CHAPTER

# 9 Audit of New Advances

## 9.1 INTRODUCTION

Lending is a primary function of a bank. Advances constitute a major item in a bank's balance-sheet. Advances can be Demand Loans and Term Loans. Cash credit and overdraft are demand loans. Term loans can be working capital term loan (WCTL), funded interest term loan (FITL), medium term loan and long term loan. General audit procedures relating to different stages of loan process, *i.e.* appraisal, sanction, disbursement, documentation and post disbursement have been discussed at respective places in Chapter 'LFAR Procedures'. However, some scheme-specific audit procedures have been suggested in following paragraphs.

## 9.2 AUDIT PROCEDURES

### 9.2.1 Agricultural Loans

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Due diligence and Assessment of Requirements**<br>(Adherence of bank's credit policy/guidelines)<br>To check whether<br>(*a*) necessary due diligence (i.e. pre-inspection report, lawyer search report, report of credit information company, copy of khasra and khatauni) as per bank's policy has been carried out;<br>(*b*) credit limits (short term farm credit and term loan components) are assessed on the basis of relevant criteria as per bank's policy, such as operational land holding, cropping pattern and current scale of finance; and<br>(*c*) RBI guidelines on revised KCC scheme have been adhered meticulously. | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | ***Reference:*** <br> *FIDD.CO.FSD.BC.No.6/05.05.010/2018-19 July 4, 2018 RBI Master Circular - Kisan Credit Card (KCC) Scheme* <br> ***Note:*** *For Activities eligible for crop season linked asset classification norms, see Annex 2 to RBI Master Circular on IRACP dated October 1, 2021, see* **Appendix B-7** | |
| (*ii*) | **Disbursement and Documentation** <br> To check whether <br> (*a*) disbursement has been made to borrower's SB account/ as per bank's guidelines; <br> (*b*) mandatory crop insurance premium has been paid through KCC accounts; and <br> (*c*) Necessary documentation has been duly completed and held on records such as <br> - declaration from borrower for noting charge in land revenue records and mortgage of land <br> - hypothecation of crop and mortgage of agricultural land, if required, per bank's policy <br> - noting of charge in land revenue records <br> - simple registration of mortgage (SRM) of land, if mortgaged, with sub-registrar. <br> ***Audit Hint:*** <br> *1. In terms of RBI Circular FIDD CO. FSD BC No. 13/05.05.010/2018-19 dated Feb 07, 2019, no collateral (i.e. mortgage on agricultural land) is required for agricultural loans upto ₹ 1.60 lakh.* <br> *2. KCC facility has been extended to Animal Husbandry farmers and Fisheries for working capital (FIDD. CO. FSD. BC. 12/05.05,010/2018-19 dated Feb 04 2019)* <br> *3. Check few account statements for potential transfer of disbursement to intermediary account or to close the existing NPA KCC account, if any.* | |

## 9.2.2 Housing Loans

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Purchase of Plot** <br> To check whether <br> (*a*) 'declaration' from the borrower that he intends to construct a house on the said plot with the help of bank | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | finance or otherwise within such period as may be laid down by the banks themselves, *has been obtained* (*Para 2*(*b*) *of RBI Master Circular on Housing Loans*);<br>(*b*) 'interest rate' has been increased accordingly per bank's policy, if construction is not undertaken within stipulated time limit; and<br>(*c*) such finance has been extended to public agencies only and not the private builders for acquisition and development of land.<br>***Reference:***<br>*RBI Circular No. DBR.No.DIR.BC.13/08.12.001/2015-16 July 1, 2015.* | |
| (*ii*) | **Construction on Plot**<br>To check whether<br>(*a*) a copy of 'plan' for construction on land owned by the borrower sanctioned by a competent authority in the name of borrower(s) is held;<br>(*b*) an 'affidavit-cum-undertaking' from the borrower (in terms of RBI guidelines) that borrower shall not violate the sanctioned plan and 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, has been taken on records;<br>(*c*) bank's Architect has certified at various stages of construction of building that the construction of the building is strictly as per sanctioned plan;<br>(*d*) it is certified by the branch at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained; and<br>(*e*) disbursal of housing loans sanctioned to individuals is closely linked to the stages of construction of the housing project/houses and upfront disbursal has not been made in cases of incomplete/under-construction/green field housing projects.<br>***Reference:***<br>*Para 2*(*b*)(*vii*) *of RBI Circular No. DBR. No. DIR. BC.13/08.12.001/2015-16 July 1, 2015.* | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*iii*) | Documentation :<br>To check whether<br>(*a*) NOC from builder/developer/society is held;<br>(*b*) bank's charge has been registered with CERSAI;<br>(*c*) mortgage has been created by completing documents as per bank's policy and title-deed is held on records;<br>(*d*) vetting of documents has been done as per bank's policy; and<br>(*e*) other documents are held on records as per bank's policy/ documentation guidelines. | |
| (*iv*) | **Purchase of Ready-built House**<br>To check whether<br>(*a*) an 'affidavit cum undertaking' from the borrower that the built up property has been constructed as per the sanctioned plan and/or building bye-laws and as far as possible a completion certificate has been obtained;<br>(*b*) bank's architect has certified before disbursement of the loan that the built up property is strictly as per sanctioned plan and/or building bye-laws; and<br>(*c*) certificate of residual age of property from approval valuer and title search reports are held on records.<br>***Reference:***<br>*Para 2(b)(7) (f) and (g) of RBI Master Circular.* | |
| (*v*) | **Purchasing/constructing a Second House**<br>To check whether second house has been financed for self occupation purpose only.<br>***Reference:***<br>*Para 2(b)(ii) of the Master Circular.* | |
| (*vi*) | **Purchase of a house to let it out on rental basis**<br>To check whether such house has been financed to employed borrowers only.<br>***Reference:***<br>*Para 2(b)(iii) of the Master Circular.*<br>***Note:*** *Auditors should refer RBI's Master Circular on Housing Finance* DOR. CRE. REC. No. 87/08.12.001/2021-22 February 18, 2022 for extant regulations. | |

## 9.2.3 MSME and Priority Sector Loans

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **MSME Eligibility**<br>To check whether<br>(*a*) classification of loan applications under MSME has been duly examined by the sanctioning authorities considering the wholesale and retail trade as per MSME Notification dated July 2, 2021; and<br>(*b*) Udyam Registration Number has been taken on records for MSME borrowers (other than those registered prior to June 30, 2020).<br>**Reference:**<br>**(*i*) *Classification of Enterprises:***<br>*(In terms of Ministry of MSME, GOI Notification S.O. 2119 (E) dated June 26, 2020)*<br>*An enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria, namely:*<br>(*i*) *a micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees;*<br>(*ii*) *a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and*<br>(*iii*) *a medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.*<br>**(*ii*) *New Definition of Micro, Small and Medium Enterprises- Addition of Retail and Wholesale Trade:***<br>*Ministry of Micro, Small and Medium Enterprises vide Office Memorandum (OM) No. 5/2(2)/2021-E/P & G/Policy dated July 2, 2021, has decided to include Retail and Wholesale trade as MSMEs for the limited purpose of Priority Sector Lending and they would be allowed to be registered on Udyam Registration Portal for the following NIC Codes and activities mentioned against them:*<br>*45 Wholesale and retail trade and repair of motor vehicles and motorcycles* | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | *46 Wholesale trade except of motor vehicles and motorcycles*<br>*47 Retail trade except of motor vehicles and motorcycles*<br>*The Enterprises having Udyog Aadhaar Memorandum (UAM) under above three NIC Codes are now allowed to migrate to Udyam Registration Portal or file Udyam Registration afresh.*<br>**(*iii*)** ***Extension of validity of existing registrations prior to 30th June, 2020:*** *According to Ministry of MSME vide Notification No. S.O. 278(E) dated 19 January, 2022, validity of existing enterprises registered prior to 30th June, 2020, shall continue to be valid only for a period upto the 31st day of March, 2022. Hence, registration of such enterprises on Udyam Registration Portal is not mandatory till March 31, 2022.*<br>***Note:*** *For Ministry of MSME, Government of India Notifications, see* ***Appendix B-12 and B-13.*** | |
| (*ii*) | **MSME Sector**<br>To check whether<br>(*a*) an acknowledgement of loan application along with a running serial number is recorded on the application form as well as on the acknowledgement to MSME borrowers have been given mandatorily;<br>(*b*) no collateral has been accepted for loans up to ₹ 10 lakh to units in the MSE sector, and under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC; and<br>(*c*) has been covered under CGTSME and guarantee fee has been paid<br>***Reference:***<br>*Master Direction FIDD.MSME & NFS. 12/06.02.31/2017-18 July 24, 2017* (*Updated as on April 25, 2018*) | |
| (*iii*) | **Priority Sector Loans**<br>To check whether<br>(*a*) a register/electronic record has been maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. have been recorded,<br>(*b*) an acknowledgement for loan application mentioning a time limit within which the bank communicates its decision in writing to the applicant, has been issued; | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | (*c*) such register/record is produced to all inspecting agencies, comment, if no such records made available; and<br>(*d*) no loan related and *ad hoc* service charges/inspection charges have been levied on priority sector loans up to ₹ 25,000. (*In the case of eligible priority sector loans to SHGs/JLGs, this limit will be applicable per member and not to the group as a whole*)<br>***Reference:***<br>*Master Direction FIDD.CO.Plan.5/04.09.01/2020-21 dated September 4, 2020*) | |
| (*iv*) | **Education Loans to Priority Sector**<br>To check whether<br>(*a*) loans upto ₹ 10 lakh to individuals for educational purposes including vocational courses irrespective of the sanctioned amount, has been considered as eligible for priority sector;<br>(*b*) has been disbursed to educational institutions directly and prospectus and copies of reports are held.<br>(*c*) Central sector interest subsidy (CSIS) has been claimed timely in eligible cases;<br>(*d*) subsidy received from Government department under CSIS in the account is accounted for appropriately.<br>(*e*) covered under Credit Guarantee Fund Scheme of Education loan (CGFSEL) of National Credit Guarantee Fund Trust (NCGFT) of Government of India; and<br>(*f*) All applications have been mandatorily routed through Vidya Laxmi Portal (VLP) of Government of India. Normally, sanction/rejection will be communicated within 15 days of receipt of duly completed application with supporting documents in the Bank.<br>***Reference:***<br>(*a*) *RBI Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 July 7, 2016. Visit http://mhrd.gov.in/scholarships-education-loan-4* for CSIS circular.<br>(*b*) IBA's model education loan scheme of February 15, 2021 | |
| (*v*) | ***Emergency Credit Line Guarantee Scheme (ECLGS)***<br>*To check whether*<br>*(a) Facility has been extended to eligible borrowers, (i.e. borrowers whose accounts have not been overdue for more than 60 days as on 29.02.2020 or 31.03.2021);* | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | *(b) Facility has been extended within maximum cap under various versions of the ECLGS;*<br>*(c) Repayment period for interest and principal has been allowed according to the scheme;*<br>*(d) Working capital cycle has been reassessed appropriately;*<br>*(e) A separate loan account has been opened for ECLGS;*<br>*(f) Sanctioned by 31.03.2022 and disbursements to be made by 30.06.2022;*<br>*(g) Interest rate has been applied appropriately subject to a maximum of 9.25% per annum; and*<br>*(h) All other scheme guidelines have been adhered meticu-lously.*<br>***Reference:***<br>*For details, refer NCGTC operational guidelines on ECLGS updated October 20, 2021 and FAQs dated 28.12.2021.*<br>◆ *Scheme provides 100% guarantee coverage for the GECL assistance of loan outstanding as on 29tth February, 2020 or 31st March 2021, whichever is higher, to eligible borrowers, in the form of additional term loan/working capital term loan facility and/or non-fund based facility.*<br>◆ *ECLGS 2.0 refers to the scheme for borrowers in the 26 sectors identified by the Kamath Committee report dated 04.09.2020 and the Healthcare sector whose total credit outstanding (fund based only) across all lending institutions and days past due as on February 29, 2020 was above ₹ 50 crore and not exceeding ₹ 500 crore and upto 60 days respectively.*<br>◆ *ECLGS 3.0 refers to the scheme for borrowers in the Hospitality (hotels, restaurants, marriage halls, canteens etc.), Travel & Tourism, Leisure & Sporting and Civil Aviation (scheduled and non-scheduled airlines, chartered flight operators, air ambulances, airports and ground handling units) sectors.*<br>◆ *Interest Rate on GECL under ECLGS 4.0 for loans upto ₹ 2 crore to hospitals/nursing homes/clinics/medical colleges/units engaged in manufacturing of liquid oxygen, oxygen cylinders etc. for setting up on site oxygen producing plant shall be capped at 7.5% p.a.*<br>◆ *Exception credit card/savings account/current account over dues did not exceed 1% of the loan amount* | |

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<tr><th>S. NO.</th><th>DESCRIPTION</th><th>AUDITOR'S COMMENTS</th></tr>
<tr><td></td><td>

- *Term 'Business Enterprises/MSMEs' would also include loans covered under Pradhan Mantri Mudra Yojana (PMMY).*
- *Business Enterprises/MSME borrower must be GST registered mandatorily This condition will not apply to Business Enterprises/MSMEs that are not required to obtain GST registration.*
- *It is not necessary that the existing loans should be covered under the existing NCGTC or CGTMSE Scheme.*
- *As per decision taken by NCGTC on September 08, 2020, the stipulation of second charge has been waived in respect of all loans up to ₹ 25 lakh outstanding as on February 29, 2020 plus loan sanctioned under GECL.*

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<tr><th>Check-point</th><th>ECLGS 1.0</th><th>ECLGS 1.0(Ext)</th><th>ECLGS 2.0</th><th>ECLGS 2.0(Ext)</th><th>ECLGS 3.0</th><th>ECLGS 3.0(Ext)</th><th>ECLGS 4.0</th></tr>
<tr><td>Reference date for ascertain past due status (NPA or SMA-2) and total outstanding</td><td>29.02.2020</td><td>31.03.2021</td><td>29.02.2020</td><td>31.03.2021</td><td>29.02.2020</td><td>31.03.2021</td><td>31.03.2021</td></tr>
<tr><td>Credit facility eligible under the scheme (% of total o/s)</td><td>20</td><td>30</td><td>20</td><td>30</td><td>40</td><td>40</td><td>Max ₹ 2 crore</td></tr>
<tr><td>Tenor of loan from first disbursement (Years)</td><td>4</td><td>5</td><td>5</td><td>6</td><td>6</td><td>6</td><td>5</td></tr>
<tr><td>Moratorium period (Years) for principal amount</td><td>1</td><td>2</td><td>1</td><td>2</td><td>2 (Interest shall be payable)</td><td>2</td><td>½ (Interest shall be payable)</td></tr>
<tr><td>Principal to be repaid in instalments after moratorium</td><td>36</td><td>36</td><td>48</td><td>48</td><td>48</td><td>48</td><td>54</td></tr>
</table>

***Audit Hint:***

*Suggestively, auditors to apply more professional skepticism while verifying the end-use of funds whether funds disbursed have been utilized for the intended purpose only and not transfer to another loan accounts(s) of the borrower, have not been diverted/siphoned off.*

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<tr><td>(*vi*)</td><td>

**Pradhan Mantri Street Vendors Atmanirbhar Nidhi (PMSVA Nidhi)**

(A Ministry of Housing and Urban Affairs' special micro-credit facility for street vendors)

To check whether

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| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | (*a*) This facility has been extended to eligible borrowers only; and<br>(*b*) Such loans have been sanctioned/disbursed after 2 July 2020.<br>***Reference:***<br>*Based upon CGTSME clarifications on FAQs, key features of the scheme are:*<br>◆ *The eligible vendors (i) Street vendors in possession of Certificate of Vending / Identity Card issued by Urban Local Bodies (ULBs); (ii) The vendors identified in the survey but have not been issued Certificate of Vending / Identity Card; (iii) Street Vendors, left out of the ULB led identification survey or who have started vending after completion of the survey and have been issued Letter of Recommendation (LoR) to that effect by the ULB / Town Vending Committee (TVC); and (iv) The vendors of surrounding development/ peri-urban / rural areas vending in the geographical limits of the ULBs and have been issued Letter of Recommendation (LoR) to that effect by the ULB / TVC.*<br>◆ *Sanction of working capital loan upto ₹ 10,000 to street vendors*<br>◆ *Tenure of the loan will be maximum of 1 year*<br>◆ *Guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)*<br>◆ *The Scheme is available to all street vendors engaged in vending in urban areas as on or before March 24, 2020.*<br>◆ *On timely or early repayment, the vendors will be eligible for the next loan with an enhanced limit of a maximum of 200% of the earlier loan, subject to a ceiling of ₹ 20,000.00.* | |
| (*vii*) | **Loan Guarantee Scheme for COVID Affected Sectors (LGS-CAS)**<br>To check whether<br>(*a*) This facility has been extended to eligible borrowers only eligible projects in the healthcare sector for setting up of or modernizing /expanding<br>*i.* hospitals/dispensaries/clinics/medical colleges/ pathology labs/diagnostic centres;<br>*ii.* facilities for manufacturing of vaccines/oxygen/ ventilators/priority medical devices;<br>*iii.* public healthcare facilities.<br>(*b*) Such loans have been sanctioned/disbursed after 7 May 2021. | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | ***Reference:*** <br> *For scheme details, refer NCGTC operational guidelines. The scheme shall provide guarantee cover to both brownfield projects and greenfield projects, subject to a maximum loan of ₹ 100 crore per project. The guarantee cover provided by NCGTC would be 50% (75% in case of projects coming up in aspirational districts) in case of brownfield projects and 75% in case of greenfield projects.* <br> ***"Eligible borrower"*** *means existing units proposing to expand/diversify/set up eligible projects or new units setting up eligible projects in areas other than the 8 metropolitan cities. The 8 metropolitan cities are municipal areas of Ahmedabad, Bangalore, Chennai, Kolkata, Mumbai, New Delhi, Pune & Hyderabad cities.* | |

**Note:** For MSME Interest Subvention verification, Kindly see Chapter 'Special-Purpose Certification Procedures'.

## 9.2.4 Multiple Banking Arrangements

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Sharing of Information** <br> To check whether <br> (*a*) a declaration from existing borrowers availing sanctioned limits of Rupees **five crore and above** or wherever it is in their knowledge that their borrowers are availing credit facilities from other banks, have been obtained; <br> (*b*) information in prescribed format about the conduct of the borrowers' accounts has been exchanged with other banks at least at quarterly intervals; and <br> (*c*) suitable clause in loan agreements regarding exchange of credit information, have been incorporated. <br> ***Reference:*** <br> *RBI Circulars DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008 and DBOD. No. BP.BC.94/08.12.001/2008-09 dated December 8, 2008.* | |
| (*ii*) | **Certificates/Reports** <br> To check whether <br> (*a*) regular certification by a professional, preferably a Company Secretary, Chartered Accountant or Cost Accountant, regarding compliance of various statutory prescriptions in vogue as per specimen are held; | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | (*b*) credit reports are available from a credit information company registered with RBI; and<br>(*c*) 'diligence report' has been received from CS/CA/CMA in terms of RBI Circular DBOD. No. BP. BC. 110/08.12.001/2008-09 dated February 10, 2009. | |

## 9.2.5 Consortium Arrangements

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Appraisal and Sanction**<br>To check whether<br>(*a*) loan application along with relevant documents have been obtained in prescribed format;<br>(*b*) copies of minutes of consortium meetings are held;<br>(*c*) reports on joint-inspection of securities charged are held on records; and<br>(*d*) all other sanction terms have been complied meticulously. | |
| (*ii*) | **Collecting Share of Recovery**<br>To check whether<br>(*a*) it has been arranged to get their share of recovery transferred from the lead bank or<br>(*b*) an express consent from the lead bank for the transfer of their share of recovery is held.<br>***Reference:***<br>*As per para 4.2.8 Advances under consortium arrangements of RBI MC July 1, 2015 on IRACP. RBI circulars DBOD.No.BP.BC.46/08.12.001/2008-09 dated September 19, 2008 and DBOD. No. BP.BC.94/08.12.001/2008-09 dated December 8, 2008* | |

## 9.2.6 Takeover Accounts

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Adherence of Bank's Policy and Exchange of Information**<br>To check whether<br>(*a*) bank has a board approved policy for takeover of borrowal accounts if not, comment; and<br>(*b*) Credit information has been obtained from the transferor bank in prescribed format as per RBI directives meticulously. | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| | ***Reference:*** *Para 3(b) of RBI circular DBOD.No.BP.BC- 104/21.04.048/2011-12 May 10, 2012.* ***Audit Hint:*** *Refer bank's takeover policy/guidelines. Closure of account with previous bank and opening of account with new bank simultaneously would also tantamount to takeover.* | |
| (*ii*) | **Sanction and Disbursement** To check whether (*a*) takeover accounts have been sanctioned and disbursed at appropriate level as per policy of the bank; (*b*) disbursement has been made per bank's policy/RBI directives; and (*c*) securities charged with previous bank have been duly considered. | |

## 9.2.7 Casual Facilities (TOD/DAUE/Excess/Ad hoc)

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Application Form : Appraisal** To check whether (*a*) applications for casual facilities are received and are recorded serially for ◆ Temporary Overdraft (TOD) in SB/CD accounts ◆ DAUE (Drawings Against Un-cleared Effects) ◆ Excess in CC/OD limits ◆ TOL/*Ad hoc* Limit (*b*) limit against clearing cheques has been allowed only for prime customers and limited drawings have been allowed and discretionary lending powers have been used per bank's policy; (*Ghosh committee recommendation 2.13*) (*c*) records are maintained for all such facilities extended (including oral/telephonic requests), though not out-standing; and (*d*) due dates for regularization are diarized and followed-up for regularization. ***Audit Hint:*** *Obtain system generated report on TOD and excess/*ad hoc, *and comment if no such records maintained. Alternatively, maximum debit balances in account turnover reports* (e.g. *ATOR menu report in finacle*), *can provide information on excesses/*ad hoc *allowed during a given period.* | |

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*ii*) | **Sanction by Competent Authority (within Discretionary Lending Powers)**<br>To check whether<br>(*a*) sanctions beyond discretionary powers including sanctions for which telephonic approvals have been received from competent authority have been reported to competent authority for ratification and ratifications are held on records;<br>(*b*) such facilities have been allowed ensuring adherence of bank's policy meticulously, *e.g.*:<br>◆ TOD/Excess/*Ad hoc* not allowed in newly opened accounts<br>◆ not allowing excess for more than 15 days<br>◆ not allowing TOD in current accounts to borrowers enjoying CC/OD facilities<br>◆ not allowing to borrowers whose previous excess/*ad hoc* are not confirmed/regularized;<br>(*c*) record for referring branch actions of allowing casual facilities and confirmation by competent authorities, is maintained;<br>(*d*) TODs allowed in SB/CD accounts to adjust failed standing instructions (SIs) such as EMIs parked in proxy accounts are duly recorded;<br>(*e*) excess/*ad hoc* are not allowed in Red Flag Accounts (RFA)/special mention accounts (SMA)/irregular accounts; and<br>(*f*) violations, if any, by sanctioning authority in exercise of discretionary powers have been recorded and reported to higher authorities;<br>***Audit Hint***<br>*Refer bank's credit policy for allowing such casual facilities and for discretionary powers.* | |
| (*iii*) | **Modifications in computer systems**<br>To check whether<br>(*a*) modifications in system (*e.g.* amount, period, security and interest rate) for such casual facilities allowed have been duly verified for correctness and such procedures are documented; and<br>(*b*) logs of such modifications are captured and reports are held on records. | |

## 9.2.8 Loan Against Properties (Mortgage Loans)

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Assessment of credit limit**<br>To check whether<br>(*a*) OD limit has been assessed as per bank guidelines<br>(*b*) all mandatory conditions as stipulated in bank's circular have been duly fulfilled. | |
| (*ii*) | **Property Charged : Adherence of RBI guidelines/Bank's Policy**<br>To check whether<br>(*a*) property charged is acceptable to the bank per bank's policy;<br>(*b*) valuation of property has been done by bank's approved valuer and has been approved by BM/sanctioning authority;<br>(*c*) title search reports/non-encumbrance certificates upto the date of mortgage creation have been taken on records; and<br>(*d*) certificates of residual age of property from approval valuer are held on records.<br>**Reference:**<br>*As per para 2(b)(7) (f) and (g) of RBI Master Circular on loans and advances: Statutory Restrictions*<br>***Audit Hint:***<br>*Refer bank's credit policy/master circular of the scheme for eligibility of loan, repayment schedule and other terms and conditions.* | |
| (*iii*) | **Bank's Charge on Property and its Registration**<br>To check whether<br>(*a*) bank's charge has been notified to/registered with appropriate authority (*e.g.* Sub-registrar/RoC/CERSAI);<br>(*b*) details of mortgage, *i.e.* day, date and time of handing over of deed to the bank for mortgage, has been recorded in equitable mortgage register (mentioning date of deposit of title deposit of title deeds, folio number etc.) by bank's authorized officials; and<br>(*c*) receipts for payment of all statutory dues on property (*e.g.* house tax, water tax, electricity) have been taken on records. | |

## 9.2.9 Vehicle Loans

| S. NO. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Disbursement : Adherence of Bank's Policy/Guidelines**<br>To check whether<br>(*a*) all sanction terms, such as obtaining performa invoice of vehicle and margin per bank's policy etc, have been adhered meticulously; and<br>(*b*) disbursements have been made directly to suppliers..<br>***Audit Hint:***<br>*Refer bank's policy/master circular on scheme.* Check whether disbursement has been made in vehicle manufacture/authorized dealer. | |
| (*ii*) | **Documentation**<br>To check whether<br>(*a*) following documents duly verified are taken on records:<br>◆ copy of invoice alongwith acknowledgement of receipt of payment.<br>◆ registration certificate (RC) with bank's hypothecation clause<br>◆ inspection report<br>◆ insurance with suitable bank clause<br>◆ duplicate keys of the vehicle and driving license<br>(*b*) blank signed RTO transfer form per bank's guidelines are obtained.<br>***Audit Hint:***<br>*Refer bank's policy/documentation guidelines. Check whether vehicle inspection report by branch has been compiled in bank's prescribed format.* | |

## 9.2.10 Loan against Term - Deposits

| S. No. | DESCRIPTION | AUDITOR'S COMMENTS |
|---|---|---|
| (*i*) | **Adherence of Bank's Policy/Guidelines**<br>To check whether<br>(*a*) no loan has been granted against TDRs of other banks;<br>(*b*) a letter of renunciation is obtained, if the deposits are in the name of third party and rate of interest (ROI) has been charged accordingly; | |