

**Board for Internal Audit & Management  
Accounting of the ICAI  
Certificate Course on Concurrent Audit of Banks  
450<sup>th</sup> Batch at Rajkot**

**Session IX & X  
Loans & Advances**

**CA Niranjan Joshi  
21.06.2025**

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**Agenda**

**Objective - Verification of Loans**

**Guidelines – RBI / HO Credit Policy / ICAI**

**Checklist – Various**

**Reporting Formats – Prescribed by Bank**



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**Objective**

**RBI Circulars on Concurrent Audit**



14.08.1996 DOS.No.BC.16/08.91.021/96  
 16.07.2015 DBS.CO.ARS.No.BC.2/08.91.021/2015-16  
 18.09.2019 DBS.CO.ARS.No.BC.01/08.91.021/2019-20

Selection of Branches/ Minimum Coverage of areas at branch/ Process of Appointment of Auditors

**Loans & Advances including physical verification of securities, delegation of Powers for sanction, Security Charge Creation, end use verification of funds, monitoring of accounts with excess drawings, monitoring of projects, etc.**

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**Objective**



**Concurrent** – Simultaneous & Regular

**Background Material** – Course, Guidance Note, Circulars, Appointment letters, Manuals, etc.

**Advances** – Largest Revenue Earner

- Major Activity of Bank
- Largest item in ASSETS
- Major Source of INCOME
- Most FOCUSED Audit Area

**Expectation** - 100% checking of advances

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**What to READ**



**Link for Standards on Auditing – AASB of ICAI**  
[https://www.icai.org/new\\_post.html?post\\_id=450](https://www.icai.org/new_post.html?post_id=450)

**Link for AASB of ICAI Publications**  
<https://www.icai.org/post/icai-publications-auditing-assurance-standards-board>

**CAQ of ICAI**

**Reserve Bank of India**

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Manual on Concurrent Audit of Banks (2023 Edition)

Guidance Note on Audit of Banks (2025 Edition)

Technical Guide on Revised Formats of Long Form Audit Report

Technical Guide on Audit of Internal Financial Controls in Case of Public Sector Banks

**Read & Follow**

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Reserve Bank of India

INDEX TO RBI CIRCULARS

Circular Number	Date Of Issue	Department	Subject	Meant For
RBI/2024-2025/133 Ref No. ICAD/2320/06, 01.01.2024-25	27.3.2025	Internal Debt Management	General Notification for Sale and Issue of Government of India Securities (including Treasury Bills and Cash Management Bills)	All participants in the Government Securities market. 2021 2020 2019 2018 2017 2016 Archives
RBI/2024-2025/132 DIR/AUT/REC/7423.6, 7.0012024-25	25.3.2025	Department of Regulation	Gold Monetization Scheme (GMS), 2015- Amendment	All Scheduled Commercial Banks (other than Regional Rural Banks) The Chairman / Managing Director

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**Fundamental Principles - Independence**

**Integrity** - Straightforward and honest approach, Fair dealing and truthfulness, Do not associate with communication or information containing false or misleading information, Steps to disassociate with above information once known

**Objectivity** - Not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others. Not to undertake a professional activity if it unduly influences the accountant's professional judgment.

**Professional Competence and Due Care** - Attain and maintain professional knowledge and skill, Act diligently and in accordance with applicable technical and professional standards, Ensure appropriate training and supervision of subordinates

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### Fundamental Principles – Independence

**Confidentiality** - Maintain confidentiality of information acquired as a result of professional and employment relationships, Disclose information when required by law or authorised by the client, Consider relevant factors while deciding disclosure of confidential information, Maintain confidentiality even after the end of relationship with client

**Professional Behaviour** - Avoid activities that impair the reputation of the profession, Do not make exaggerated claims for services offered, and disparaging references or unsubstantiated comparisons with others, Do not advertise any professional/other facts which are in violation of Advertisement Guidelines of ICAI

**Threats to Avoid**  
 Self Interest Threat, Self Review Threat, Advocacy Threat, Familiarity Threat, Intimidation Threat.

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### Audit Process

**Audit Program**

**Audit Execution**

**Effective Reporting**

**Working Papers**



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### Types of Advances

**Fund Based – Outflow of Funds immediate**

- Cash Credit** – Clean, Hypothecation
- Overdrafts** – Secured/Unsecured
- Term Loans** – Fixed Period / Asset Created
- WCTL** – Fixed Period/Renewable
- Bills** – Purchase/Discounted or Collection
- Exports Credit** – Pre/Post Shipment
- Imports Credit** – Capital Goods/RM

**Non Fund Based – Outflow of Funds not immediate**

Letter of Credit (LC)/ Letter of Guarantee (LG/BG)/ Letter of Comfort (LoC)/ Buyers Credit (BC)/ Standby Letter of Credit (SBLC)/ Deferred Payment Guarantee (DPG)

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**Types of Advances**

**Security wise Classification**  
Secured (Prime / Collateral) (Tangible / Intangible) (Hypothecation, Pledge, Mortgage, Assignment)

Unsecured

**Sector wise Classification**  
Priority Sector Advances – (Agriculture, Education, Housing, Export Credit, MSME, Social Infra, Renewable Energy)  
Other (Non Priority Sector) Advances

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**Types of Advances**

**Normal (Physical)**  
End to End physical – Application Forms to Disbursement to be checked on the basis of papers / documents

**Digital**  
End to End Digital – Application Forms to Disbursement - to be checked on the basis of papers / documents maintained digitally through Document Management System / Tool /

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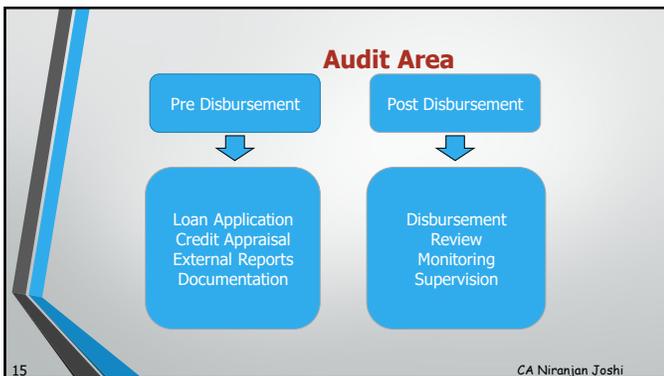
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**Loan Application/ Credit Appraisal**

- Prescribed Application Form
- Fresh / Renewal of Facilities
- KYC Compliance
- Project Report, Projected P&L, Balance Sheet & Cash Flow, Legal & Technical Compliance
- Latest Audited Financial Statements
- Authority to borrower for availment of the facility
- Registration/Approvals/ NOCs from Government
- Short Review / Technical Review\*
- Adhoc Limits / Temporary limits\*
- Appraisal Note – coverage / analysis / conclusion
- Appropriate Authorisation Levels

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**Loan Application/ Credit Appraisal**

- Recommendations properly noted.
- Adverse remarks of field officer not over ruled by seniors.\*
- Proper assessment of Financial Viability of proposal.
- Adequate Security Cover, Credit Worthiness of borrower
- Sanctions within the discretionary DOP
- Change in the terms of sanction is ratified by appropriate authority.
- Exposure limit – Group/Industry wise
- Unit inspection report (Pre Sanction).
- Compliance with RBI Guidelines / Bank Guidelines & Statutory Restrictions.\*

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**External Reports / Documents**

- Confidential report & NOC from **existing banker**.
- CIBIL** Report – Adverse comments / Score
- Valuation** of Securities.
- Credit Rating** – Internal / External
- Due Diligence** Certificate [Multiple Banking/ Consortium Advances]
- Vetting of Documents by **Legal Expert**.

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**Documentation**

Sanction T & C to be accepted by the borrower.  
Execution of Loan documents, as per the sanction letter & loan policy.  
Fresh loan documents are obtained on change in limit, change in constitution of the borrower  
Original documents are held in safe custody  
Charge at Appropriate Authorities Registered  
Updating of Information in CBS Master  
Compliance with Stamp Duty  
Adequate Insurance of Securities & Bank's Clause.

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**Disbursement**

Client Master in CBS Properly recorded.  
Verify that Disbursement done only after compliance of all terms & conditions of Sanction.  
Acceptance of the borrower confirming the terms & conditions of sanction is obtained.  
Home Loans/ term loans to be disbursed directly to the Builder / Owner/ supplier.  
Post Disbursement Inspection

**Monitoring of End Use of Funds**

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**Review / Monitoring / Supervision**

Sanction/Renewal as per Bank's Policy  
Stock Inspection / Unit Visit reports.  
Submission of stocks statements  
Calculation of Drawing Power.  
Operational Data & Financial Statements  
Various Registers (Insurance, Stock)  
Scrutiny of Exceptional Transactions  
Collection of Processing Fees / other charges  
Interest / Penal Interest  
Turnover in Account commensurate with Annual Projections.  
Early Warning Signals  
Compliance with Benami Properties Act

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**Review / Monitoring / Supervision**

- Validity of Loan Documents
- Whether LAD / Balance Confirmations obtained
- Consortium Meetings: Minutes & exchange of Information between the Banks
- Management explanation of unusual items / large transactions
- Over limit - TODs
- Stock Audit Reports / Credit Audit Report
- Exception Reports generated by CBS
- Compliance with Audit/Inspection reports

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**Cash Credit / Overdraft**

- Fixed Limit, allowed as per Drawing Power [MPBF]
- Monthly monitoring through Stock Statements
- Verify Account Operations
- Generally renewed every year
- Servicing of Interest is to be observed
- Periodical Inspection must

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**Term Loans**

- End-use of funds (direct payment/third party verification)
- Disbursement directly in favour of beneficiary
- Disbursement as per project implementation.
- Repayment schedule to be as per the sanction and verify record of repayment
- Stipulated installments / interests (Due Dates) are being paid regularly. Check CBS Master data.
- Schematic Loans such as Gold / Vehicle / Housing should be verified as per policy of bank for compliance.

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**Bills**

Tenor as per sanctioned terms

Export bills Discounted, if remain o/s. for more than 30 days after due date to be crystallized.

Party wise limit to be checked

RBI – Exchange Control formalities.

Branch follow up of overdue bills.

Report to RBI about bills beyond 180 days.

Premium to ECGC is paid promptly

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**Bank Guarantees / Letter of Credit**

Verify sanction Terms & Conditions.

Underlying Assets (Goods & Services) a must for LC

Compliance - Regulatory Requirements

UCP 600 for export LCs

Register of BG/LC must be checked

Extensions/ Modifications

Reversal of expired BG/LC

Charges to be recovered.

Crystallisation / Devolvement, no fresh BG/LC is to be issued without special sanction from competent authority.

Discrepancies in documents promptly reported to negotiating banker/ shipper.

On non payment liability is crystallized and reported.

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**Import Financing – Buyers Credit**

Examine Application form carefully. (**KYC Compliance and Funding Agreement**)

Check whether its for Raw Material or Capital Goods

Check the terms of sanction by intermediary foreign bank

Check the documentation (**FBG through SWIFT**)

Treatment in the books of account by Bank

Treatment in the books of account by borrower

Interest Servicing & Repayment of Loan

Settlement / Roll over of LoC

**Letter of Comforts discontinued w.e.f. 13.03.2018**

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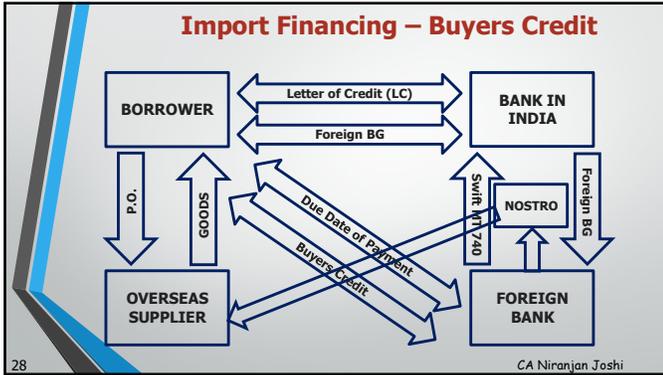
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### Restructuring of Advances

**As per RBI Master Circular dated 01.07.2015**  
(applicable for advances below 1500 Crores)

A restructured account is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grant concession to the borrower that the bank would not otherwise consider.

Exceptions (separate RBI Circulars)

- > MSME Accounts
- > Accounts covered by Natural Calamity
- > Project Loans
- > Accounts covered by COVID 19 RBI Circular
- > Take out Finance

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### Restructuring of Advances

**As per RBI Circular dated 07.06.2019**  
(Advances above 1500 crores)

Restructuring is an act in which a lender, for economic or legal reasons relating to the borrower's financial difficulty, grants concessions to the borrower.

Restructuring may involve modification of terms of the advances / securities, which would generally include, among others, alteration of payment period / payable amount / the amount of instalments / rate of interest; roll over of credit facilities; sanction of additional credit facility/ release of additional funds for an account in default to aid curing of default / enhancement of existing credit limits; compromise settlements where time for payment of settlement amount exceeds three months.

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**Early Warning Signals**

Some Early Warning signals which should alert the bank officials about some wrongdoings in the loan accounts which may turn out to be fraudulent. Refer to RBI Circular on "Framework for dealing with Loan Frauds" dated 07.05.2015

1. Default in payment to the banks/ sundry debtors and other statutory bodies, etc., bouncing of the high value cheques
2. Raid by Income tax /sales tax/ central excise duty officials
3. Frequent change in the scope of the project to be undertaken by the borrower
4. Under insured or over insured inventory
5. Invoices devoid of TAN and other details

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**Early Warning Signals**

6. Dispute on title of the collateral securities
7. Costing of the project which is in wide variance with standard cost of installation of the project
8. Funds coming from other banks to liquidate the outstanding loan amount
9. Foreign bills remaining outstanding for a long time and tendency for bills to remain overdue
10. Onerous clause in issue of BG/LC/standby letters of credit
11. In merchanting trade, import leg not revealed to the bank
12. Request received from the borrower to postpone the inspection of the godown for flimsy reasons

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**Early Warning Signals**

13. Delay observed in payment of outstanding dues
14. Financing the unit far away from the branch
15. Claims not acknowledged as debt high
16. Frequent invocation of BGs and devolvement of LCs
17. Funding of the interest by sanctioning additional facilities
18. Same collateral charged to a number of lenders
19. Concealment of certain vital documents like master agreement, insurance coverage
20. Floating front / associate companies by investing borrowed money
21. Reduction in the stake of promoter / director

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**Early Warning Signals**

- 22. Resignation of the key personnel and frequent changes in the management
- 23. Substantial increase in unbilled revenue year after year
- 24. Large number of transactions with inter-connected companies and large outstanding from such companies
- 25. Significant movements in inventory, disproportionately higher than the growth in turnover.
- 26. Significant movements in receivables, disproportionately higher than the growth in turnover and/or increase in ageing of the receivables.
- 27. Disproportionate increase in other current assets.
- 28. Significant increase in working capital borrowing as percentage of turnover.
- 29. Critical issues highlighted in the stock audit report.

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**Early Warning Signals**

- 30. Increase in Fixed Assets, without corresponding increase in turnover (when project is implemented).
- 31. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
- 32. Liabilities appearing in ROC search report, not reported by the borrower in its annual report.
- 33. Substantial related party transactions.
- 34. Material discrepancies in the annual report.
- 35. Significant inconsistencies within the annual report (between various sections).
- 36. Poor disclosure of materially adverse information and no qualification by the statutory auditors.

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**Early Warning Signals**

- 37. Frequent change in accounting period and/or accounting policies.
- 38. Frequent request for general purpose loans.
- 39. Movement of an account from one bank to another.
- 40. Frequent ad hoc sanctions.
- 41. Not routing of sales proceeds through bank
- 42. LCs issued for local trade / related party transactions
- 43. High value RTGS payment to unrelated parties.
- 44. Heavy cash withdrawal in loan accounts.
- 45. Non submission of original bills.

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### Emergency Credit Line Guarantee Scheme

Circular Ref No. 2842/NCGTC/ECLGS dated May 23, 2020 issued by **National Credit Guarantee Trustee Company (NCGTC)** in respect of the captioned scheme announced by the Government of India to extend **guaranteed emergency credit line to MSME borrowers**.

Additional working capital term loans (in case of banks and FIs) and additional term loans (in case of NBFCs) upto 20% of their entire outstanding credit upto Rs 25 Crores (i.e. upto Rs. 5 Crore) as on February 29, 2020, subject to Account should be less than or equal to 60 days past due on that date.

#### **RBI Circular dated 21.06.2020**

Credit facilities extended under the scheme **guaranteed by NCGTC** are backed by an **unconditional and irrevocable guarantee provided by Government of India**, it has been decided that Member Lending Institutions shall assign **zero percent risk weight** on the credit facilities extended under this scheme to the extent of guarantee coverage.

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### Benami Transactions

Benami Transactions (Prohibition) Amendment Act came in effect on 01.11.2016 after amending 28 year old law.

Innocuous, unsuspecting transactions like funding your brother, or sister, or parents to acquire assets.

A slew of such deals may be stamped as benami transactions – even when they are carried out through the banking channels with tax-paid money.

The litmus test for the tax office is simple:

**the official owner** – on whose name a property, land, or any asset is registered – must also be the real owner.

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### Benami Transactions

If it is not, the tax office can invoke the new law to confiscate the property, demand a penalty equivalent to a quarter of the market value of the asset, and even put the offenders – the real owner as well as the front or 'benamidar' – behind bars.

Properties booked in name of spouse or children would not be a violation, but assets registered in the name of parents or siblings who are neither using the property nor have the money to buy it could be construed as benami.

Benami Transactions have historically been perceived as an effective method to both conveniently hid as well as launder illicit money.

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**Benami Transactions**

Benami Transaction  
Transaction where a property is held by or transferred to a person, but has been provided for or paid by another person, such property transaction where:  
The transaction is made in fictitious name  
The owner is not aware or denies knowledge of the ownership of the property  
The person providing the consideration for the property is not traceable.

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**Insolvency & Bankruptcy Code**

The Insolvency and Bankruptcy Code 2016 was assented by President of India on 28.05.2016.  
The Insolvency and Bankruptcy Code (IBC) architecture was catapulted into action when the Reserve Bank of India (RBI), in June 2017, referred 12 large cases to the resolution process under the code.  
IBC is a landmark legislation that consolidates several prior bankruptcy laws into one framework and decisively establishes the institutional infrastructure to administer the complex process.

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**Insolvency & Bankruptcy Code**

Applies to  
Company incorporated under Companies Act, 2013  
Any other Company governed by any Special Act  
Any LLP incorporated under the LLP Act, 2008  
Any other body, as notified by the Central Government from time to time  
Partnership Firms  
Individuals

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**Insolvency & Bankruptcy Code**

Who can Invoke  
Financial Creditors  
Operational Creditors  
Corporate Debtors

Resolution Professional is key person for resolution Process

Committee of Creditors to make necessary actions for IBC Processes to collate all claims, determine financial position, decision with ¾ majority

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**MCQ 1**

Statutory Restrictions on Loans and Advances are prescribed in which Section of Banking Regulation Act, 1949?

(a) Section 19      (b) Section 20

(c) Section 21      (d) Section 22

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**MCQ 2**

In case of Audit of Loans & Advances, the Concurrent auditor checks the Loan File for the First Time at which stage?

(a) During Credit Appraisal      (b) Before Disbursement

(c) After Disbursement      (d) All the above

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**MCQ 3**

Loan Documents are required to be kept in

(a) Loan Officer Cabin	(b) Cash Chest
(c) Branch Manager Cabin	(d) Safe Custody

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**MCQ 4**

At the time of disbursement of loan, major attention area for bank should be

(a) Monitoring End use	(b) Monitoring ledger A/c
(c) Monitoring Loan funds	(d) None of the above

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**MCQ 5**

Review/Monitoring/Supervision is primary responsibility of

(a) Concurrent Auditor	(b) IS Auditor
(c) Statutory Auditor	(d) Branch Management

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**Case Study**

- Verification of Term Deposit - \*
- Verification of Gold Loan - \*
- Verification of Vehicle Loan - \*
- Verification of Drawing Power - \*
- Effective Reporting - \*

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**Questions**



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**THANK YOU**

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**Short Review / Technical Review**

- Check Application from Borrower
- Reason for Short Review and not full Renewal
- Limited Financial Documents submitted
- Credit Appraisal
- Sanction up to 90 days
- Another 90 days by Higher Authority
- Report if the process is not followed
- Example – Natural Calamity, Contingency,
- Typical at Year End

**RBI Circular dated 21.08.2020**

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**RBI Circular dated 21.08.2020**

Banks are expected to have a detailed Board approved policy on methodology and periodicity for review/renewal of credit facilities within the overall regulatory guidelines, and adhere to the same strictly.

However, an analysis of practices followed by the lenders while reviewing/renewing credit facilities has brought out certain supervisory concerns, including that of frequent/repeated ad-hoc review/renewal of credit facilities instead of regular review/renewals, non-capturing and/or inaccurate capturing of review/renewal data in the banking/information systems, and non-coverage of review/renewal activities under the concurrent audit/internal audit mechanism.

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**RBI Circular dated 21.08.2020**

In this connection, we reiterate that timely and comprehensive review/renewal of credit facilities should be an integral part of the Board approved loan policy and credit risk management framework, and **banks should avoid frequent and repeated ad-hoc/short review/renewal of credit facilities without justifiable reasons.**

Banks are also advised to capture all the data relating to regular as well as ad-hoc/short review/renewal of credit facilities in their core banking systems/management information systems and make the same available for scrutiny as and when required by any audit or inspection by Auditors/RBI. Further, the processes governing review/renewal of credit facilities should be brought under the scope of concurrent/internal audit/internal control mechanism of banks with immediate effect.

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### Adhoc Loan / Temporary Loan

- Check Application from Borrower
- Reason – Seasonal, Contingency, Festival, etc.
- Examine Documents Submitted
- Credit Appraisal
- Sanction up to 90 days
- Another 90 days by Higher Authority
- Report if the process is not followed
- Example – Agriculture / Garments / Umbrella / Contingency
- Typical at Year End

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### Adverse Remarks Overruled

- Change in Directors / Partners
- Change in Security (Prime/Collateral)
- Change in Guarantors
- Change in any T & C of Proposed Sanction

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### Statutory Restrictions

Refer Para 2 of Master Circular on L&A dated 01.07.2015 and Section 10 of the Banking Regulation Act, 1949

- Can not grant any loan and advances against security of its own shares
- Loans to Bank's Directors and to firms where they hold substantial interest.
- Loans to companies for buy back of their securities
- Advances to Relatives of Bank's Directors, not without prior approval of the Board.
- Officers Grade IV and above.
- Loans to industries consuming O'Zone depleting substances such as Foam, Refrigerators, AC, Aerosol Products, Solvents, Fire Extinguishers etc.
- Restriction on payment of commission to staff members
- Restrictions on offering incentives for loan products.

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### Case Study – Vehicle Loan

Loan of Rs. 11.00 Lakh was sanctioned to Mr. B for purchase of New Maruti Suzuki Dzire Vehicle (Showroom Price Rs. 14.00 Lacs).

What is the Audit Program / process of verification of such Loan?

1. Credit Appraisal
2. Valuation of Security
3. End use verification
4. Repayment

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### Case Study – Drawing Power

CCHYP Facility of Rs. 200 L was Sanctioned to M/s ABC (Partnership Firm) against Prime Security of Stock (movables), Book Debts (upto 90 days) and Collateral Security of Residential Flat owned by ABC jointly. Margin 25% on Stock and 50 % on Debtors.

Stock Statement for April 30, 2025 = Stock Rs. 180.00 L, Debtors Rs. 110.00 L (out of which 30.00 L are due for > 90 days), Creditors for Goods Rs. 40.00 L.

**Calculate Drawing Power.**

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### Effective Reporting – example

**Level of compliance with inspection**

Comment whether all borrower accounts are inspected during the year ? YES  
Deviation / non adherence? NIL

**Answer:**

Based on our verification of unit visits reports, it is observed that the branch has a plan to visit all borrower accounts as per the policy of bank. Since information related to maintenance of books of accounts, statutory payments, payment of wages etc. is not mentioned in the said visit report, we are unable to comment about the status of inspection of such units.

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