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KNOWLEDGE SERIES · BANK BRANCH AUDIT · #1

Audit Approach — Advances Portfolio

A structured risk-based framework to audit advances efficiently and effectively

Total Advances → NPA / Sub-Standard + Standard Advances → Bullet Loans + Instalment Loans + Revolving Credits

NPA Sub-Standard & NPA Accounts **HIGH RISK**

Skip deep documentation — focus on IRAC compliance, quick mortality & provisioning

IRAC COMPLIANCE

- › Verify unrealised interest reversed — not credited to P&L
- › Confirm correct classification as per DPD norms
- › Ensure no artificial regularisation through fresh credits
- › Check NPA date correctly identified — original vs restructured

QUICK MORTALITY & PROVISIONING

- › Flag accounts turned NPA within 12 months of sanction
- › Assess if pre-sanction due diligence was adequate
- › Verify provision: Sub-Standard 15%, Doubtful as per age slab
- › Security value used for provisioning — current and realisable

BL Bullet Repayment Loans **LOWER RISK**

Gold Loans · Loans Against Deposits — spend less time, targeted checks only

LOANS AGAINST DEPOSITS (LAD)

- › Lien properly marked on deposit in CBS
- › Loan + accrued interest does not exceed deposit value
- › Deposit maturity date beyond loan due date
- › Interest charged regularly — not just capitalised without limit

GOLD LOANS

- › Physical packet count vs CBS records — no missing packets
- › Sample verify gold purity and weight against sanction documents
- › Check genuine interest payments — not merely revolving
- › LTV within RBI limit (75% for bullet gold loans)

IL Instalment Bearing Loans **MODERATE RISK**

Home Loans · Vehicle Loans · Term Loans — split by vintage for smart sampling

EARLIER YEAR SANCTIONS — LIGHTER REVIEW

- › Already reviewed by previous auditor, concurrent, internal & RBI — reduce samples
- › Focus on repayment regularity — EMI bounce or irregular pattern
- › Flag if borrower took another loan to service this EMI
- › Verify insurance renewals are current (property, life, vehicle)

CURRENT YEAR SANCTIONS — HIGHER FOCUS

- › Larger sample — not independently reviewed before
- › Verify pre-sanction: income, CIBIL, valuation, legal report
- › Confirm end-use — disbursement to builder/dealer vs cash withdrawal
- › Check transaction trail for genuine utilisation
- › Verify first few EMIs paid on time without bouncing

RC Revolving Credits — CC / OD / Working Capital **HIGHEST RISK**

Prioritise here — most complex, highest evergreening risk, stress-based sampling essential

SAMPLING & STRESS SIGNALS

- › Prioritise large accounts, accounts at peak utilisation and irregular accounts
- › Continuous full utilisation without credits — strong evergreening signal
- › Verify drawings are for genuine business purposes
- › Review stock & debtor statements — check age and realisation pattern
- › Cross-check account turnover vs declared business turnover

DOCUMENTATION & SECURITY

- › Drawing Power computed correctly from latest stock statement
- › Hypothecation/mortgage documentation complete and registered
- › Annual review/renewal done on time with fresh financials
- › Insurance on hypothecated stock — current, bank noted as beneficiary
- › Verify penal interest levied wherever applicable