

# Audit of Advances

## Examine

All large Advances  
(100%)

Others on sample basis

Year end Balance

(100 or 10% of all advances of Branch) ↓ (lower)

Ramayan  
Large → Ravana  
0000000000

⊕ Problem A/cs → to be examined in detail (except insignificant amt)  
(SMA 0/1/2)

Note: Extent of checking depends on ICS. (ICS effective → Extent ↓)

⓪ Auditor is concerned with obtaining evidence "ABOUT" following:

ERCIV

Existence

- Amt O/S on A.S. date

Right

- Amt. is due to Bank

↓

- These are supported by loan documentation

Completeness

- There are no unrecorded advances

Valuation

- Basis of valuation is apppt. & reconciling recognised in valuation

• Amt due x x x }  
(-) provision (x x x) } Reval.

- Apppt. provision made as per (RBI norms, A/c Stds, GAAP)

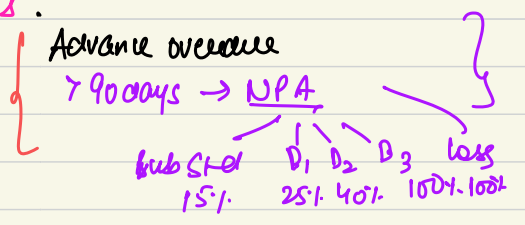
"inn chizon per evidence chahiye"

Evidence kaha milega?

# Areas for obtaining SAAE for advances besides Evaluation of g.c.?

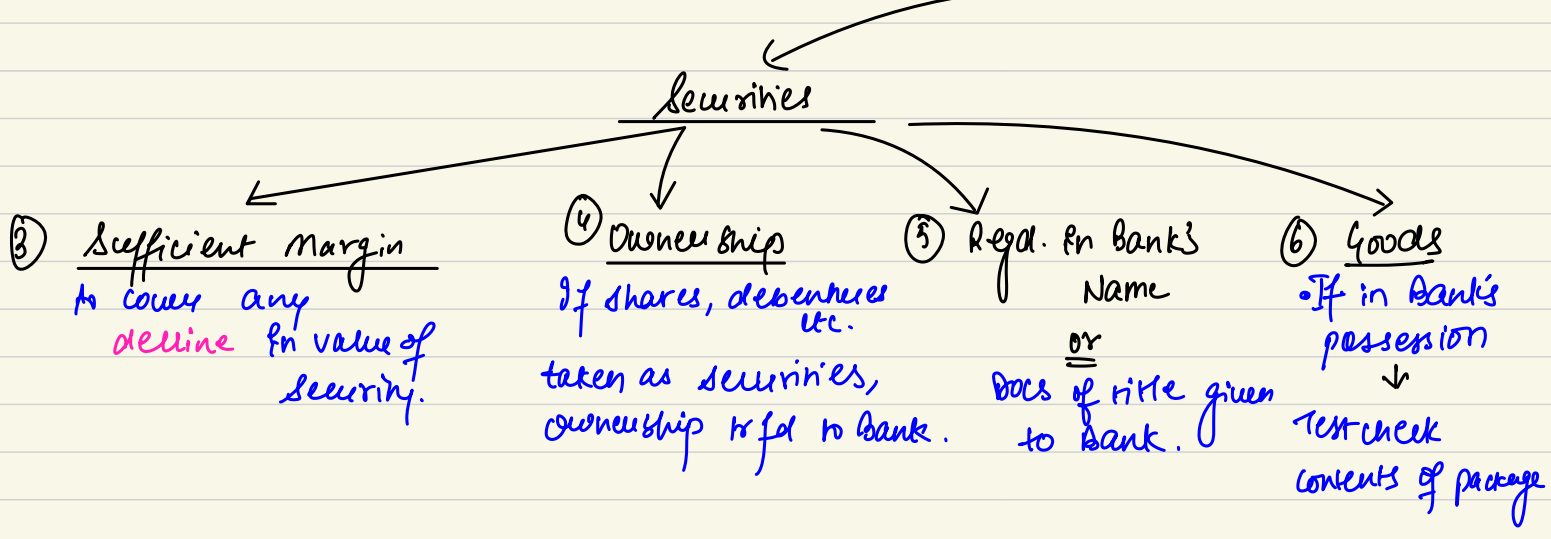
- Actually hail?
  - Examine validity of recorded amt.
  - Examine loan documentation
- Timely pay?
  - Review operation of a/c's.
    - Comfort?
  - Examine existence, enforceability & value of **Security**
- check compliance with RBI provisions wrt. classification & provisioning
  - Carry out Analytical Procedures.

2 mins ✓✓



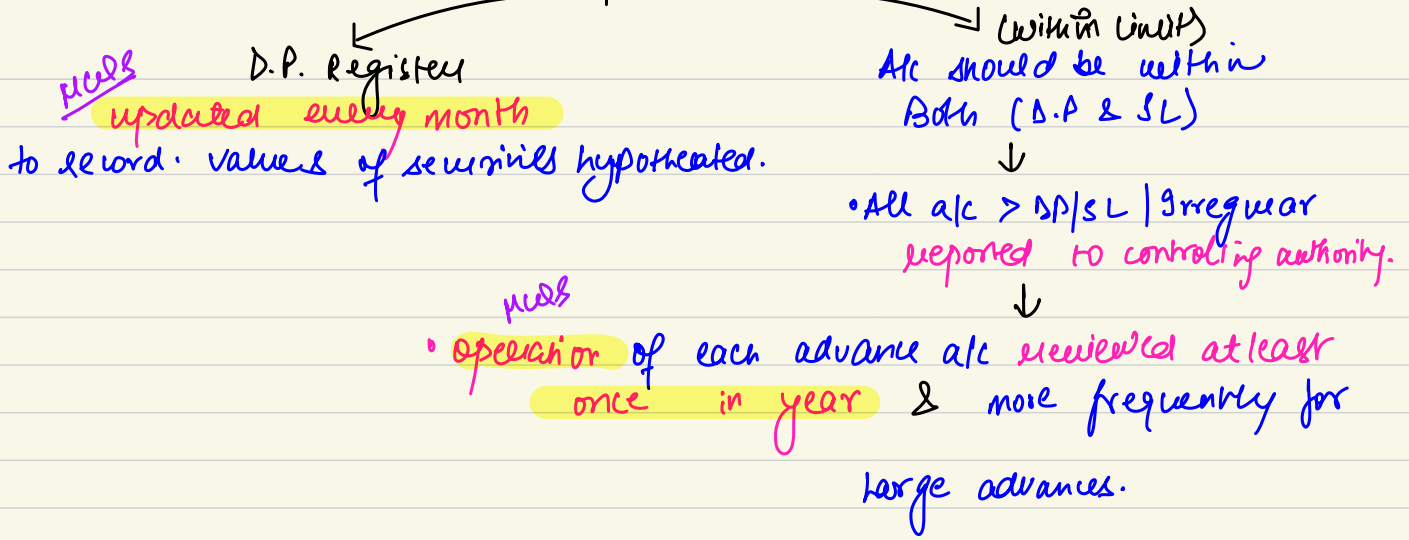
## Internal Controls over Advances (process)

- Check creditworthiness of Borrower & obtain sanction of authorities *approval*
- Documentation (All necessary docs eg. Agreement, Letter of Hypo. etc. executed before advance)

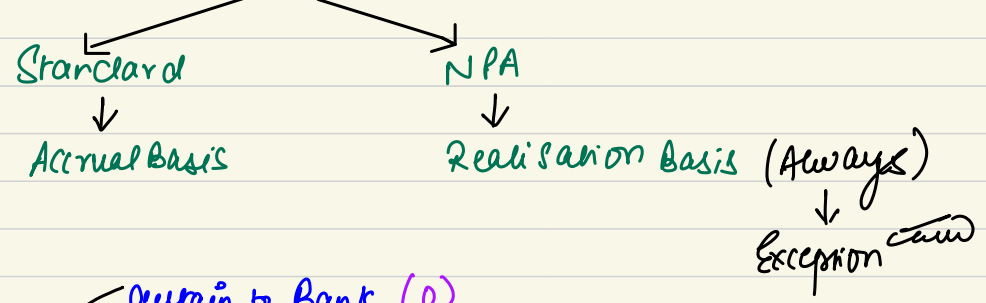


• Load frequently inspected by Branch & Bank Inspectors.

# Drawing Power



# Income Recognition Advances



Auditor's concern: OCACC

- pertain to Bank (0)
- no unrecorded income (C)
- recorded at apt. amt (A)
- are in relevant period (C)

classify

"Material" income recognised on "Accrual Basis"

Any income > 1% of Total Income / P.B.T  
(Gross Basis) (Income net of cost)  
↓  
considered on Accrual Basis as per AS 9 (R/R).

\* If income is not material → recognised on Realisation Basis.  
↓  
Auditor report   
Quality  
Not Quality.

# Income recogn for NPAs

NPA for 1st time

Intt already accrued in P.Y  
 & not realised,  
 it should be

Reversed  
 P&A/c Dr  
 To Acc. Intt.

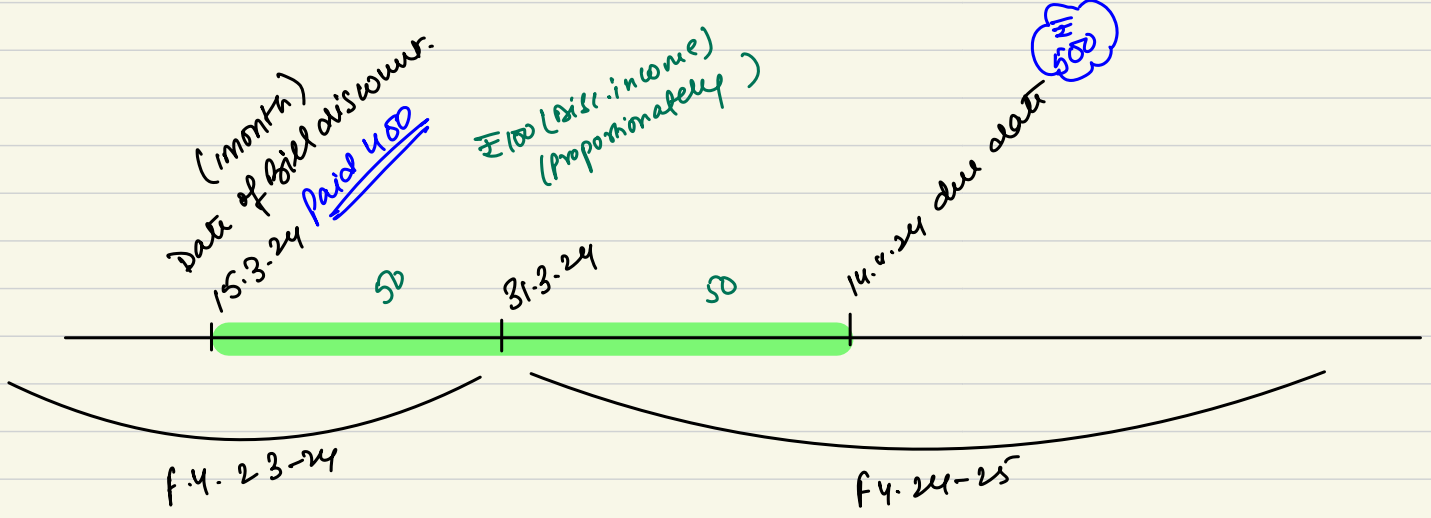
or  
 provided for  
 (provision)  
 P&A/c Dr  
 To Provision

Recognise income on  
 realisation basis.

Exception:

Advance against  
 FDI NSCs / JVP / KVP => **Accrued Basis**  
 Life policies  
 (Adequate margin available)

NPA



J.E. (F.Y. 23-24)	Debtor A/c Dr 500 To Bank (A/c 23-24) 400 To Disc. earned 50 To Income recd. (F.Y. 24-25) 50 In Advance (Liability)
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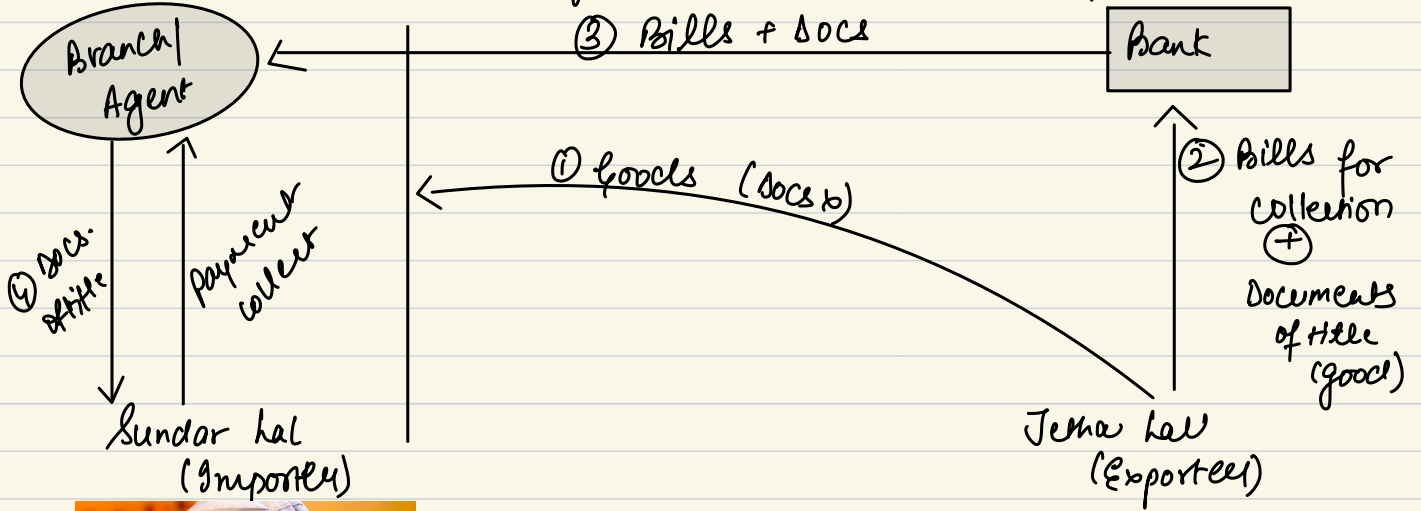
• Bill re-discount => charges pay Expense ✓  
 or  
 Income discounting (net off) ✗

Concept (Exam pov): • for bills purchased at close of year, discount recd. properly allocated b/w 2 years.

- (spl. point)
- discount related to period after year end, recorded as other liab.
  - Intt paid by bank on re-discount is not netted off from disc. earned on bills discount

- ⑤ A/c credit?   
 • Jethalal   
 • Bank (Branch/Agent)   
 • commission

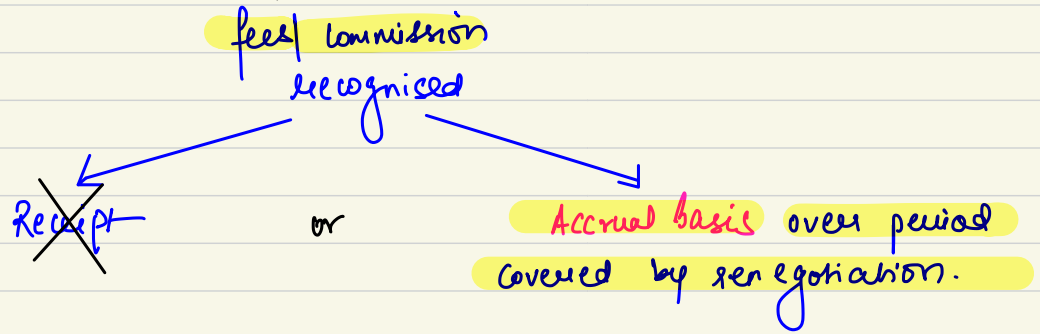
Bills for collection {S.K. Exporter?}



Auditor? Examine procedure for crediting party (Jethalal) for whom bill is collected.

- customer
  - customer A/c is credited only when bill has been collected either by Bank or Agents etc.
- Branch's commission is due only when bill is collected.

# Renegotiation of o/s debts



Income : (Auditor?)

Test check

Intl. on samples

fees/commissions on bills for collection, LCCs, BQs.

## Reversal of Income

For NPAs,  
Intl. accrued & credited in past periods (including for Govt. Guaranteed Advance) not realised

For NPAs,  
fees, commissions etc income accrued not realised

wrongly recognised income in past

o Reversed

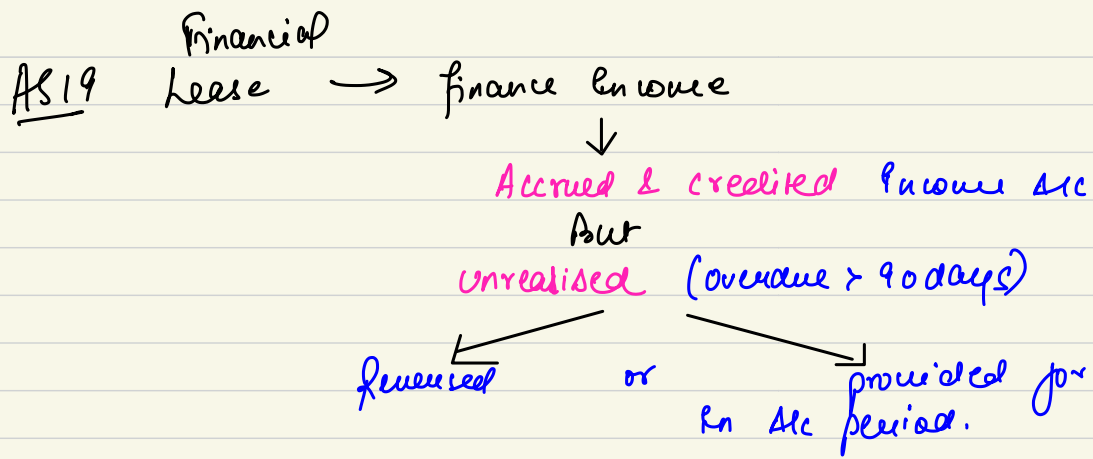
or

o provided for.

(Auditor?)

enquire, if any

- large debits in Intl income Cr. not explained
- communication of Borrower pointing out differences in Intl charged.



### Take out finance (long term finance)

Date wise

Year 1	2.5 cr
2	2.5 cr
5	2.5 cr
8	2.5 cr
	<u>10 cr</u>

or

"CPC"

Criteria for Project Completion

10%	2.5 cr
25%	2.5 cr
50%	2.5 cr
75%	2.5 cr
	<u>10 cr</u>

- long term financing where lender promises to provide money on particular date or when CPC is met.

• loan procured later is used to replace initial loan.

• Commonly used for property development.

NPA? It's based on record of recovery → if A/c balance becomes N.P.A. then income recognised on Realisation Basis.

### Objective of Take out finance

- ① To expand source of finance
- ② To boost availability of longer tenor debt finance *zyada avadi*
- ③ To address Entity's exposure issues Bank Pov asset liability mismatch concern of lenders. *25% Asset liab. Borrower*