

Verification of advances with special reference to Income Recognition and Asset Classification (IRAC) norms.

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The article attempts to cover, verification of advances with special reference to Income Recognition and Asset Classification (IRAC) norms, which are also known as Non Performing Asset (NPA) norms and prudential norms. Article covers summary of key requirements points applicable based on Reserve Bank of India (RBI) Prudential norms except it does not cover norms on Restructuring of Advances by Banks and Agricultural Debt Waiver and Debt Relief Scheme.

As per data available in Public demine, Indian banks wrote off loans worth around Rs 8,83,168 crore in the last ten years, a significant chunk of which came from government-owned banks, the latest data from the Reserve Bank of India shows. Of this, public sector banks (PSBs) alone wrote off Rs 6,67,345 crore worth loans since 2010. This is about 76 percent of the total written-off loans in the decade, while private banks wrote off loans worth Rs 1,93,033 crore constituting about 21 percent of the total chunk. Foreign banks wrote off Rs 22,790 crore loans or 3 percent of the total write-off, the RBI data showed. In the financial year 2019-2020 alone, banks wrote off a total of Rs 2,37,206 crore or about a quarter of the total loan write-offs in the last one decade. Of this, Rs 1,78 lakh crore was by PSBs and Rs53,949 crore by private banks. These figures do not take into account the loans written off by small finance banks, which is a relatively smaller portion

Situation calls for auditors to be more vigilant while discharging their duties.

We have constraint of limited time to complete the bank – branch audit. Normally, we receive appointment letter in the mid-march and we have to complete the audit by first week or second week of April.

Further reason of concern is banking sector is fraud prone and it again increases our responsibilities in carrying out bank – branch audit. There have been many frauds in banking sector. Official data for fraud is not publicly available however the amounts and number of cases have risen. With increase in online banking / net banking / mobile banking, cyber frauds have increased manifold.

In bank audit, we need to plan very well so we are able to carry out audit effectively. There are various laws applicable in bank audit but we must be updated our self with

latest RBI guidelines and requirements for banking sector. All related circulars are available on Reserve Bank of India's website i.e. www.rbi.org.in.

Verification of advances is one of the important aspects of bank audit. While doing verification of advances, impact of irregularities needs to be seen from point of view of its asset classification. Advances are classified based on RBI Guillotines. Originally RBI had health code system which was replaced by IRAC norms in 1992-93. Now income recognition is made objective based on record of recovery.

Any irregularities having bearing on NPA (Non-Performing Asset) status of the /advances needs to be examining carefully. In other words while examining any advances; we need to check what will be the impact of irregularity in advance on its NPA status. As per RBI circular, when asset ceased to generate income, it becomes NPA.

Reserve Bank of India every year issues Master circular for norms for classifications of Advances in to various categories of NPA. This year like every year RBI has issued master circular on 1st July 2015. Key points of the circular are summarized as under:

Type of facility	To be Classified as NPA if
Term Loan	Interest and/or installment of principal, remain overdue for a period more than 90 days.
Working Capital Finances (Over draft and Cash Credit)	If accounts remain out of order for more than 90 days. Out of order: An account should be treated as ' out of order ' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as ' out of order '
Bills	The bill remains overdue for a period of more than 90 days in the

	case of bills purchased and discounted
Agricultural Advances	<p>Short duration crops</p> <p>The installment of principal or interest thereon remains overdue for two crop seasons</p> <p>Long duration crops</p> <p>The installment of principal or interest thereon remains overdue for one crop season.</p> <p>Natural calamities</p> <p>Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or re-schedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines contained in RBI circular RPCD. No.PLFS.BC.3/05.04.02/ 2012-13 dated July 2, 2012.</p>
Liquidity Facilities	The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006
Derivative Transactions,	The overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.
Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.	

Further advances needs to be classified in to categories as Standard, Sub-standard, Doubtful and loss Asset. Following are criteria for classifications of NPA

NPA Category	Criteria for classification
Sub- Standard Asset	<p>Which has remained NPA for a period less than or equal to 12 months.</p> <p>In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the <u>banks will sustain some loss, if deficiencies are not corrected.</u></p>
Doubtful Asset	An asset would be classified as doubtful if it has remained in

	<p>the substandard category for a period of 12 months.</p> <p>A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – <u>highly questionable and improbable</u>.</p> <p>For provisioning, Doubtful Assets are further classified as per age in doubtful category, in sub-categories generally called as D-1, D-2 and D-3.</p>						
Loss Asset	<p>A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has <u>not been written off wholly</u>.</p> <p>In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.</p>						
Accounts where there is erosion in the value of security/frauds committed by borrowers	<p>In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers <u>it will not be prudent that such accounts should go through various stages of asset classification.</u></p> <p><u>In cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate:</u></p> <table border="1"> <thead> <tr> <th>Value</th> <th>Classification to be done</th> </tr> </thead> <tbody> <tr> <td>Less than 50 %</td> <td>Doubtful Asset</td> </tr> <tr> <td>Less than 10 %</td> <td>Loss Asset – Full Provision</td> </tr> </tbody> </table>	Value	Classification to be done	Less than 50 %	Doubtful Asset	Less than 10 %	Loss Asset – Full Provision
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Internal control systems to eliminate the tendency to delay or postpone the identification of NPAs

Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The banks may fix a minimum cut

off point to decide what would constitute a high value account depending upon their respective business levels. The cut off point should be valid for the entire accounting year. Responsibility and validation levels for ensuring proper asset classification may be fixed by the banks. The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.

So in any case let's say advance was becoming NPA on 30th June 2015 and there was a doubt about whether that advances needs to be classified as NPA or not? Any such doubt should be resolved by bank by July 2015.

Other issues in classifications of advances as NPA:

<p>Accounts with Temporary deficiencies</p>	<p>Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets,</p> <p>Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power <u>should not be older than three months.</u></p>
<p>Regular and ad hoc credit limits</p>	<p>Regular and ad hoc credit limits need to be reviewed/regularised <u>not later than three months</u> from the due date/date of ad hoc sanction.</p> <p>In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/ review of credit limits is already on and would be completed soon. <u>In any case, delay beyond six months is not considered desirable as a general discipline.</u> Hence, an account where the regular/ ad hoc credit limits have not been reviewed/ <u>renewed within 180 days</u> from the due date/ date of ad hoc sanction will be treated as NPA.</p>
<p>Accounts regularised near about the balance sheet date</p>	<p>The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity.</p> <p><u>Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA.</u></p> <p>In other genuine cases, <u>the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the</u></p>

	manner of regularisation of the account to eliminate doubts on their performing status.
Loans with moratorium for payment of interest	<p>. In the case of bank finance given for industrial projects or for agricultural plantations etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest <u>do not become overdue</u> and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.</p> <p>ii. In the case of housing loan or similar advances granted to staff members <u>where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards</u>. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.</p> <p><u>In my view, extension in moratorium period should not be allowed afterwards unless justified by strong convincing reason.</u></p>
Government Guaranteed Advances	<p><u>Central Government Guaranteed Advances</u></p> <p>The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income.</p> <p><u>State Government guaranteed Advances</u></p> <p>State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days</p>

Other Points to be considered in classification of an advances as NPA:

- ✓ Asset Classification needs to be done borrower wise and not facility wise , hence even if one small facility is NPA large borrower's all accounts will become NPA
- ✓ Consortium Advances : Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances
- ✓ Advances against Term Deposits, NSCs, KVP/IVP, etc

Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts.

Here plain reading of the RBI circular says advance against life policies need not be treated as NPA. In my personal views intention must be to exempt only advances against traditional plans issued by Life Insurance Corporation of India and not advances against life policies such as ULIP or which are issued by private companies may not be covered by this exemption.

✓ Advances against gold ornaments, government securities and all other securities are not covered the NPA classification exemption.

✓ Valuation of Security for provisioning purposes

With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of Rs. 5 crore and above stock audit at annual intervals by external agencies Collaterals such as immovable properties charged in favour of the bank should be got valued once in 3 years by valuers appointed as per the guidelines approved by the Board of Directors.

COVID IMPACT / RELEVANT CIRCULARS

It is advisable to read all relevant full circulars available at RBI website, however following is brief summary of the content:

Circular Reference	RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 Dated 27.3.2020
Summaries Points:	
COVID-19 – Regulatory Package	
Rescheduling of Payments – Term Loans and Working Capital Facilities	
All instalments ¹ falling due between March 1, 2020 and May 31, 2020. The repayment schedule for such loans as also the residual tenor will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.	
Easing of Working Capital Financing	
lending institutions may recalculate the ‘drawing power’ by reducing the margins and shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19.	
Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)	
Since the moratorium/deferment/recalculation of the ‘drawing power’ is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower under paragraph 2 of the Annex to the	

Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 (“Prudential Framework”). Consequently, such a measure, by itself, shall not result in asset classification downgrade.

The asset classification of term loans which are granted relief shall be determined on the basis of revised due dates and the revised repayment schedule. Similarly, working capital facilities where relief is provided as above, the SMA and the out of order status shall be evaluated considering the application of accumulated interest immediately after the completion of the deferment period as well as the revised terms, as permitted above.

The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

Circular Reference

RBI/2019-20/220 DOR.No.BP.BC.63/21.04.048/2019-20 Dated 17.4.2020

Asset Classification under the Prudential norms on Income Recognition, Asset Classification (IRAC)

As such, in line with the clarification provided by the Basel Committee on Banking Supervision, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms.

Similarly in respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), the Regulatory Package permitted the recovery of interest applied during the period from March 1, 2020 upto May 31, 2020 to be deferred (‘deferment period’). Such deferment period, wherever granted in respect of all facilities classified as standard, including SMA, as on February 29, 2020, shall be excluded for the determination of out of order status.

Provisioning

In respect of accounts in default but standard where provisions of paragraphs (2) and (3) above are applicable, and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters as under:

(i) Quarter ended March 31, 2020 – not less than 5 per cent

(ii) Quarter ending June 30, 2020 – not less than 5 per cent

Circular Reference

RBI/2019-20/219 DOR.No.BP.BC.62/21.04.048/2019-20 Dated April 17, 2020

lenders are required to implement a resolution plan in respect of entities in default within 180 days from the end of Review Period of 30 days.

On a review, it has been decided that in respect of accounts which were within the Review Period as on March 1, 2020, the period from March 1, 2020 to May 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from June 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution

In respect of accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 90 days from the date on which the 180-day period was originally set to expire

The lending institutions shall make relevant disclosures in respect of accounts where the resolution period was extended in the ‘Notes to Accounts’ while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years FY2020 and FY2021.

Circular Reference	RBI/2019-20/245 DOR.No.BP.BC.72/21.04.048/2019-20 Dated 23.5.2020
<p>In respect of accounts which were within the Review Period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the Review Period. In respect of all such accounts, the residual Review Period shall resume from September 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.</p> <p>In respect of accounts where the Review Period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.</p> <p>Consequently, the requirement of making additional provisions specified in paragraph 17 of the Prudential Framework shall be triggered as and when the extended resolution period, as stated above, expires.</p> <p>All other provisions of the circular dated April 17, 2020 shall continue to remain applicable</p>	
Circular Reference	RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 Dated 23.5.2020
<p>Rescheduling of Payments – Term Loans and Working Capital Facilities</p> <p>In view of the extension of lockdown and continuing disruption on account of COVID-19, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and Non-banking Financial Companies (including housing finance companies) (“lending institutions”) are permitted to extend the moratorium by another three months i.e. from June 1, 2020 to August 31, 2020 on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.</p> <p>In respect of working capital facilities sanctioned in the form of cash credit/overdraft (“CC/OD”), lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021.</p> <p>Easing of Working Capital Financing</p> <p>In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,</p> <p>(i) recalculate the ‘drawing power’ by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,</p> <p>(ii) review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.</p> <p>The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.</p> <p>Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.</p> <p>Asset Classification</p>	

The conversion of accumulated interest into FITL, as permitted in terms of paragraph above, and the changes in the credit terms permitted to the borrowers to specifically tide over economic fallout from COVID-19 in terms of paragraph above, will not be treated as concessions granted due to financial difficulty of the borrower, under Paragraph 2 of the Annex to the [Reserve Bank of India \(Prudential Framework for Resolution of Stressed Assets\) Directions, 2019 dated June 7, 2019](#) ('Prudential Framework'), and consequently, will not result in asset classification downgrade.

In respect of accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted in respect of term loans, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under the IRAC norms. The asset classification for such accounts shall be determined on the basis of revised due dates and the revised repayment schedule.

Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), where the account is classified as standard, including SMA, as on February 29, 2020, the deferment period, wherever granted in terms of paragraph above shall be excluded for the determination of out of order status.

All other provisions of [circulars dated March 27, 2020](#) and [April 17, 2020](#) shall remain applicable mutatis mutandis.

Circular Reference	RBI/2019-20/158 DOR.No.BP.BC.33/21.04.048/2019-20 Dated -7.2.2021
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Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation

Revisions of the date of DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

1. The revised DCCO falls within the period of one year from the original DCCO stipulated at the time of financial closure for CRE projects;
2. All other terms and conditions of the loan remain unchanged.

In case of CRE projects delayed for reasons beyond the control of promoter(s), banks may restructure them by way of revision of DCCO up to another one year (beyond the one-year period quoted at paragraph above) and retain the 'standard' asset classification if the account continues to be serviced as per the revised terms and conditions under the restructuring.

iii. Banks while restructuring such CRE project loans under instructions at above will have to ensure that the revised repayment schedule is extended only by a period equal to or shorter than the extension in DCC

Banks may fund cost overruns that arise on account of extension of DCCO (within the limits as above), subject to the instructions issued vide [circular DBOD.No.BP.BC.33/21.04.048/2014-15 dated August 14, 2014](#) and the mailbox clarification dated April 20, 2016.

It is re-iterated that a loan for a project may be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue). It is further re-iterated that the dispensation at (ii) above is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph (i) (a) above and when the account is still standard as per record of recovery.

At the time of extending DCCO, Boards of banks should satisfy themselves about the viability of the project and the restructuring plan.

All other aspects related to restructuring, income recognition, asset classification, provisioning as applicable for projects under implementation shall continue to apply.

Banks shall ensure that all provisions of the Real Estate (Regulation and Development) Act, 2016 are complied with.

The project loans to CRE sector shall be identified on the basis of instructions issued vide [circulars](#)

[DBOD.BP.BC.No.42/08.12.015/2009-10 dated September 9, 2009](#) and [DBOD.BP.BC. No.104/08.12.015/2012-13 dated June 21, 2013.](#)

PROVISIONING NORMS

Subject to above circulars below were the original provisioning norms, relief as mentioned in above circulars is to be considered.

Standard Assets	<p>(A) direct advances to agricultural and SME sectors at 0.25 per cent;</p> <p>(b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;</p> <p>(c) advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent¹</p> <p>(d) all other loans and advances not included in (a) and (b) above at 0.40 per cent</p> <p>Housing loan at teaser rate it will be @ 2%</p> <p>On newly restructured advances after 1.6.2013 @ 3.5% for March 2014, 4.25 % for March 2015 and @ 5% for March 2016. On old restructured advances @ 2.75%</p>
Sub-standard Assets	<p>Secured exposure: 15% on outstanding balance</p> <p>unsecured exposures for escrow accounts available in respect of infrastructure lending, infrastructure loan accounts</p> <p style="text-align: center;">20% on outstanding balance</p> <p>Other unsecured exposures: 25% on outstanding balance</p>
Doubtful Assets	<p>Unsecured Portion : 100%</p> <p>Secured Portion :</p>

	Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
	Up to one year –D1	25
	One to three years-D2	40
	More than three years –D3	100
Loss Assets		100 %

INCOME RECOGNITION

The policy of income recognition has to be objective and based on the record of recovery. Internationally income from nonperforming assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

Reversal of income

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised. **This will apply to Government guaranteed accounts also.**

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Leased Assets

The *finance charge* component of finance income [as defined in 'AS 19 Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became nonperforming, and remaining unrealised, should be reversed or provided for in the current accounting period.

Appropriation of recovery in NPAs

Interest realized on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

Fraud Cases

We need to examine critically, fraud cases reported in advances, we need to understand methodology and need to find out whether adequate provisioning is done for the loss or not? Also we have to see whether such cases are properly reported to Reserve Bank of India.

Types of Frauds Reported:

Cases of funds diversions are being reported: loan taken for one purpose and utilized for some other purposes. Over valuation of property done to get higher loan than eligible, Export finance taken and no money is received from overseas suppliers and ECGC compliances are not done properly etc,

There have been many cases of fraud cases reported in Gold loan of fake ornaments being given to banks as securities, There have been many frauds in Housing loan area too hence that area also needs to be seen critically. There have been cases where fake income papers have been submitted, there is no borrower in existence, property is not in existence, same property being sold to more than one purchaser etc.

Certain Practical Points

- In case NPA, the auditor should carefully examine security as it will change the amount of provisioning if advances are found to be unsecured.
- The advance becoming NPA is important date and needs to be examined whether the same is correctly determined as age of NPA determines its provisioning amounts.
- The restructuring of advances should not be repeated restructuring.
- **There are various ever greening techniques are being resorted for not classifying advance as NPA, we have to see the advances are being paid off from genuine sources and not by granting fresh advances in any way.**

Conclusion

As classification, provisioning and income recognition is governed by RBI norms, we have to carry out audit of advances based on latest RBI norms and directives. Many a time changes in directives comes in February and March also hence we need to keep our eyes on rbi website for such changes (if any) being pronounced. The stringent NPA norms have improved overall quality of advances outstanding. Looking at frauds reported, we need to be very vigilant in verifying correct application of NPA norms.

