head office
1.4	The bank did not receive certain necessary documents and annexures required with the application form
1.5	Basic documents such as Memorandum & Articles of Association, Partnership Deed, etc., which are a pre–requisite to determine the status of the borrower, not obtained
1.6	Certain adverse features of the borrower not incorporated in the appraisal note forwarded to the management

1.7	Industry/ group exposure and past experience of the bank is not dealt in the appraisal note sent to the management for sanction
1.8	The level for inventory/book debts/creditors for finding out the working capital is not properly assessed
1.9	Techno–economic feasibility report, which is required to know the technical aspects of the borrower's business, is not obtained from technical cell
1.10	Credit report on principal borrowers and confidential report from their banks are not insisted from the borrowers
1.11	The opinion reports of the associate and/ or sister concerns of the borrower are not scrutinised
1.12	The opinion reports of the associate and/ or sister concerns of the borrower are not called for
1.13	The opinion reports of the associate and/ or sister concerns of the borrower are not updated
1.14	The opinion reports of the associate and/ or sister concerns of the borrower are not satisfactory
1.15	The procedure/ instructions of head office regarding preparation of proposals for grant not followed
1.16	The procedure/ instructions of head office regarding preparation of proposals for renewal of advances not followed
1.17	The procedure/ instructions of head office regarding preparation of proposals for enhancement of limits, etc. not followed
1.18	No exposure limits are fixed for forward contract for foreign exchange sales/ purchase transactions
2	SANCTIONING AND DISBURSEMENT
2.1	Credit facility sanctioned beyond the delegated authority or limit of the branch
2.2	Certain proposals were sanctioned pending approval of higher authorities wherever required
2.3	Adhoc limits were granted for which sanctions were pending since long
2.4	Facilities were disbursed before completion of documentation
2.5	Facilities were disbursed without following sanction terms
2.6	Facilities were disbursed without any sanction

2.7	Sanction letter was missing in the branch
2.8	Guarantor as required in the sanction letter was not obtained
2.9	Required promoters stake not invested before disbursement of loan
2.10	Sanctions were made without proper appraisal
2.11	Security charge not created before disbursement as required by sanction letter/renewed letter
2.12	Full disbursement of the facility not made
2.13	Sanction terms were not complied with or were not recorded
2.14	Disbursement made without proper sanction
2.15	Term loan was disbursed by creating the cash credit or savings account of the borrower
3	DOCUMENTATION
3.1	The security against which the advance was sanction was not available/ was not on record
3.2	Mortgage for the property given as security is not created
3.3	Mortgage for the property given as security created, was inadequate, as compared to terms of sanction
3.4	Second charge as required, on assets is not created in favour of the bank
3.5	Documents of second charge on assets is not on the record
3.6	Documents pertaining to registration of charges with ROC or any other concerned authority requiring charging of assets is not obtained
3.7	Copies evidencing lodgment of the original conveyance/ sale deeds with the Sub–Registrars for registration not on record
3.8	Authority letter/ power of attorney to the bank to collect the original documents from the Sub–Registrar not on record
3.9	Documents pertaining to consortium advances not yet executed/ not available with bank
3.10	Documents signed by persons not duly authorised to sign or who have signed in other capacity accepted by the bank
3.11	Signatures of the executants were not found on all the pages of the documents

3.12	Some of the documents on record were blank, without signatures of branch manager, witnesses, or guarantors, etc
3.13	Revival letters in respect of documents to be reviewed from the borrowers not received
3.14	Guarantors have expired
3.15	Guarantors not on record
3.16	Guarantors not renewed
3.17	Guarantors not assigned
3.18	Worth of the guarantors not available
3.19	Stamping not as per the amended Stamps Act
3.20	Documents have become mutilated, soiled, time barred or not obtained
3.21	Opinion report by the field officer for the borrowers not found on record
3.23	"Nil Encumbrance Certificate/s" or "No Dues Certificate/s" or "No Lien Letters" not obtained for the mortgage/s
3.24	Advances for vehicle loans, registration certificate, transfer certificate, etc. not obtained
3.25	Work completion certificate, sale deeds, share certificates in societies, etc. not on record for housing loans
3.26	Documents are not duly attested/ signed by concerned officials/not renewed
3.27	The agreements for hypothecation do not contain details regarding goods hypothecated
3.28	Copy of Bills/ receipts, on the basis of which the amount was disbursed not found on record. For e.g. vehicle loans, plant & machinery
3.29	Charge on main or collateral securities not created in terms of sanction letter
3.30	Original security papers/ sale deed/ lease deed/title deed/ agreement of sale not available on record

3.31	TDR are not discharged or renewed
3.32	Control returns not sent to the HO.
3.33	The branch has not taken any action for not compliance with terms of agreement
3.34	No documents executed for enhancement of limit/document not on record
3.35	ECGC Post shipment policy not obtained
3.36	Credit facility released without execution of all necessary documents
3.37	Common seal not affixed on letter of comfort
3.38	Confirm orders for export credit not found on record for facilities released
4	REVIEW/ MONITORING/ SUPERVISION
4.1	The account is frequently overdrawn
4.2	The account is continuously overdrawn
4.3	The account is overdrawn and the branches have not taken sufficient steps to regularise the accounts promptly
4.4	The balance outstanding have exceeded the drawing power
4.5	Balance confirmation and acknowledgment of debt not obtained
4.6	The stock, book debts statements not received regularly/ promptly
4.7	The FFI/ financial statements/audited statements/FFR 1 & 2/ other operational data, etc., not received regularly/ promptly
4.8	The stock, book debts statements, etc., not scrutinised and no suitable action is taken
4.9	The FFI/ financial statements/ audited statements/FFR 1 & 2/ other operational data, etc., not received regularly/ promptly/ not scrutinised and no suitable action is taken
4.10	Non–moving stock is not deducted to arrive at the drawing power
4.11	The age–wise breakup of debtors is not found on record. The borrowers are allowed to draw money on entire outstanding debt, which must rather be for the recent debts as prescribed for particular industries and as per margin prescribed in the sanction letter

4.12	Wide discrepancies observed in the stock statements and stock figures in the annual audited financial statements
4.13	No penal interest has been charged for delay in submission of various statements as per the terms of agreement depending upon the type of loan/ credit availed by the borrower
4.14	Many branches have not adhered to the prescribed frequency of physical verification of securities given against loans & advances
4.15	Drawing power limits are not revised as per market value of shares for advances against security of shares
4.16	End–use of funds not ensured/ not known funds utilised for purpose other than for which granted
4.17	The projections submitted by the borrower stay far beyond the actual performance. Further, no explanation for the same is taken from the borrower
4.18	Major sale proceeds of the borrower not routed through the bank
4.19	Audited statements of non–corporate borrowers having limit beyond ₹10 lacs not received
4.20	Renewal proposals of advances not received on time and in many cases the limits are not renewed
4.21	Application of wrong rate of interest, processing charges, commission, other charges, etc. resulting in income leakage/ excess booking of interest of the bank
4.22	Insurance cover for stock/ property is inadequate/ not on record/ not renewed/ not endorsed in favour of the bank
4.23	Inspection/ physical verification of security charged, not been carried out
4.24	Expired bills/ foreign currency sight bills which are outstanding, have not been crystallized
4.25	EBW statements on write–off of overdue export bills of ECM not found on record
4.26	Confirmation as to genuineness of export transactions not obtained from bank's foreign offices/ correspondents/ customs department
4.27	Import credit, bill of entry evidencing import of goods not found

4.28	Documents are not obtained for bills discounted under letter of credit
4.29	Advances, which are eligible for whole turnover packing credit guarantee cover of ECGC, are not brought under its cover though Government Guaranteed Accounts are irregular since long, the issue of invocation of guarantee does not seem to have been considered
4.30	Prescribed margins not maintained as per sanctions
4.31	Allocated limits, full terms of sanctions, stock statements, inspection reports, margin, etc. not available at monitoring branches
4.32	For allocated limits, inordinate delays were noticed in responding to transfer by the allocator branch
4.33	Regular meetings not held with other consortium members to review the performance of borrowers and to assess the current state of affairs/not been held as per norms
4.34	Individual members of the consortium are not advised about the quarterly operating limits/ DP allocated to each one of them
4.35	Minutes of the consortium meetings not found on record/not been held as per norms
4.36	Inspection report from the consortium members not obtained
4.37	The capital of the borrower has eroded/ net worth is negative/ decreasing. Close monitoring needs to be done
4.38	The drawing power is calculated wrongly and/or hence the borrower is allowed to enjoy excess credit than actually eligible
4.39	Signboard of the bank is not displayed in godown, where the pledged/ hypothecated stock is stored
4.40	Limit not fully utilised by the borrower/no commitment charge is levied for the limit not fully utilised by the borrower
4.41	Loan against TDR/ STDR, which is matured, is neither renewed nor credited to loan account
4.42	The stock and debtors audit report not found on record. No audit has been done for accounts of the borrower

4.43	The valuation report in respect of tangible security from government approved valuer have not been obtained
4.44	Guarantees, opinion reports financial statements, IT assessment orders and etc. of the guarantor are not found on record
4.45	Opinion report on guarantor is not obtained
4.46	For small government sponsored loan accounts, security cover could not be ascertained since neither any record was available at branch nor physical verification conducted by the branch
4.47	Pre–sanctions and/or post–sanctions inspection reports were not on record
4.48	The account was overdue for repayment and/or no credit was received from the borrower for a long time
4.49	The borrower is absconding or deceased and legal formalities are incomplete and there is willful default from the borrower. Either establishment was closed or security was disposed off or no action taken by the branch
4.50	Subsidy claim process was incomplete or subsidy was yet to be received or needs follow–up
4.51	Security disposed off/ entity closed by borrower and no action taken by the branch
4.52	Irregularity not advised to controllers
4.53	Letter of subordination of deposits not taken
4.54	Secured and unsecured portion not segregated properly in advance return of the branch
4.55	Renewal of limits was done before the receipt of financial statements
4.56	Heavy cash withdrawal for which consent of corporate guarantor is not taken
4.57	Proper valuation of stock not done/ needs critical scrutiny
4.58	Security obtained is inadequate/lower as compared to amount of outstanding/ no collateral security

4.59	The party was dealing with other bank also though it was not permitted
4.60	Sticky accounts require close follow–up by the management
5	BAD AND DOUBTFUL ADVANCES
5.1	The IRAC norms for classification of advances were not followed and the same is implemented through memorandum of changes by auditors during audit
5.2	Instalments were not received from the borrowers
5.3	Interest was not received from the borrowers
5.4	Legal action for recovery of advances was not taken although authorised by the Board/ Controlling Authority
5.5	Discontinuance of application of interest not followed although authorised by the Board/ Controlling Authority
5.6	Government guarantees have expired and fresh guarantees not obtained/not renewed
5.7	Terms of the BIFR scheme not complied
5.8	Payment from Government not received although guarantees were unconditional, irrevocable and payable on demand
5.9	Delays in the settlement/ repayment in respect of sanctioned proposals
5.10	The repayment accepted in case of compromise cases inadequate *vis–à–vis* value of security
5.11	Compromise proposals pending at various levels where Local Government/ outside agencies are involved as guarantors
5.12	Copy of search report not on record
5.13	Decree awarded but no further steps taken for recovery
5.14	DICGC claims submitted/ rejected/ pending data not available
5.15	Irregular/ sticky advance not reported to the controlling authority promptly
5.16	Compromise/ One Time Settlement (OTS) proposal is recommended and is under negotiation since long but not finalised. Suit is filed in the court/ Debt Recovery Tribunal (DRT) and pending to be finalized
5.17	ECGC claim not submitted/ lodged for recovery