

'REPORTING-REQUIREMENTS' CAMELS RATING AND VALUATION OF INVESTMENTS IN UCB'S

Regional Conclave on Cooperative Banks –

Organised by WIRC of ICAI

Hosted by Pune Branch of WIRC of ICAI

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CA Shashank Patki

Relevant Acts, Guidelines, Rules, AS

- Banking Regulation Act 1949 (as applicable to co-operative societies),
- Guidelines - the RBI,
- Guidelines - the NABARD,
- Guidelines - Registrar of Cooperative Societies, Maharashtra,
- The Maharashtra Co-operative Societies Act, 1960,
- The Maharashtra Co-operative Societies Rules, 1961, (as applicable) and
- Accounting Standards (applicable)

Reports

- Independent Auditors Report
- One Page Proforma
- Form 1
- Form 7
- Part A
- Part B
- Part C
- LFAR
- Tax Audit
- CAMELS Rating

Audit and Reporting

- Different from other Audits:

Company Audit/ Trust Audit	Co-operative Audit
Objective Reporting	Subjective Reporting
Reporting on Financial Statements	Additionally on -Operational efficiency, - Good Governance, - Ratio Analysis
Purpose of Audit Opine on True and Fair View	Also Detect Frauds and Errors
Based on Books of Account and documents only	-Power u/s 81 (3) for personal Inquiry of Existing as well as Past Employees and Members -Can Verify Books of Members also
Reporting mainly to Shareholders	-Reporting mainly to Registrar -Members power only to 'consider' the report

Salient Features

- Searching and Comprehensive Audit to assess the extent of Benefit to members and general public.
- Accuracy is of foremost importance.
Selection on Test-check cannot be an excuse.
- Auditor is a Public servant u/s 161 of MCS Act and u/s 21 of IPC
- Criminal Liabilities as well as Civil Liabilities due to incorrect certification of final accounts.

Section 81 (2)

- Overdues of debts
- Cash and securities and valuation of Assets/ Liabilities
- Loans- whether prejudicial to interest ?
- Transactions represented merely by book entries
- Loans and Advances shown as deposits
- Personal expenses
- Expenditure not related to Objects
- Use of government assistance
- Proper adherence to objects and obligations to members

Special Report - Section 81 (5)

- Major Irregularities and Embezzlement / Misappropriation/ Misapplication or Frauds “should be communicated to Registrar”
- If necessary FIR to be filed with Registrar’s permission
- Failure to comply = Removal of name from panel
= Appropriate action by registrar

Action of registrar includes FIR against Auditor !!

Statutory Audit report - Revised

- **Report on Other Legal & Regulatory Requirements**

. 9.

The details as required by the Rule 69(6) of Maharashtra Co-operative Societies Rules 1961 are given in the audit memorandum separately.

or

As per the information and explanations given to us and based on our examination of the books of account and other records, we have not come across material instances in respect of the details mentioned in the **Rule 69(6)** of Maharashtra Co-operative Societies Rules 1961.

10. We further report that for the year under audit, the Bank has been awarded “___” classification.

Rule 69(6) of Maharashtra Co-operative Societies Rules 1961

- The audit memorandum shall also contain schedules with full particulars of —
- (i) all transactions which appear to be contrary to the provisions of the Act, the rules or the bye-laws of the society;
- (ii) all sums which ought to have been but have not been brought into account by the society;
- (iii) any material impropriety or irregularity in the expenditure or in the realization of moneys due to the society;
- (iv) any money or property belonging to the society which appears to the auditor to be bad or doubtful debt; and
- (v) any other matters specified by the Registrar in this behalf.

Few Pointers

- Accounting Standards
- Internal Audit / Concurrent Audit
- Systems/ EDP Audit
- RBI Reporting – FIU, CTR/STR, Inspection report
- Cooperative Department Report/ Communication
- Guidelines/ Circulars
- Board Minutes
- Bank Policies

CAMELS RATING



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- C – Capital Adequacy (15%)
 - A – Asset Quality (25%)
 - M- Management (15%)
 - E – Earnings (20%)
 - L – Liquidity (15%)
 - S – Sensitivity/ Systems and Controls (10%)
-
- > 75 – A
 - 61 to 74 –B
 - 50 to 60- C
 - Upto 50 - D

C- Capital Adequacy

- CRAR
- Ratio of Tier I to Tier II
- General Provision in excess of 1.25% of Risk Weighted Assets
- Ability to augment Capital Funds
- Asset Growth and Risk Profile

A – Assets Quality

- NPA
- Advances Portfolio – Loan policy and Loan monitoring
- Management of Credit portfolio
- Investment portfolio- Policy and Management
- Adequacy of Provision

M - Management

- Board
- CEO and Senior functionaries
- Functioning of various committees
- Co-operation Training, Expert Directors & Meetings, Other functioning and procedures
- Members: AGM
- Recruitment, Establishment, Backlog
- Provision of Act, Rules and Bye-laws
- Cost of Management to WC (Working capital)
- Net Profit distribution and computation
- Security Arrangement

E- Earnings Appraisal

- Return on Assets
- Return on Owned Funds
- Net Interest Margin (NIM)
- Non-interest income to Non-interest expenses
- Retained earnings to Net Profit
- Operating profit to Total Assets
- Cost Income Ratio

L – Liquidity Appraisal

- Stock Approach
- Primary Deposits to Total deposits
- Net Loans to Primary Deposit
- High Cost Term deposits to Total Deposits
- Borrowings to Total assets
- Liquid Assets to Short Term Liabilities
- Liquid Assets to Total Assets
- Flows Approach
- ALM – Mismatch, Committee and Monitoring
- SLR/ CRR
- Other Liquid Assets

S – Sensitivity / Systems and Control

- Audit Committee
- Internal Inspection / Audit
- MIS
- Housekeeping
- Frauds, Vigilance, Accountability etc.

VALUATION OF INVESTMENTS

- Investment Policy
- Concurrent Audit/ Internal Audit of Investments
- Categorisation of Investments :
Intent at the time of purchase

HTM – Held till Maturity

HFT – Held for Trading

AFS – Available for Sale

HTM – Held till Maturity

- HTM to be 25% of Bank's Total Investments Portfolio
- However if more than 25%:
 - Excess only in SLR
 - SLR not to exceed 25% of NDTL last Friday of second preceding fortnight
- Valuation
- Not to be marked to market
- Premium paid to be Amortised over the 'days' of holding
- If no premium, then Acquisition cost (Book value)

HFT – Held for Trading

AFS – Available for Sale

- HFT not sold in 90 days = AFS
- Valuation
- Marked to Market
- To be Valued scripwise and compared to Book value
- Net Appreciation / Net Depreciation to be calculated for each of following classifications, separately:
 - (i) Government securities
 - (ii) Other approved securities
 - (iii) Shares
 - (iv) Bonds of PSU
 - (v) Others

Other pointers in Valuation

- Net appreciation ignored
- Net depreciation in each classification to be provided
- SLR
- Quoted Securities: Market Value : (FIMMDA)
- Unquoted Securities: Central Govt Securities (PDIA/ FIIMDA) or a markup on these rates of equivalent maturity
- Non-SLR
- Shares of Co-operative Institution:
 - If No dividend/ liquidated: Full provision
 - If no financial information: Re.1/- per Co-op Institution
- Units of Mutual Fund:
 - If Quoted: Stock exchange quote
 - If Non-quoted: Repurchase price declared/ NAV
- IDR
- IFR : 5% of HFT & AFS

THANK YOU

- **CA Shashank Patki**
- shashank.patki@rediffmail.com
- # 7767810349