CHAPTER - II

FORMULATION OF AUDIT PROGRAMME :-

2.1 GENERAL :-

Before commencement of the audit, an audit programme is framed. In view of our reservation on the segment of the advances, various discussions have been confined to this segment, while framing the audit programme, The Banking Regulation Act, 1949; State Bank of India Act, 1955; State Bank of India (Subsidiary Banks) Act, 1959; D.C.G.C. Act, 1961; The Companies Act, 1956; Banking Companies ( Acquisition and Transfer of Undertaking ) Act, 1970; Negotiable Instruments Act, 1881; Transfer of Property Act, 1882; Registration Act, 1908; Stamp Act, 1899; Hindu Succession Act, 1956; Indian Partnership Act, 1932; Indian Trusts Act, 1882; Life Insurance Corporation Act, 1956; Co-operative Societies Act, 1912 and relevant circulars of the bank should be kept in mind.

2.2. STUDY OF RELEVANT STATUTORY PROVISIONS AND VARIOUS CIRCULARS :-

2.2.(1). The following relevant provisions of the Banking Regulation Act, 1949 should be kept in mind while framing the audit programme:-

2.2.(1).(1). SECTION-20 :- Restriction on Loans and Advances.

2.2.(1).(2). SECTION-20(A) :- Restriction on power to remit debts.

2.2.(1).(3). SECTION-21 :- Power of Reserve Bank to control advances by banking companies.

2.2.(1).(4). SECTION-21(A) :- Rate of Interest charged by Banking Companies not to be subject to scrutiny by Courts.

2.2.(2). All provisions of the Negotiable Instruments Act, 1881 are very important to be kept in mind as they deal all types of negotiable instruments being vital part of every business including banking sector.

2.2.(3). The following relevant provisions of the Registration Act, 1908 should be kept in mind while framing the audit programme.

2.2.(3).(1). SECTION-17 :- Documents of which registration is Compulsory.

2.2.(3).(2). SECTION-18 :- Documents of which registration is Optional.

2.2.(3).(3). SECTION-19 :- Documents in language not understood by Registering Officer.
2.2.[3]. (4). SECTION-21: Description of Property and Maps or Plans.
2.2.[3]. (5). SECTION-22: Description of Houses and Land by Reference to Government Maps or Surveys.
2.2.[3]. (6). SECTION-23: Time for Presenting Documents.
2.2.[3]. (7). SECTION-23(A): Re-Registration of Certain Documents.
2.2.[3]. (8). SECTION-24: Documents executed by Several Persons at Different Times.
2.2.[3]. (9). SECTION-25: Provision where delay in presentation is unavoidable.
2.2.[3]. (10). SECTION-26: Documents Executed out of India.
2.2.[3]. (11). SECTION-27: Wills may be Presented or Deposited at any Time.
2.2.[3]. (12). SECTION-41: Registration of Wills and Authorities to Adopt.
2.2.[3]. (13). SECTION-47: Time from which Registered Documents Operates.
2.2.[3]. (14). SECTION-49: Effect of Non-Registration of Documents Required to be Registered.
2.2.[3]. (15). SECTION-50: Certain Registered Documents Relating to Land to take effect Against unregistered Documents.
2.2.[3]. (16). SECTION-60: Certificate of Registration.
2.2.[3]. (17). SECTION-89: Copies of Certain Orders, Certificates and documents to be sent to Registering officers and filed.
2.2.[3]. (18). SECTION-90: Exemption of Certain Documents executed by or in favour of Government.

2.2.[4]. All provisions of the Companies Act, 1956 are very important to be kept in mind as they deal issues relating to the banking as well as other companies being customers of the banks.

2.2.[5]. The following relevant provisions of the Transfer of property Act, 1882 should be kept in mind while framing the audit programme:

2.2.[5]. (1). SECTION-58: Mortgage, Mortgagor, Mortgagee, Mortgage Money and Mortgage Deed defined
2.2.[5]. (2). SECTION-60: Right of Mortgagor to Redeem.
2.2.[5].(3). **SECTION-60A** :- Obligation to transfer to Third Party Instead of Re-transference to Mortgagor.

2.2.[5].(4). **SECTION-60B** :- Right to Inspection and production of Documents.

2.2.[5].(5). **SECTION-67** :- Right to Foreclosure or Sale.

2.2.[5].(6). **SECTION-68** :- Right to See for Mortgage-Money.

2.2.[5].(7). **SECTION-69** :- Power of Sale when valid.

2.2.[5].(8). **SECTION-100** :- CHARGES :-

Where immovable property is, by act of parties or operation of law, made security for the payment of money to another, and the transaction does not amount to a mortgage, the latter person is said to have a charge on the property; and all the provisions herein before contained.

2.2.[5].(9). **SECTION-114** :- Relief Against Forfeiture for Non-payment of Rent.

2.2.[5].(10). **SECTION-114A** :- Relief Against Forfeiture in Certain other cases.

2.2.[5].(11). **SECTION-117** :- Exemption of leases for Agricultural purposes.

2.2.[5].(12). **SECTION-135** :- Assignment of Rights under policy of Insurance Against Fire.

2.2.[6]. All provisions of the Stamp Act, 1899 are relevant enough, but the most important part is specification of various rates of stamp duty. The determination of such rates is dependent on the decision of concerned State Government, so they are different to different states.

2.2.[7]. The following relevant provisions of the Hindu Succession Act, 1956 should be kept in mind while framing the audit programme:-

2.2.[7].(1). **SECTION-3** :- Definitions and Interpretation.

2.2.[7].(2). **SECTION-6** :- Devolution of Interest in Coparcenary property.

2.2.[7].(3). **SECTION-8** :- General Rules of Succession in the case of Males.

2.2.[7].(4). **SECTION-9** :- Order of Succession among Heirs in the Schedule.

2.2.[7].(5). **SECTION-10** :- Distribution of property among Heirs in class 1 of the Schedule.

2.2.[7].(6). **SECTION-11** :- Distribution of property among
Heirs in class 11 of the Schedule.

2.2.[7].(7). SECTION-12 :— Order of Succession among Agnates & Cognates.

2.2.[7].(8). SECTION-13 :— Computation of Degrees.

2.2.[7].(9). SECTION-14 :— Property of a Female Hindu to be her Absolute property.

2.2.[7].(10). SECTION-15 :— General Rules of Succession in the case of Female Hindus.

2.2.[7].(11). SECTION-16 :— Order of succession and Manner of distribution among Heirs of a Female Hindu.

2.2.[7].(12). SECTION-18 :— Full Blood preferred to half blood.

2.2.[7].(13). SECTION-19 :— Mode of Succession of two or more Heirs.

2.2.[7].(14). SECTION-21 :— Presumption in case of Simultaneous Deaths.

2.2.[7].(15). SECTION-22 :— Preferential Right to Acquire property in certain cases.

2.2.[7].(16). SECTION-23 :— Special Provision Regarding Dwelling-House.

2.2.[7].(17). SECTION-24 :— Certain Widows Re-marrying may not Inherit as widows.

2.2.[7].(18). SECTION-25 :— Murderer Disqualified.

2.2.[7].(19). SECTION-26 :— Convert’s Descendants Disqualified.

2.2.[7].(20). SECTION-27 :— Succession when heir Disqualified.

2.2.[7].(21). SECTION-28 :— Disease, Defect, etc., Not to disqualify.

2.2.[7].(22). SECTION-29 :— Failure of Heirs.

2.2.[7].(23). SECTION-30 :— Testamentary Succession.

2.2.[7].(24). HEIRS IN CLASS-1 AND CLASS-11 SECTION-8 S C H E D U L E.

2.2.[8]. The following relevant provisions of the Specific Relief Act, 1963 should be kept in mind while framing the audit programme:
2.2.[8].(1). SECTION-4 :- Specific Relief to be granted only for enforcing Individual Civil Rights and not for enforcing penal laws.

2.2.[8].(2). SECTION-10 :- Cases in which Specific performance of Contract enforceable.

2.2.[8].(3). SECTION-14 :- Contracts not Specifically Enforceable.

2.2.[9]. Various Schedules of Limitation Act, 1963, specially Part-1, Part-11, Part-111, Part-IV, Part-V, Part-VI and serial No. 113 and 123 of Part-X are to be kept in mind while framing the Audit Programme, as they are essential for determining the Limitation.

2.2.[10]. Before conduct of the audit assignment, the knowledge of the following acts are very essential for proper acceptance of the appointment as in case of the Companies Act as well as for framing the relevant audit programme :-

2.2.[10].(1). Indian Partnership Act, 1932
2.2.[10].(2). Sale of Goods Act, 1930
2.2.[10].(3). Contract Act, 1872

2.2.[11]. The other Acts, though they are not directly relevant should be kept in mind while framing the Audit Programme. These Acts are given herebelow :-

2.2.[11].(1). State Bank of India Act, 1955
2.2.[11].(2). State Bank of India/Subsidiary Banks Act, 1959
2.2.[11].(3). Banking Companies (Acquisition and Transfer of undertaking) Act, 1970
2.2.[11].(4). Life Insurance Corporation Act, 1956
2.2.[11].(5). Co-operative Societies Act, 1912
2.2.[11].(6). Indian Trusts Act, 1882
2.2.[11].(7). Other Acts, if any.

2.2.[12]. Knowledge of Section-27 of General Clauses Act, 1897 is relevant for determining services of notice/other documents for determining the date of service :-

2.2.[12].(1). SECTION-27 :- Meaning of Service by post.

2.3. STUDY OF INSTITUTE'S PUBLICATIONS :-

The two publications namely study of Audit of Bank and Guidance Note on Long Form Audit Reports in Audit of Public Sector Banks deal with the bank audits exhaustively and all
procedures relating to such audits are used to be governed by them. Therefore, it is necessary to present relevant steps here below:

2.3.1. Selection of the staff
2.3.2. Assessment of Internal Control System and its Follow-up
2.3.3. Checking of Return Of Advances
2.3.4. Verification of Documents
2.3.5. GENERAL:

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i. Under the limitation Act, Demand Promissory Note becomes time-barred after every three years. Therefore, the following alternatives are available to renew the same:

a). Confirmation of the balance.
b). Letter of continuity
c). In case of the term loan, the limitation can be remedied by way of deposit of the instalment before expiry of the limitation, as the period of limitation in such case should be counted from the date of last deposit in the respective bank accounts.
d). However, in every case, it is not possible to pursue the borrower. Under such circumstances, it becomes necessary to issue legal notice before expiry of the limitation.

e). The banker should ask further non-encumbrance certificate for twelve years in case of mortgage of the immovable property.
f). In case of partition of the H.U.F. and partition of the joint properties, the portion Deed registered in favour of the borrower alongwith the original Title Deed should be kept in record by the branch. The same should be cared in case of the Gift, though it is very rare.

g). Fresh documents are to be executed on a change in the constitution for the borrower.
h). The immovable property favouring minor or trust can not be freely mortgaged except only for the purpose and benefit of the minor or the trust as the case may be.
i). The mortgage of the immovable property may be effected by either of two ways:

1). Equitable mortgage - Simply by deposit of the Title Deeds.

2). Registered Mortgage.

In case of public limited companies, a resolution of the general meeting of the members approving such mortgage in addition to the Board’s resolution approving the same in required to comply section – 293 (1) (a) of the Companies Act, 1956 as the Board’s power to mortgage is restricted.
2.4. **VALUATION OF SECURITIES**:

Advances are always secured by adequate securities except those cases which are financed under any government sponsored scheme asking no securities. The value of securities may cover the advances either fully or partly. This coverage determines the quantum of secured, unsecured and bad and doubtful portion of the advances. Therefore, checking of the correct valuation is an important part of the Audit Programme. Further it is a skillful task.

2.4.[1]. **Loan Against its own Deposits** :- Valuation of deposits may be made as under:

2.4.[1].(1). **Time Deposits** - Amount of deposit + Interest accrued.

2.4.[1].(2). **Recurring Deposits** - Amount of deposit as per the Pass Book.

2.4.[1].(3). **Cash Certificates** - Value paid into the bank.

2.4.[2]. **Loan Against Insurance Policies** :- Surrender value as per Certificate of the Insurance Corporation.

2.4.[3]. **Loan Against Shares, Securities and Debentures** :-

2.4.[3].(1). **Quoted** - As per quotation of the Stock Exchange near to the date of advance.

2.4.[3].(2). **Unquoted** - Generally financing is avoided.

2.4.[4]. **Mortgage of the Immovable Properties** - As per certificate of the architect or the approved valuer.

2.4.[5]. **Loan Against Gold Ornaments** - As per certificate of the valuer for the quantum of the gold and further by applying current market rate of the gold.

2.4.[6]. **Loan Against Commodities** - Cost or market price of paid and unsold commodities whichever is lower.

2.4.[7]. **Loan Against Hypothecation/pledge of goods Manufactured** - Cost or market price of paid and unsold stocks whichever is lower.

2.4.[8]. **Loan Against Hypothecation/pledge of stocks of a trader** - Purchase Price or Market price of paid and unsold stocks whichever is lower.

2.4.[9]. **Loan Against Hypothecation / pledge of stores and Raw Materials** - Cost or net realisable value of paid and unsold stocks whichever is lower.
NOTE: Generally cash credit limit is sanctioned against all stocks whether be stores, Raw Materials, finished goods and Work-in-progress.

2.4.(10). Loan Against Work-in-progress: Generally at raw material cost plus cost of labour only.

2.4.(11). Loan Against Imported Raw Materials - At cost plus freight charges.

2.4.(12). Loan Against Plant and Machinery - At written down value or at its salvage in case of breakdown or fire.

2.4.(13). Loan Against Agricultural Land - At eight times yearly yield from the land or at price of near by land as per its sale deed of nearly same time whichever is lower.

2.4.(14). Loan Against Standing Crop - At value of the input.

2.4.(15). Loan Against Agricultural Implements - At written down value.

2.4.(16). Transport Loans - Cost of the Vehicle to the borrower before Insurance.

2.4.(17). Loan Against Documents of title - Cost of the Delivery Order of Trust Receipt or Port Trust Receipt or warehouse Receipt as accruing to the owner.

2.4.(18). Loan on the basis of Hire Purchase Documents - At value of the hire purchase documents less instalments paid by the hirer. Valuation of other items may be on customary basis.

2.5. INSURANCE COVERAGE:

 Securities hypothecated or pledged with the bank should be fully covered for the risk of theft, fire, riots or any other unexpected calamity like flood. The insurance cover should be in the joint names of the borrower and the bank. The following should be kept in mind while checking the Insurance cover:

2.5.(1). Full coverage of the securities.
2.5.(2). Joint names of the borrower and the bank.
2.5.(3). Compliance of the Insurance Warranties by the borrower.
2.5.(4). Continuation of the Insurance Policies.

2.6. STOCK REPORTS:

Monthly submission of the stock reports and report of the bank's staff inspecting the stocks is an important part of the procedure for Advances against moveable securities like stocks. This compliance should be thoroughly looked into.
2.7. VERIFICATION OF SECURITIES:

Verification of securities depends upon the nature of securities and on this basis securities should be physically verified as under:

2.7.[1]. The valuation of securities based on the records of the borrowers should be checked at the time of physical inspection, otherwise it may be valued at the branch itself i.e. Shares & Other similar Securities.

2.7.[1]. (1). To reconcile physical existence of securities along with properly executed transfer deeds with the register and

2.7.[1]. (2). To check that the securities accepted are on Bank's approved list.

2.7.[2]. Goods Hypothecations:

2.7.[2]. (1). To reconcile physically the goods with the stock records of the borrower and further to reconcile last stock reports of the borrower with his stock records to ascertain accuracy.

2.7.[2]. (2). Further to check valuation with borrower's records.

2.7.[2]. (3). Further to scrutinize age and movement of the stocks.

2.7.[3]. Gold Ornaments and Bullion: To verify weight physically and reconcile it with shraff's certificate.

2.7.[4]. Pledge of the Goods:

2.7.[4]. (1). To reconcile stock Reports with the balances in the Godown Registers.

2.7.[4]. (2). To test check physically the goods with the Godown Register.

2.7.[4]. (3). Further to test check valuation of the goods with such records including purchase invoices.

2.7.[4]. (4). To check whether the pledged goods are under lock and key of the bank.

2.7.[4]. (5). To check allocation of old stocks slow or non-moving stocks from the Godown Register and their valuation accordingly.

2.8. SCRUTINY OF LEDGERS:

The scrutiny of the ledgers for advances is necessary to find out the health of the accounts in the following manner.
2.9. (5). (1). Pledge Test Checking

2.9. (5). (1). (2). Other Modes 100%

2.9. (5). (2). Other Advances Test Checking covering all high irregular accounts specially those having some unsecured portion of the advances and irregular in submission of the stock Reports wherever required.

2.9. (6). Study of Previous Other Reports - By going through these reports auditor should further find out areas of weaknesses to cover them while checking.

Area of weaknesses Extent of checking
2.9. (6). (1). Major 100%

2.9. (6). (2). Minor Test checking on the basis of nature of advances.

2.9. (7). Study of suit filed cases -

2.9. (7). (1). In suit filed cases, the interest is not credited in the account of the borrower till order of the court, but is kept in a separate register usually called the interest suspense Register. Therefore, to find out the actual balance of the borrower this figure should be kept in mind in addition to the balance outstanding in the ledger.

2.9. (7). (2). To study in detail legal file of the borrower.

2.9. (7). (3). To see the level of follow-up by the branch.

2.9. (7). (4). In case the suit is decided against the bank on account of some defect in the documents, recommend provision for bad and doubtful debts after considering realisability of the Securities, if possible.

2.9. (8). Compromises with borrowers - Due to delay in decision of suits and unexpected future realisation in case of defaulters, the bank is wisely using the tool of compromises with the borrowers by reducing interest and other charges to some extent, but only on approval of the higher authorities.

2.9. (9). Debts Guaranteed by Third Party - In case of guaranteed loans and advances, an auditor should check, in particulars the following:

2.9. (9). (1). The Guarantee Agreement on the prescribed format with required stamp paper.

2.9. (9). (2). Coverage of Guarantee by Credit Guarantee Corporation.

2.9. (9). (2). (1). To check compliance of the terms and conditions of the corporation.
2.8.[1]. Cash credit and Overdraft Accounts -

2.8.[1].(1). Turnover of the accounts by deposits and withdrawals of trading nature.

2.8.[1].(2). Frequency of excess withdrawals over and above the limit.

2.8.[1].(3). Frequency of excess withdrawals over and above the drawing power.

2.8.[2]. Term Loan - Follow-up of the repayment schedule.

2.8.[3]. Pre-shipment Export Advanced Adjustment within the prescribed periods.

2.9. EXTENT OF CHECKING :-

While deciding the extent of checking the auditors should review as under :-

2.9.[1]. To find out secured, unsecured and Bad and Doubtful portion of the advances.

2.9.[2]. Scrutiny of the Accounts -

2.9.[2].(1). Large Advances

2.9.[2].(2). Other Advances

Test checking depending upon the over-dues.

2.9.[3]. Documentation - On the basis of scrutiny of the accounts Stock Reports and Drawing Power Register

2.9.[3].(1). Large Advances

2.9.[3].(2). Other Advances

2.9.[3].(2). (1). New Cases

2.9.[3].(2). (2). Old Cases

Test checking depending upon the extent of irregularities.

2.9.[4]. Valuation of Securities -

2.9.[4].(1). Large Advances

2.9.[4].(2). Other Advances

Test Checking covering all irregular accounts

2.9.[5]. Physical Verification of Securities -

2.9.[5].(1). Large Advances
2.9. (2). (2) Timely lodging of the claims.

2.9. (2). (3) To check reasons for rejection of the claims, if any.

2.9. (10) Areas of weaknesses in the Internal Control 100%

2.9. (11) FLOW CHART OF THE AUDIT PROGRAMME IN NUTSHELL:

- Reconciliation of advance statements with Advances Ledger
- Scrutiny of Advances Ledger
- Assess Status of the borrower.
- Verification of the Documents.
- Physical Verification of the Securities.
- Formulation of the Long Form Audit Report.


Having framed the Audit Programme of checking of segment of the advances, the auditors should further know specific requirements of the long form audit of segment of the advances in accordance with the publication of the Institute styled as Guidance Note on Long Form Audit Reports in Audit of Public Sector Banks. These requirements have been analysed in the following manner:

2.9. (12). (1) Advances:

2.9. (12). (1). (1) Large Advances - To examine all large advances.

(Outstanding in excess of 1% of the advances portfolio of the branch or Rs.1 crore, whichever is less.)

2.9. (12). (1). (2) To recommend the provision required for amounts considered doubtful of recovery in the case of doubtful accounts on the basis of his judgement on the accounts examined in the following manner - Additional recommendation...

<table>
<thead>
<tr>
<th>SL.</th>
<th>Name of the borrower</th>
<th>Outstanding Rs.</th>
<th>Shortfall in security Rs.</th>
<th>Provision Rs.</th>
<th>Reasons for recommendation</th>
</tr>
</thead>
</table>

2.9. (12). (1). (3) To report other adverse features, with their
general nature and illustration, wherever possible e.g., documentation defects, Insurance coverage etc.

2.9.121. (2). To report any significant adverse features in case of other advances in the same manner as in case of large advances.

2.9.121. (3). (1). To ascertain procedure for identifying bad and doubtful debts requiring lodging of guarantee claims.

2.9.121. (3). (2). Then to examine initiation of the appropriate steps for lodging of the claims and such claims in fact lodged.

2.9.121. (3). (3). To obtain status of the claims and further a year-wise break-up of outstanding claims from the management in the following manner:

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>NO.</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Claims as at the beginning of the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Further claims lodged during the year</td>
<td>(A)</td>
<td></td>
</tr>
<tr>
<td>3. Less: Amounts representing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims settled / accepted</td>
<td>(B)</td>
<td></td>
</tr>
<tr>
<td>Claims rejected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as at the year-end (A - B)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.9.121. (3). (4). To report number and amount of claims ought to have been lodged but not yet lodged.

2.9.121. (3). (5). In case the procedure of the bank requires the branch to lodge the claim through another branch/office designated for the purpose by the Bank, the branch auditor should report if the procedure has been implemented and the follow-up action for recovery of such claims duly taken.

2.9.121. (4). (1). To obtain relevant information from a scrutiny of the branch returns.

2.9.121. (4). (2). To furnish details in case of recommended additional provision for doubtful debts.

2.9.121. (5). (1). To obtain a list of cases where legal action for recovery of any advance is authorised by the Board/Local Board.

2.9.121. (5). (2). To examine previous reports on this issue.
2.9.(12).(5).(3). To report each of the accounts for belated legal action.

2.9.(12).(6).(1). To generally examine whether the advances have been properly classified in accordance with the guidelines.

2.9.(12).(6).(2). To examine and report whether the branch has been submitting the information regarding sticky/sick large advances to the controlling authority as per the procedure laid down in this behalf.

2.9.(12).(6).(3). To examine and report whether the branch has been submitting the information regarding sticky/sick large advances to the controlling authority as per the procedure laid down in this behalf.

2.9.(12).(6).(3). In case of initiation of the nursing rehabilitation programmes in respect of any large sick or sticky accounts, to report the status of each such account as at the year-end and any important development in relation thereto, including those after the close of the year.

2.9.(12).(6).(4). To report change in the classification of advances, if any, in opinion of the auditor.

2.9.(12).(8).(1). To report the names of the borrowers without their audited accounts being placed on record in case non-corporate borrowers enjoying aggregate working capital limits or Rs. 10 lacs or more.

2.9.(12).(8).(2). To report as above even in cases of working capital limits of the different branches of the same bank exceeding Rs. 10 lacs in aggregate.
2.9. GENERAL REVIEW OF INTERNAL CONTROL:

The following flow chart will abbreviate General Review of the Internal Controls:

Record in Audit File

All accounts being irregular either by way of over-drawing or defective securities / law value securities Report to the management/or Head Office regularly.

All accounts with-in both the drawing power and the sanctioned limit at all times

To update regularly Drawing power Register and Daily Balance Book.

Market value of goods supported by invoice should be checked by personal enquiry by officers of the branch

Surprise checks in respect of hypothecated goods.

Pledged -

i. To check contents of goods at the time of receipt.
ii. Regular and frequent inspection by the responsible officers in addition to the inspectors.

SEcurities:

i. Registration in favour of the bank, wherever it requires.
ii. Otherwise to create lien on them in favour of the bank.
2.9.[14]. STUDY OF THE LATEST AVAILABLE REPORTS :-

It is a general policy of all banks and the Reserve Bank of India to put controls on the banking operations through internal as well as external agencies. Various audits are usually conducted in this respect like Inspection, Internal Audit, R.B.I. Inspection, Branch Audit, Revenue Audit, Concurrent Audit, etc. As the auditor conducting Long Form Audit may not be in a position of conducting detailed procedure audit due to paucity of time as well as due to same nature of work performed by other agencies. Therefore, he will have to study all these reports to find out areas of weaknesses in the Internal Control System requiring audit coverage and further to report those important shortcomings which would otherwise have been omitted.

2.9.[15]. RELEVANT POINTS FOR PREPARING THE REPORT :-

The following points should be kept in mind before finalising the report :-

2.9.[15]. (1). The report should be unambiguous and meaningful.

2.9.[15]. (2). The report should highlight the material points and further those points which need reforms, in those areas.

2.9.[15]. (3). The auditor should go through the reports of previous auditors / inspectors while framing his report.

2.9.[15]. (4). The auditor should not give cross references of other reports.

2.9.[15]. (5). The most important function of the LFAR is to highlight reforms required in any particular area.
CHAPTER - III

ADVANCES : LARGE ADVANCES :

3.1 GENERAL : There is no literal classification of large or small advances. This classification is made in order to have effective control over advances of material quantum. In absence of specific control over such advances, various frauds and losses have occurred so far. Now such classification gives emphasis on such advances for close as well as stiff control by identifying them. For example, monthly stock statements are submitted both in case of small as well as large business enterprises, but omission in submission of any monthly statement in case of small business does not give any alarming situation as the business is usually conducted by one or two persons dealing all affairs directly. However, in case of large business enterprises there might be some other adverse situations like theft of the stocks, financial crisis, temporary closure in absence of demand of the goods etc. alarming to take precautionary measures in operation of the accounts. Further involvement of the funds in case of large advances remains materially higher than other other advances, hence requiring identification for close controls.

The criteria for identification has been determined by the Reserve Bank of India defining large advances as being 1% of the total advances or Rs. 1.00 lac whichever is higher. Remaining advances come under the category of other advances.

3.2 SCOPE OF EXAMINATION :

In case of large advances there is no excuse but to cover all such advances. The advances should be specifically scrutinized to assess individual position of the accounts, especially to find out quantum of bad & doubtful debts.

Bad and doubtful debts are directly related to the status of the securities covering such advances and by determining shortfall in securities, the quantum of bad and doubtful debts is determined. In order to elaborate this several cases approximately 20 in number, based on the reports of various branches of the Indian Bank, Punjab National Bank, The State Bank of India and Central Bank of India are studied in detail. However, in order to maintain secrecy respective names of the parties have not been disclosed. To clarify, one detailed example is quoted herebelow :-
3.2.1 MR. XYZ INDUSTRIES (PVT.) LTD.: C/6 (Hyp) Limit-Rs.1 lac.

Value of Security : NIL (as no stock statements furnished by the party after December, 1993.)

Outstanding : Rs. 1,48,767.96

The following points are taken into account while considering it as doubtful.

3.2.2 Bank’s charges over assets of the company have not been registered with the ROCs. The consequences of nonregistration are given u/s 125 of the Companies Act, 1956 as under :

"Every charge created by a Company and being a charge to which this section applies, shall so far as any security on the company & property or undertaking is conferred thereby, be void against the liquidator or any creditor of the Company". In this way it becomes an unsecured loan.

3.2.3 Resolution of the Board to raise a loan from the Bank and to open/operate the account is also not placed on records. The importance of such resolution not being passed at the Board Meeting is given u/s 292(1)(C) of the Companies Act, 1956 as described hereunder :

"The Board of Directors shall exercise and shall do so only by means of resolutions passed at meetings of the Board, the power to borrow moneys otherwise than on debentures".

In view of the above, the Company is not liable as the borrowing was ultra-vires the Directors i.e. beyond the powers of the Directors.

3.2.4 No B.C. letter of borrowers has been obtained for 1993, 1994 & 1995, legal notice had been given on 2.8.84 but no response has been received till date. Further it seems that the company is avoiding the liability by taking advantage of above situation.

3.2.5 The account is almost dormant and the party has not submitted inventory of stock after 31.12.83 and there is no operation in the account after 20.1.84 except application of periodical interest.

3.2.6 Shortfall in security - Rs. 1,48,767.96 (Drawing power being Nil).
3.2.7 Also CBC claim is not possible as the bank is not entitled to file a suit due to the borrowing being ultra vires u/s 292 of the Companies Act, 1956.

3.2.8 In view of the above Rs. 1,48,767.96 has been recommended for bad and doubtful debt.

3.3 ASSESSMENT OF REHABILITATION PROGRAMME :-

Rehabilitation programme is a scheme under which sick units are financed in order to nurse them. Such nursing is expected to get normalised the operations and thereby resulting improvement in the profits of such units. Such programme is useful in case of those units for which shortfall of finance has been the major cause of sickness and if the cause is otherwise, nursing will never be fruitful. Therefore, causes of sickness should be assessed before financing such unit under nursing rehabilitation. Further after financing, it becomes necessary to regularly appraise status of such programme, in order to assess whether sickness is improving or not and if not, find out the causes why it is so. On the basis of study of 15 cases of various branches such cases are quoted in detail herebelow:

3.3.1 Cash Credit (Pledge) was sanctioned on 23.8.80 and Term Loan was sanctioned on 25.9.79. Further at the time of sanction of cash credit (Hypothecation) i.e. 28.4.82, the cash credit (Pledge) as well as term loan (the two previous advances) were most irregular as shown under:

<table>
<thead>
<tr>
<th>As on 28.4.82</th>
<th>D.P./Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>C/C (Pledge)</td>
<td>1,02,698.60</td>
</tr>
<tr>
<td>Term Loan</td>
<td>1,78,290.05</td>
</tr>
</tbody>
</table>

There is a rehabilitation programme in the case of M/s ABC Industrial Corporation for nursing this industry which suffered due to riots and fire during the assassination of our late Prime Minister Smt. Indira Gandhi.

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Status as at 31-12-85</th>
<th>Any improvement/ Development during the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>M/s ABC</td>
<td>Old Limit is dormant</td>
<td>i) There is no improvement in old account except Rs. 1,600/- on 16-11-85 has been</td>
</tr>
</tbody>
</table>
New c/c account outstanding Rs. 49610.08 deposited by the party.

Old c/c account outstanding Rs. 51614.66

During 1985, a turnover of Rs. 67404.24 on credit side and Rs. 1,07,015/- on debt side has been noted.

3.3.2 On scrutiny of returns furnished by the branch, we have come to know that Form-D has not been prepared by the branch instead of the fact that the account of XYZ Steel Ltd. under nursing scheme is having an outstanding of Rs. 14.99 lacs (cash credit) Rs. 12.49 lacs (Term Loan -1) and Rs. 3.04 lacs (Term Loan -11) i.e., over Rs. 5 lacs. In view of this we may say that reporting to the designated authority regarding the sick/sticky advances is not proper for a true and meaningful appraisal of the status of the advances. The position of sick unit coming under the nursing programme is given below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Status as at the year end</th>
<th>Any important developments including those after the close of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>XYZ Steel</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Outstanding limit</td>
<td>Outstanding as on: Rs. in lacs</td>
</tr>
<tr>
<td></td>
<td>Rs. in lacs</td>
<td>Rs. in lacs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>31.12.85</td>
</tr>
<tr>
<td>Cash Cr.</td>
<td>14.98</td>
<td>14.00</td>
</tr>
<tr>
<td>Term Loan1</td>
<td>12.49</td>
<td>18.25</td>
</tr>
<tr>
<td>Term Loan2</td>
<td>3.04</td>
<td>4.37</td>
</tr>
</tbody>
</table>

Credit summations (Cash Credit) for the year 1986 Rs. 1.06 crores. It shows healthy developments under the nursing programme. The following adverse features have been noticed by us while checking such advances.

3.4. OTHER ADVERSE FEATURES: In view of concentrating various major adverse features in the segment of large advances, such features may be specified under different heads. In order to analyse those features, a number of cases, nearly 100, have been studied practically. However, names of respective branches as well as of customers have not been disclosed for maintaining secrecy.
Out of these cases, few of them are given here under:

3.4.1.

<table>
<thead>
<tr>
<th>SL. No.</th>
<th>Ledger No.</th>
<th>Nature *</th>
<th>Name of Borrower</th>
<th>Limit and date of sanction</th>
<th>Balance as on 31.3.92</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>5/109</td>
<td>Agriculture T/L</td>
<td>Mr. ABC</td>
<td>Rs. 1 lac on 24th October, 1991</td>
<td>Rs. 109044/-</td>
<td>has crossed the sanctioned limit due to application of interest and charge of hypothecation is not registered with R.T.O. (REFER LCA/3 &amp; LCA/6)</td>
</tr>
</tbody>
</table>

3.4.2.

| 2.     | 5/120      |                | Mr. XYZ | Rs. 135000/- 141190/- crossed the limit due to application of interest (REFER LCA / 3) |

3.4.3.

| 3.     | 5/26       |                | Mr. DEF | Rs. 80000/- 65240/- Hypothecation is not registered with R.T.O. (REFER LCA / 6) |

3.4.4.

| 4.     | 5/110      |                | Mr. OPZ | Rs. 85000/- 81325/- -- do -- (REFER LCA / 6) |

3.4.5.

| 5.     | 5/116      |                | Mr. HIJ | Rs. 86000/- 80123/- -- do -- (REFER LCA / 6) |

3.4.6.

| 6.     | 5/47       |                | Mr. MMD | Rs. 76000/- 84556/- Four half yearly instalments and intt. are overdue. A/c is going to be sick. Insurance renewal is not made since 9.11.91 (REFER LCA/3 & LCA/5) |

3.4.7.

| 7.     | 5/86       |                | Mr. RST | Rs. 75000/- on 13.11.90 95149/- very irregular. Balance has crossed limit by Rs. 20149/- Party has not deposited even a single instalment since the disbursement of loan. Branch has also not made any effort for recovery. Insurance has been expired on 13.12.91 (REFER LCA/3 & LCA/5) |
3.4.8.
ABC STEEL PRODUCTS: - OCC

Limit Sanctioned: 36 lacs
Balance D/O on 31.12.87: 47,69,446.61

REMARKS: -

Party has been sanctioned Rs. 10 lacs adhoc along with regular limit of Rs. 36 lacs. However balances outstanding at the end of the year crosses the limit sanctioned altogether. Immediate steps must be taken to regularise the account. As per the sanction, Equitable Mortgage must be created on house property of Shri XYZ valued at Rs. 6.16 lacs. Situated at Jhajjar Road, Rohtak. Original title deed was sent to Rohtak Branch for the opinion of the advocate as the deeds have been misplaced. As per Branch Manager’s explanation, they are arranging for duplicate Title Deed. Terms of sanction stipulate that branch has to the effect that their advances to the firm will not come below, Rs. 10 lacs.

Branch did not receive any such declaration from relatives and friends. Insurance of goods and property mortgaged is not held by the branch. As per manager’s view there is no necessity of Insurance of goods, but in my opinion, insurance of goods for theft & burglary along with fire must be obtained. D-26 not filled-up completely.

(REFER LCA/3, LCA/2, LCA/1 & LCA/5 )

3.4.9 DEF WIRE & WIRE PRODUCTS: - Sanctioning Authority: -
Zonal Manager Bal. o/s.

Limit Sanctioned - DCC : - 2,20,000/- 2,45,913.92
MTL Building : - 1,83,000/- 2,16,471.84
MTL Machinery : - 3,80,000/- 3,72,246.72

Balance in case of DCC and MTL Building has crossed the sanctioned limit. Originally the sanction was made on 28.9.85 for one year amount, no renewal of sanction has been obtained by the branch. similarly, in other facilities also no renewal of sanction is obtained. Party is not regular in payments. D-16 is not filled-up completely. There is no proof of latest premium deposit of LIC which is kept as additional security. Stock sheets sent by the party does not contain description of materials and other details like opening balance, Purchases and Sales.

(REFER LCA/3, LCA/1, LCA/5 & LCA/2 )

3.4.10 GH POLYMERS: - Sanctioning Authority: - Regional Manager Limit DCA: - Rs. 1,50,000.00

Balance outstanding on 31.12.87 : 1,87,120.31 Account is irregular in the sense that balance has crossed the limit. Insurance has not been obtained for building.

(REFER LCA/3 & LCA/5 )

3.4.11 IO INDUSTRIES: - Sanctioning Authority: - Zonal Manager
Limit: - Rs. 19.5 lacs

Balance outstanding on 31.12.87: 
( 4,91,520.23 )
( 8,71,350.25 )

Bank has no inventory statement of party as on 31.12.87 hence
market value shown in statement could not be verified. Stock statement dated 4.1.88 was on file which shows the opening balance of Rs. 5,81,555.00. This again creates a doubt whether the party has sufficient stock as on 31st Dec., 87 to cover the outstanding balance on 31.12.87

(REFER LCA/1 & LCA/2)

3.4.12. KL ROADWAYS :- Over Draft R.I.,Ps Limit :- 5,25,000.00
Balance outstanding as on 31.12.87 :- 6,08,697.91
The account is irregular as balance is increasing continuously due to interest. Immediate steps must be taken to recover the amount. Proof of payment of Insurance Premium is not on record. Documents are not complete. D.P.N. on record is of 11.12.84, However, the balance confirmation on 15.9.86 has been obtained.

(REFER LCA/3, LCA/5 & LCA/1)

3.4.13 MNO :- Over draft R.I.,Ps Limit :- 4,90,000.00
Balance outstanding as on 31.12.87 :- Rs. 6,50,363.56
Account is quite irregular as balance has crossed the limit Rs. 1,60,363.56

(REFER LCA/3)

3.4.14 PQ TRADERS :-

Over Draft Limit :- 2,00,000.00
Outstanding Balance on 31.12.87 :- 2,13,158.09
Balance has crossed the limit by Rs. 13,158.09

(REFER LCA / 3)

3.4.15 QR TRAVELLS :-

Loan Limit (M.T.L.) :- 1,70,000.00
Outstanding Balance on 31.12.87 :- 1,95,652.04

D-18 and D-57 were found blank. Letter of authority from borrower authorising M/s. ABC Machines to pay instalment of loan directly to Bank, not held by the branch.

The account is irregular as the balance has crossed the limit by Rs. 25,652.04.

(REFER LCA/1 & LCA/3)

3.4.16 RS :-

Medium Term Agricultural Loan Limit :- 31,58,600.00
Outstanding Balance on 31.12.87 :- 78,120.00
D.P.N. of 5.4.82 is not on record. No balance confirmation has been received in the year.

(REFER LCA / 1)

3.4.17 DEMAND LOAN AGAINST DEPOSITS :-

MR. XYZ

Limit : Rs. 1,40,000/-
Outstanding : Rs. 1,81,197/-
The loan was sanctioned in favour of Mr. XYZ but the amount has been transferred to C/A 75 of M/s ABC industries, as such, it cannot be taken for the use and benefit of the minor whose FDRs were taken under lien.

(REFER LCA / 1 & LCA / 7 )

( RESPECTIVE ADVERSE FEATURE )

3.4.18 OVER DRAFT :-

DEF INDUSTRIAL CORPORATION :-

Limit :- Rs. 1,21,650/-
Outstanding :- 1,34,041.27

The following are the REPETITIVE ADVERSE FEATURE regarding this loan :-

(i). PNB - 727, Agreement of overdraft has not been detained and placed on record.

(ii). Following FDRs have not been discharged across the revenue stamp : 8/82, 7/82, 6/82, 84/82, 100/81, 50/80, 7/81, 98/81, 99/81, 117/83 and 19/80 amounting to Rs. 65,700/-

(iii). FDR 19/80 amounting to Rs. 5,000/- has not been discharged at all.

(iv). Following FDRs have become due for payment but those have not been appropriated against the overdraft and pending for adjustment for over one year :- 100/81, 125/81, 98/81, 99/81, 44/81, 6/81, 5/81 amounting to Rs. 46,000/-

(v). Out of 20 FDRs pledged in account except one FDR No. 117/83 for Rs. 10,000/- favouring Smt. RST, all FDRs stand in the name of minors but none has been discharged on behalf of the minor instead these FDRs have been discharged in individual capacity.

(vi). Overdraft limit to the firm has been set up against FDRs issued in the name of minors for business purpose, as such the amount of loan cannot be treated for the use and benefit of the minors. Moreover, undertaking from the natural guardian of the minors in terms of L & A circular no. 106/80 has not been obtained and placed on record.

(vii). Documents and FDRs have been signed and discharged in the individual capacity instead as a natural guardian of the minors as prescribed in L & A circular 106/80.

(REFER LCA/1 & LCA/7 )

CASH CREDIT :-

3.4.19 DEF INDUSTRIAL CORPORATION :-

Cash Credit Limit Rs. 50,000/- ( New ) Outstanding Rs. 49,610.08 D.P. 45,050/-

Cash Credit Limit Rs. 50,000/- ( Old ) Outstanding

C-8
Rs. 51,614.66 D.F. Nil

Term Loan Limit  Rs. 18,000/- Outstanding
Rs. 13,043.70

(i). Insurance for Rs. 1,00,000/- against goods hypothecated and for Rs. 30,000/-against Plant & Machinery has been informed by the branch but no policy cover was on record.

(ii). The borrower is not regular in submitting inventory of stocks, after October 1984.

(iii). It has been reported that party has lost all the securities hypothecated to the Bank during the recent riots and a fresh limit of Rs. 50,000/- has been sanctioned for rehabilitation of the unit. The stocks were NOT INSURED in the old account as such insurance claim could not be obtained.

(iv). Old cash credit and Term Loan account are uncovered now as all stocks of raw materials and finished goods etc. have been destroyed in fire and/or by looting. Proposal for converting cash credit (old) account into Term Loan and rescheduling of the instalments has not been submitted to higher authorities for sanction. An early action in the matter is required to safeguard bank interest.

(v). The new limit was irregular by an amount of Rs. 4,550.68 and entire outstandings have become overdue under the old limits till rescheduling of the old limit.

( (ii) to (iv) as above are REPETITIVE ADVERSE FEATURES )
(REFER LCA/5, LCA/1, LCA/2, LCA/3 & LCA/7 )

3.4.80 GHI Industrial Development chains (P) Ltd. :-

Cash Credit limit :- 4 Lacs outstanding Rs. 4,93,900.64
D.P. Rs. 5,26,000/-

The following sub-limits were sanctioned on 18.9.80 :-

**PARTICULARS**

<table>
<thead>
<tr>
<th></th>
<th>SUB- LIMITS (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Raw material</td>
<td>2.65 lacs</td>
</tr>
<tr>
<td>ii. Finished Goods</td>
<td>0.45 lacs</td>
</tr>
<tr>
<td>iii. Stock-in-process</td>
<td>0.90 lacs</td>
</tr>
</tbody>
</table>

But the account was operated in such a manner that all outstanding has been merged in to one account and no control as sanctioned above would be possible.

(REFER LCA / 1 & LCA / 2 )
3.4.21 KLM ELECTRONICS:

i. Cash Credit Limit Rs. 2 lacs
   Outstanding Rs. 200235.72

ii. ABC Limit Rs. 2.5 lacs
    Outstanding Rs. 84975.45

iii. Term Loan Limit Rs. 1.50 lacs
     Outstanding Rs. 118707.30

D.P. against C/C Limit : Rs. 350100/-

(Raw Material)

Further following sublimits have been sanctioned:

Against Raw Material Rs. 1.45 lacs
Against Finished Goods Rs. 0.55 lacs

But as per stocks report of 31.12.85 entire limit has
been allowed against Raw Material.

(REFER LCA / 1 )

3.4.22 NOP LIMINATORS:

Limit as at

<table>
<thead>
<tr>
<th>Nature</th>
<th>Date of Sanction</th>
<th>Limit Rs.</th>
<th>Outstanding Rs.</th>
<th>Value Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Credit</td>
<td>31.12.85</td>
<td>1 lacs</td>
<td>80,838.60</td>
<td>87,500/-</td>
</tr>
<tr>
<td>Cash Credit</td>
<td>6 lacs</td>
<td>5,16,840.73</td>
<td>6,87,000/-</td>
<td></td>
</tr>
<tr>
<td>ABC</td>
<td>17 lacs</td>
<td>16,36,951.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(i). The following sub-limits have been stipulated under
sanction :

a). Against Raw Material Rs. 3.50 lacs
b). Against Stock-in-process Rs. 1.50 lacs
c). Against Finished goods Rs. 3.50 lacs

But the facility of cash credit has been provided
without having control over the above sub-limits.

(ii). As per sanction , second charge should be created on
block of assets on paripassu basis with UPFC in respect of margin
money loan of Rs. 53,500/- sanctioned by U.P. Government to
cover enhanced facilities but nothing was on record to comply
this condition.

( REPETITIVE ADVERSE FEATURES )

(REFER LCA/1, LCA/2, LCA/6 & LCA/7 )

3.4.23 PQR CABLES:

<table>
<thead>
<tr>
<th>Nature</th>
<th>Date of Sanction</th>
<th>Limit Rs.</th>
<th>Outstanding Rs.</th>
<th>Value Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Credit</td>
<td>23.8.80</td>
<td>1 lacs</td>
<td>1,73,609.20</td>
<td>1,31,000/- (D.P)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rs. 98,250/-</td>
</tr>
<tr>
<td>Cash Credit</td>
<td>28.4.82</td>
<td>1 lacs</td>
<td>1,48,453.52</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term Loan</td>
<td>25.9.79</td>
<td>1.73 lacs</td>
<td>3,08,537.00</td>
<td>Building &amp; Mach-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>nery (But current value not know.)</td>
</tr>
</tbody>
</table>

C-10
The following REPETITIVE FEATURES still persist in the account:

i. We have been informed that the factory is still closed and not operating since 4 years. Also entire stock is almost more than 4 years old and cannot be sold at the same cost.

ii. The bank is having an equitable mortgage of factory, land and building, current value of which is reported to be approximately Rs. 5 lacs, although latest valuation is not on record.

iii. The party has not submitted any financial statement to the Bank. The net worth of the unit as at present cannot be assessed.

iv. Guarantor of Sri. XYZ has been obtained but no credit report of the guarantor was taken.

v. Machinery and other assets have not been taken into Bank's possession in consultation with the legal counsel to further secure bank advances.

OTHER ADVERSE FEATURES:

-----------------------------

i. In term loan, entire outstanding has become overdue. Also the other two loans have become overdue as the factory is not operating. Although Rs. 8,000/- were deposited on 15.7.85 in Term Loan Account by the extensive follow-up of the Branch Manager.

ii. Policy cover was not on record but we have been informed that the same has been got insured.

iii. After return of C.G.C. claims papers due to technical defects, the same has not been re-submitted by the branch.

The above features show the irregular advancing of cash credit (hypothecation) even knowing the doubtful position of the party. It is again evidenced by the fact that the factory was closed immediately after taking the advantage of second cash credit facility on 28.4.82.

Further we should know that hypothecation is a floating charge whereas pledge and term loan with mortgage are fixed charges and fixed charges always dominate. The floating charge should not be allowed where the party had absconded in fulfilling its obligations regarding advances with fixed charges.

At last, no vital action has been taken by the controlling authorities against the incumbent incharge for inadquate reports and irregular financing causing the entire
outstanding becoming overdue.
(REFER LCA/1, LCA/2, LCA/3, LCA/4, LCA/5, LCA/7 & LCA/8)

3.4.24 HIJ STEEL FABRICATORS:

<table>
<thead>
<tr>
<th>NATURE</th>
<th>LIMIT</th>
<th>OUTSTANDING Rs.</th>
<th>D.P./V.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Credit(Hyp.)</td>
<td>1.35 lacs</td>
<td>1,32,335.03</td>
<td>1,34,970/-</td>
</tr>
<tr>
<td>Term Loan</td>
<td>1.08 lacs</td>
<td>55,924.00</td>
<td>1.75 lacs</td>
</tr>
<tr>
<td>Term Loan</td>
<td>0.55 lacs</td>
<td>53,464.60</td>
<td>0.74 lacs</td>
</tr>
</tbody>
</table>

i). As per R.M. sanction, following sub-limit have been fixed:
   a). Advances against Raw Materials  0.75 lacs
   b). Advances against stock-in-process  0.17 lacs
   c). Advances against finished goods  0.43 lacs

   But the compliance with and control over above sub-limits have not been done while releasing the limits at various points of time.

ii). We have been informed that stock register still has not been maintained by the party.

iii). Entry in the Title Deed register for the revised position of limit has not been made and letter of continuity for the same has not been obtained.

   (REPETITIVE ADVERSE FEATURES MENTIONED ABOVE)
   (REFER LCA/1, LCA/2 & LCA/7)

3.4.25 UVW Allied Auto Industries ( Pvt. ) Ltd.:

Cash Credit (Hyp.) limit - 1 lacs V.S/D.P. Nil
Outstandings : Rs. 1,48,767.96

i). The cash credit limit was released in anticipation of R.M. sanction but the case had not been sanctioned by Regional Manager.

ii). The account is almost dormant and the party has not submitted inventory of stock after 31.12.83 and also the there is no operation in the account after 20.1.84 except application of periodical interest.

iii). Credit Reports on the borrower and guarantor have not been placed on record before releasing the limits. One credit report on the borrower is available on record but it has not been signed by any office of the bank.

iv). Bank’s charge over assets of the company has not been got registered with the ROCs.
v). Personal guarantee of Shri DEF, one of the directors, has been obtained but agreement of guarantee has neither been witnessed nor it has been signed on behalf of bank.

vi). Resolution of the company to raise a loan from the bank and to open the account is also not placed on record.

vii). Account is the most irregular one.


ix). Duly signed DPN is held blank.

( REPEITIVE ADVERSE FEATURES as mentioned above )

OTHER ADVERSE FEATURES :-

i). We have been informed that stocks are insured but policy cover has not been shown to us.

ii). The account should be transferred to protested advances.

iii). Sufficiency of stock is irrelevant as the claim is not maintainable under law.

(REFER LCA/1, LCA/3, LCA/5, LCA/6, LCA/7 & LCA/9 )

3.4.26 MNO International :

<table>
<thead>
<tr>
<th>Nature</th>
<th>Limit</th>
<th>Outstanding</th>
<th>D.P. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Credit(Pledge)</td>
<td>5 lacs</td>
<td>5,20,738.50</td>
<td>5,05,102.50</td>
</tr>
<tr>
<td>Cash Credit(Hyp.)</td>
<td>6 lacs</td>
<td>5,70,591.84</td>
<td>6,15,320.62</td>
</tr>
<tr>
<td>A B C</td>
<td>7 lacs</td>
<td>7,14,242.90</td>
<td></td>
</tr>
</tbody>
</table>

( Limit recently revised till June, 1986 )

Continuity clause has not been incorporated in Agreement of Guarantee i.e. , PNB - 58.

( REPEITIVE ADVERSE FEATURES )

(REFER LCA/1 & LCA/7 )

3.4.27 LMN Ice Factory :- Limit Rs. 2.61 lacs against Plant & Machinery and building sanctioned by R.M., Kanpur on 27.3.84 for purchase of Ice Cans, Air Blower, Ammonia Fittings etc.

Outstanding Rs. 5,20,962.62

1). The additional limit of Rs. 45,000/- was sanctioned by R.M. with the stipulation that Rs. 1 lacs will be repaid by the borrower in 1984 towards instalments but borrower has paid Rs. 5500/- during 1984 and nothing during 1985.

ii). Additional loan was disbursed through the same old Term Loan Account although separate loan documents have been obtained.
iii). A sum of Rs. 45,600/- has been disbursed against the sanction of Rs. 45,000/- Rs. 600 was wrongly disbursed by infringing the R.M.'s sanction.

iv). Equitable mortgage of the immovable property has been accepted as collateral security but entry in the title deed register for additional limit has not been made.

v). Current Credit Report was not on record.

("REpetitive adverse features as mentioned above")

vi). The account has become overdue and sticky in nature.

(REFER LCA/3, LCA/1 & LCA/7)

3.4.28 M/S. DEF STEEL LTD.

<table>
<thead>
<tr>
<th>CASH CREDIT (Hyp.)</th>
<th>Outstanding</th>
<th>Rs. 14.98 lacs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Loan -1</td>
<td>Outstanding</td>
<td>Rs. 12.49 lacs</td>
</tr>
<tr>
<td>Term Loan -11</td>
<td>Outstanding</td>
<td>Rs. 3.05 lacs</td>
</tr>
</tbody>
</table>

1). The unit is under nursing programme.

2). Copy of the resolution required U/S. 292 (1) (c) authorising the directors to execute the documents and the certificates for creation of charge running pari-passu with U.P.F.C. are not held on record (Persistant Adverse Features)

3). Memorandum and Articles of Association are not held on record.

4). Insurance cover is not produced for our verification.

5). Tripartite agreement amongst UPFC, SBI & Company is not held on record.

6). Company's receivables are at high level creating a doubt for realisation of certain percentage thereof:

<table>
<thead>
<tr>
<th>Exceeding six months</th>
<th>1984-85</th>
<th>1985-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considered good</td>
<td>22.03 lacs</td>
<td>24.29 lacs</td>
</tr>
<tr>
<td>Considered doubtful</td>
<td>0.66 lacs</td>
<td>0.66 lacs</td>
</tr>
</tbody>
</table>

The above position should be rectified by lowering the quantum of debts exceeding six months.

7). A resolution U/s. 293 (1) (d) in the General Meeting of the company has not been passed. It becomes necessary if the title borrowings (apart from temporary ones) exceed the paid up capital plus free reserves of the company.

8). While scrutinising the stock statements as at 31.3.86 on the basis of the Balance Sheet as at 31.3.86, it has been found that there is a difference in the quantities
of castings under the Finished goods. The quantities of castings as per stock statements and as per Balance Sheet are 53.801 M.T. and 53.001 (i.e. 63.851 - 10.850). Moreover, the values of the aforesaid items as per stock statement and as per Balance Sheet differ.

Further the stocks of raw materials as per stock statement is Rs. 17,86,902/-. However, while calculating the D.P. total value of stocks of raw materials has been taken as Rs. 7,86,092/-.

Therefore, it has affected total value of stocks by Rs. 10.00 lacs, been outstanding under the head of clean bills till date. Moreover, no evidence is shown for clearance of these outstandings, lying on the date of the audit.

The aforesaid D.D. purchases have been financed through the head Branch clearing Account instead of D.D.S. (Bills) purchases Account e.g.

6. 9.85 Rs. 24,492.60 Documentary
21.12.85 Rs. 27,290.06 Documentary
9. 16.86 Rs. 4,304.00 Clean

9). DEFERRED PAYMENT GUARANTEE:

a). The total loan under deferred payment guarantee was granted for a sum of Rs. 83.55 lacs payable to the various machine suppliers in 14 equal instalments under IDBI Bills rediscounting scheme.

However, the instalments have been paid through pledge account meant for working capital requirements.

b). When the facility granted in the nature of term loan the rate of interest should have been 18% instead of 16.5% prevailing on term loans.

c). Moreover, in case of guarantee facility, the payment is required on failure of the borrower to satisfy his obligations. If the borrower is granted a term loan advance through pledge account, it will not be treated as a guarantee.

10). Memorandum and Articles of Association were not produced for our verification.

11). We have noticed the following differences in balance as on 31.10.85 while comparing figures as per the latest audited balance sheet of the company with the outstandings as per pledge account in the books of the banks.

<table>
<thead>
<tr>
<th>Account of the Company</th>
<th>Outstandings as per Books</th>
<th>Outstandings as per Books of the branch</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. Pledge Account 1,27,49,393 1,27,72,190 Unexplained
   (Debit)

2. Cane-Price - C/A 3,351 1,926 \[\text{--- do ---}\]

12). Guarantee :-

A guarantee of Rs. 13.5 lacs is disclosed under the head contingent liabilities. However, the amount of guarantee is deducted from the drawing power of the pledge account instead of issuing such guarantee on the strength of deposits. In other words, the guarantee was issued on the strength of the stock of the company, moreover, the guarantee is not renewed during the year. Therefore, it is to be excluded from the books of the branch.

(REFER LCA/1, LCA/2, LCA/3, LCA/4, LCA/7 & LCA/8)

3.4.29. DEF & HID (AGRICULTURAL TERM LOAN)

---

Year of sanction 1977 outstanding: 13.41 lacs.
Transferred to protested Bills during 1986.
The loan was granted for the construction of godowns to be let to the F.C.I. the rent of the godowns was deposited upto May, 1983. Thereafter, the period of agreement with F.C.I. had expired and further agreement had been made by borrower for 2 years without intimating the bank and nothing deposited in the account afterwards; however, the management did not make sufficient pursual for altering the aforesaid action of the borrowers. In fact, HIJ has taken the same loan from Pharena branch and defalcated their payments in the same manner. The market value of the land and buildings is estimated to be Rs. 13 lacs approx.

(REFER LCA/1, LCA/2, LCA/3 & LCA/8)

3.4.29 A. BRANCH RETURNS:

---

Columns in branch Return are not filled completely, for example, in case of term loan, date of opinion for guarantorworth is not given. Remarks columns are left blank in all most all the cases. These columns have their own importance towards providing the necessary informations regarding borrower account. It is also suggested that each columns of the returns must be filled properly.

(REFER LCA / 8)

3.4.30 M/S. XYZ EXPORTS PVT. LTD. (CASH CREDIT)

Limit :- Rs. 8,00,000/- from 16.6.87
Balance on 31.3.89 :- Rs. 4,85,365.01 only.

OBJECTION :-

---

i). Insurance renewal was not available with the bank.
ii). Proof of registration of charge of bank on borrowers property with Registrar of companies is not available with the bank.

iii). Stock statement as on 31.3.89 is not received by the bank.

(REFER LCA/2, LCA/5, LCA/6)

### 3.4.31. M/S. CDF INTERNATIONAL :-( (CASH CREDIT)

<table>
<thead>
<tr>
<th>Limit : Rs. 9,00,000/- from 16.5.83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as on 31.3.89 : Rs. 8,75,291.78 only</td>
</tr>
</tbody>
</table>

Insurance of above firm has been expired since February, 1989 but no renewal was made till date of audit.

(REFER LCA / 5)

### 3.4.32 BRANCH RETURNS :-

All columns of Branch returns are not filled and in case of Term Loan, no. of Installments overdue and date of last deposit is not given. In this regard efforts must be made. In case of loan against security TDR etc. date of maturity etc. are not given.

(REFER LCA / 8)

### 3.4.33 ABC INTERNATIONAL :-

Limit sanctioned : Rs. 9,00,000/- Balance outstanding on 31.12.87 :- 9,83,879.77

- Account is irregular to the extent it is overdrawn from the sanctioned limit.
- Sanction letter was not produced before us, hence , we can't comment whether all the terms and conditions to be met out by the borrower have been met out.
- Renewal of sanction is not advised during the year.
- Worth of Guarantor Rs. 25,00,000/- is not supported by approved valuer’s report.
- Partnership deed could not be made available for our verification.

(REFER LCA/3 & LCA/1)

### 3.4.34 DEF EXPORTS (PVT.) LTD. :-

<table>
<thead>
<tr>
<th>Limit sanctioned is Rs. 8,00,000/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>&amp; Bal. D/s. on 31.12.87 : Rs. 8,77,536.37</td>
</tr>
</tbody>
</table>

- Account is irregular as it crossed the sanctioned limit of Rs. 8 lacs by Rs. 77,536.37 only.
- As per advocate’s advice, before taking equitable
mortgage of the property of the borrower, sanction of Nagar Mahapalika must be taken. But it is not done.

- Guarantor of ABC International & this company is same. Both are sister concerns. It becomes necessary to procure the valuation report of Guarantor’s worth.

- Renewal of sanction is pending for the year.

(REFER LCA/3 & LCA/1)

3.4.35 M.T.L HIJ TRANSPORT CO. :- Limit sanctioned is Rs. 8,35,000/-

Monthly instalment to be paid Rs. 9,800/- drawing power on 31.12.87 was Rs. 39,575.00 and the balance outstanding as on 31.12.87 :- Rs. 2,62,514.55 only.

A loan of Rs. 8,35,000/- was sanctioned to the firm for purchasing three trucks by Regional Office. However, borrower availed only Rs. 4,70,775.00 which is shown in statement is not correct. Account is irregular as the borrower is depositing amount less than the stipulated amount of instalment of Rs. 9,800.00 per month.

As per explanations given to us, the party is willing for delaying the payment. As the amount is secured by Equitable Mortgage and Guarantee, it is advisable that notice must be served on the guarantor for immediate recovery. Inspection Report is not available, hence frequency of inspection is satisfactory or not could not be commented by us. Valuation of Guarantor worth is not procured.

(REFER LCA/3, LCA/1, LCA/4, LCA/2)

3.4.36 M/S ABC EMPLOYEE SCHOOL (Term Loan)

Limit :- Rs. 2,51,000/- on 31.10.83

Drawing Power :- Rs. NIL

Balance as on 31.3.89 :- Rs. 4,68,670.50 only.

Account is overdue by Rs. 4,68,670.50 only legal action must be taken to recover the amount.

(REFER LCA / 3)

3.4.37 M/S DEF BISCUIT MANUFACTURING CO. :- (Term Loan)

Limit :- Rs. 5,00,000/- on 6.8.81

Drawing Power :- NIL

Balance as on 31.3.89 :- Rs. 5,20,223.90 only.

Account is overdue by Rs. 5,20,223.90 list of machinery which is financed by the bank was not available for our verification. Amount is overdue since very long. Legal action must be taken to recover the amount immediately.

(REFER LCA/3, LCA/1 & LCA/4)

3.4.38 M/S HIJ BISCUIT MANUFACTURING CO. :- (Cash Credit)

Limit :- Rs. 3,00,000/- on 14.10.81

C-18
3.4.39 In case of protested bills (Form-A) quantum of third party guarantee covers the present as well as original outstanding at the time of transfer. Therefore, the amount may be recovered by guarantor and cannot be classified as protested / Bad & Doubtful. However, it is recommended to transfer those outstandings in the protested bills which are not recoverable / covered by the guarantors of third parties and in such circumstances, the worth of guarantee of third parties should be shown as or should be less than the outstandings transferred.

E.g. Amount of Rs. 8,607.20 in 331 segment was transferred to the Protested Bills while worth of guarantor had been disclosed by Rs. 50,000/- covering full outstandings.

(REFER LCA/3)

3.4.40 In several cases, drawing power has been wrongly filled into the advance statements e.g. Agricultural Advances in absence of the primary / collateral security, it should be NIL. Also in several cases the column of MARKET value is left blank.

(REFER LCA/B)

3.4.41 Inspection Register (For advances) has not been properly maintained by the branch. Various entries have been written by pencil and various cuttings are noted by us. Also register is not complete as well as up to date.

(REFER LCA/4 & LCA/B)

3.4.42 In the segment of demand loan (against TDR / SDR), it is recommended to add a column for interest charged by the branch, as it will enable the controlling authorities to look after the correct rate of interest charged at the branch by comparing it with the column of interest earned on securities. It is due to the fluctuating rate of chargeable interest depending upon the interest already earned on the securities.

(REFER LCA/B)

3.4.43 In several cases, Drawing Power has been wrongly filled into the advance statements e.g. Agricultural Advances in absence of the primary / collateral security, it should be NIL. Also in several cases the column of market value is left blank.

(REFER LCA/B)

3.4.44 In Form-E, there are so many irregular advances which should be transferred to Form-B (Debts - Recalled Account) for further action. Further the aforesaid inclusion of the most irregular advances in Form-E causes in over statement of the regular advances. Therefore, it is advisable to give the discretionary powers to the Branch Managers for transferring such advances to Form-B (Debts - Recalled Account) without waiting for approval and the controlling authority will analyse the same and instruct the branches thereafter. Moreover, several
time-barring cases are given in Form E instead of transferring them to Debts-Recalled / Protested bills on merit basis.

(REFER LCA / B)

3.4.45 Statement-3 of the Form 3 CD of the income-tax meant for tax audit U/S. 44AB contains a note - "Original cost of assets upto Rs. 5,000/- charged off to revenue need not be included above."

In such case, it is recommended that those capital assets should be charged off to revenue which come under the definition of Plant & Machinery as per the Income-tax Act for example, a purchase of dining table amounting to Rs. 3,160/- is an item for welfare of staff instead of being furniture meant for functioning of the bank. Therefore, such kind of expenditure cannot be treated as plant & machinery chargeable to revenue.

(REFER LCA / B)

3.4.46 A credit balance of Rs. 41.01 in Agricultural Term Loan advances has been deducted from the Debit balance of other Agricultural Term Loan Advances due to the nonavailability of any column in the yearly abstract disclosing the same. However, it is recommended that such credits should be transferred to the sundry deposit A/C, instead of affecting the gross figure of advances.

(REFER LCA / B)

3.4.47

<table>
<thead>
<tr>
<th>SR. No.</th>
<th>Name of Party</th>
<th>A/C Nature</th>
<th>Limit</th>
<th>No. of Loan</th>
<th>Sanctioned th</th>
<th>As on Date</th>
<th>Code 31.3.98</th>
</tr>
</thead>
<tbody>
<tr>
<td>1L</td>
<td>Shri BCD</td>
<td>T/L</td>
<td>2,77,000</td>
<td>45</td>
<td>21.7.87</td>
<td>150170.56</td>
<td>It is loan for Road Transport operation. Hypothecation of vehicle is not registered with R.T.O.</td>
</tr>
<tr>
<td>2L</td>
<td>Shri HIJ</td>
<td>T/L</td>
<td>2,80,000</td>
<td>70</td>
<td>25.7.87</td>
<td>89116.54</td>
<td>This loan was sanctioned by Regional Office in addition to original limit sanctioned of Rs. 2,00,000/- in. The Branch Manager disbursed a further additional loan of Rs. 75,000/- without having any loan power to do so. This must be liquidated at once. Further, no insurance of property is taken, the bank money is under risk.</td>
</tr>
<tr>
<td>3L</td>
<td>Shri XYZ</td>
<td>T/L</td>
<td>75,000</td>
<td>89</td>
<td>6.10.89</td>
<td>2</td>
<td>79894.30 (REFER LCA/3)</td>
</tr>
<tr>
<td>4L</td>
<td>Shri DEF</td>
<td>T/L</td>
<td>250 lacs</td>
<td>C/C</td>
<td>30 lacs</td>
<td>100 lacs</td>
<td>100 lacs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Bank Guar-</td>
<td>4.7.89</td>
<td>4.7.89</td>
<td>5.10.89</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>162</td>
<td>162</td>
<td>162</td>
<td></td>
</tr>
</tbody>
</table>

C-20
Irregularities came to notice:-

i. There is no proof in record of the branch that the bank's 1st charge on company's "Fixed & Current Assets" is registered with Registrar of Companies Calcutta/U.P. This is a serious objection as without this, bank has no security against such type of advances.

(REFER LCA / 6)

ii. Equitable Mortgage on land property is defective because almost all such properties are situated in areas covered under the Urban Land Ceiling Act and as per the Bank's legal adviser, a prior permission from relevant Urban Land Ceiling Authority must be procured before registering the mortgage. But, it was not done even in a single case. Out of the above said properties, now properties have defective title, which has not been regularised till now.

(REFER LCA / 1)

iii. In case of T/L sanctioned to company for Tankers & Trucks, it was found that Bank has no proof of registering the charge of hypothecation with R.T.O. even on a single vehicle. Insurance cover is procured on the said vehicles. Sale letters are also not available on record. However, on inspecting the unit, we found that most of the papers are submitted by the party to the branch, but due to improper filling, these are not traceable.

(REFER LCA/1 & LCA/6)

iv. The branch has only one resolution of company dt. 21.02.89 according to which company is empowered only to raise its funds from state Bank of India upto Rs. 350 lacs, as permanent facility and Rs. 1 crore as short term temporary facility. It was assured to us that the new resolution covering the raised borrowing powers of the company has been timely passed. It is advised that copy of this resolution must be procured immediately for branch record.

(REFER LCA / 1)

M/s. KLM 67 C/C 3,59,000 9.8.89 1 347359.51 It was observed that during the year under audit on following dates withdrawals were allowed over the sanctioned limit :

<table>
<thead>
<tr>
<th>DATE</th>
<th>AMOUNT DRAWN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.89</td>
<td>3,00,110.63</td>
</tr>
<tr>
<td>4.10.89</td>
<td>3,70,110.63</td>
</tr>
<tr>
<td>5.10.89</td>
<td>3,54,168.63</td>
</tr>
<tr>
<td>24.02.90</td>
<td>3,54,157.18</td>
</tr>
</tbody>
</table>

(REFER LCA / 3)

3.4.88 HOUSING LOAN (TERM LOAN ACCOUNT) :-

A/C. NAME OF MATURE SANCTIO BALANCE AS DRAWING BANKS HEALTH INSTA-
NO. PARTY OF LOAN ON ONEED ON 31.3.90 POWER ON HEALTH CODE IMENT
LD LIMIT 31.3.90 CODE TO BE IN

C-21
ARREAR

84 M/S POR T/L 397000 359603.70 347370.00 1 2 1+INTT.

REMARKS :- Drawing Power wrongly calculated hence treated as regular.
(REFER LCA/2 & LCA/3)

3.4.49

<table>
<thead>
<tr>
<th>SL.</th>
<th>NAME OF BORROWER</th>
<th>A/C NO.</th>
<th>TYPE OF LOAN</th>
<th>LIMIT SANCTIONED AS ON &amp; DT. OF SAN.</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shri ABC</td>
<td>1 / 94</td>
<td>Agricultural</td>
<td>75,000/- dt. 1,02,366.50</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Term Loan</td>
<td>18.11.99</td>
<td></td>
</tr>
</tbody>
</table>

OBSERVATIONS :- Account is very irregular as it has crossed the sanctioned limit by Rs. 27,366.50. This shows that Borrower is neither paying instalments nor interest, four half yearly instalments are overdue. Interest is charged excess by Rs. 1117.13 during the year.
(REFER LCA / 3)

2 Shri DEF 1 /74 Agricultural 77000 81000.10 Balance has crossed the limit by Rs. 4002.18 for half yearly instalments are overdue. Bank has charged excess interest by Rs. 896.59 during the year under audit.
(REFER LCA / 3)

3.4.50 M/S. XYZ EXPORTS PVT. LTD. (Cash Credit)
Limit :- Rs. 0.00,000 from 16.6.1987
Balance on 31.3.1989 :- Rs. 4,85,365.01 only

OBJECTION :-
Insurance renewal was not available with the Bank.
Proof of registration of charge on bank on borrowers property with Registrar of Companies is not available with the Bank.
Stock statement as on 31.3.1989 is not received by the Bank.
(REFER LCA/2, LCA/5 & LVA/6)

3.4.51 M/S. ABC INTERNATIONAL ; (Cash Credit)
Limit :- Rs. 0.00,000 from 16.5.1983
Balance as on 31.3.89 Rs. 8,75,291.78 only
Insurance of above firm has been expired since February, 1989 but no renewal was made till date of audit.
(REFER LCA/5)

3.4.52 PQR BISCUIT MANUFACTURING CO ; (Cash Credit)
Limit :- Rs. 5,00,000 on 14.10.1981
Balance on 31.3.1989 :- Rs. 3,52,205.59 only
Account is overdue by Rs. 52,205.59 only and branch manager is also of the opinion that it is willful default. Hence immediate steps must be taken to regularise the account.

C-22
3.4.53 M.T.L. ABC TRANSPORT CO. :-

Limit Sanctioned is Rs. 8,35,000.00 Monthly instalment to be paid Rs. 9,800.00. Drawing power on 31.12.87 was Rs. 39,575.00 and the balance outstanding as on 31.12.87 Rs. 2,62,514.45 only. A loan of Rs. 8,35,000.00 was sanctioned to the firm for purchasing three trucks by Regional Office. However, borrower availed only Rs. 4,70,775.00, which shown in statement, is not correct. Account is irregular as the borrower is depositing amount less than the stipulated amount of instalment of Rs. 9,800.00 per month.

As per explanations given to us, the party is will fully delaying the payment. As the amount is secured by Equitable Mortgage and Guarantee, it is advisable that notice must be served-on to the guarantor for immediate recovery. Inspection Report is not available, hence frequency of inspection is satisfactory or not could not be commented by us. Valuation of Guarantor worth is not procured.

(REFER LCA/1, LCA/2, LCA/3, LCA/4 & LCA/8)

3.5 CRITICAL ANALYSIS :- On the basis of case studies of various branches of the nationalised banks, various adverse features have been noticed in case of large advances. In order to analyse these features they have been classified in different groups. These groups have been codified and further identified by cross referring relevant cases.

3.5.1 DOCUMENTATION DEFECTS :- ( LCA/1 )

Documentation is an initial point of the execution of the advances. In case of any controversy / legal action documentation plays a dominant role. Various deviations in documentation of the advance have been noticed during the course of case studies. Few of such deviations have been generalised as under :-

a). Misplacement of original documents of the immovable properties in case of equitable Mortgage.

b). Violation/ non-fulfilment of the various terms of the sanction advice like omission of undertaking from the friends & relatives not to withdraw their deposits from the borrower upto certain extent.

c). Blank/incomplete documents held on record.

d). Non-renewal of documents, wherever required.

e). Omission of the balance confirmation

f). Omission of undertaking or lien on income/any service wherever it is required.

g). Violation of the rule for the use and benefit of the minor
whose FDRs were taken under lien.

h). Improper/No discharge of the FDRs taken under lien.

i). Non-adjustment of FDRs against overdrafts on maturity.

j). Sanction by improper authority.

k). No control over operation of sub-limits e.g., all credit facility availed under one sub-limit.

l). Non-submission of regular financial statements giving no clue for the current net worth.

m). Credit Report of the guarantor and borrower not available.

n). Delay in submission/re-submission of CBC claims papers.

o). Incomplete Registers e.g., Title Deed Register not having full information of the equitable mortgages.

p). Letter of continuity not obtained.

q). Release of the limit without sanction.

r). Defective execution of the Guarantee Agreement e.g., unsigned by the bank, non-witnessed etc.

s). Omission of the resolution by the company to realise a loan from the bank.

t). Continuity clause not incorporated in the Agreement of Guarantee.

u). Additional term loan disbursed through the same old term loan account.

v). Excess disbursement over the sanction.

w). In case of finance to companies, the Memorandum and Articles of Association not gone through.

x). Omission of the resolution required to be passed U/S. 293 (1)(d) in the General Meeting of the company in case borrowing (apart from temporary ones) exceeding the paid up capital plus free reserves.

y). Non-renewal of the guarantee in each year.

z). Expired guarantees not excluded from the books of branch.

za). Material Guarantor's worth represented by Immovable property not supported by approved valuer's report.

zb). Partnership Deed not gone through while financing the firm.
1. Pledge Account 1,27,49,393 1,27,72,190 Unexplained
   (Debit)
2. Cane-Price - C/A 3,351 1,926 --- do ---

12). Guarantee:

A guarantee of Rs. 13.5 lacs is disclosed under the
type of contingent liabilities. However, the amount of guarantee is
deducted from the drawing power of the pledge account instead of
issuing such guarantee on the strength of deposits. In other
words, the guarantee was issued on the strength of the stock of
the company, moreover, the guarantee is not renewed during the
year. Therefore, it is to be excluded from the books of the
branch.

(REFER LCA/1, LCA/2, LCA/3, LCA/4, LCA/7 & LCA/8)

3.4.29. DEF & HID (AGRICULTURAL TERM LOAN)

Year of sanction 1977 outstanding: 13.41 lacs.
Transferred to protested Bills during 1986.
The loan was granted for the construction of godowns to
be let to the F.C.I. the rent of the godowns was deposited up to
May, 1983. Thereafter, the period of agreement with F.C.I. had
expired and further agreement had been made by borrower for 2
years without intimating the bank and nothing deposited in the
account afterwards, however, the management did not make
sufficient pursual for altering the aforesaid action of the
borrowers. In fact, H1J has taken the same loan from Pharenda
branch and defalcated their payments in the same manner. The
market value of the land and buildings is estimated to be Rs. 13
lacs approx.

(REFER LCA/1, LCA/2, LCA/3 & LCA/8)

3.4.29 A. BRANCH RETURNS:

Columns in branch Return are not filled completely, for
example, in case of term loan, date of opinion for guarantor
worth is not given. Remarks columns are left blank in all most
all the cases. These columns have their own importance towards
providing the necessary informations regarding borrower account.
It is also suggested that each column of the returns must be
filled properly.

(REFER LCA/8)

3.4.30 M/S. XYZ EXPORTS PVT. LTD. (CASH CREDIT)
Limit :- Rs. 8,00,000/- from 16.6.87
Balance on 31.3.89 :- Rs. 4,85,365.01 only.

OBSESSION :

i). Insurance renewal was not available with the bank.
zc). Before taking equitable mortgage of the property, NDC from Nagar Mahapalika not taken.

zd). List of Assets financed not procured.

ze). Defective equitable mortgage on the properties situated in the areas covered under the Urban Ceiling Act as a result of prior permission from such authority not being obtained.

zf). Sale letters not obtained from the borrower financed for Tankers & Trucks.

zg). Compliances though duly made, but not available on record.

REFER CASE NOS.: - 3.4.8, 3.4.9, 3.4.11, 3.4.12, 3.4.15, 3.4.16, 3.4.17, 3.4.18, 3.4.19, 3.4.20, 3.4.21, 3.4.22, 3.4.23, 3.4.24, 3.4.25, 3.4.26, 3.4.27, 3.4.28, 3.4.29, 3.4.30, 3.4.33, 3.4.34, 3.4.35, 3.4.37, 3.4.47, 3.4.53

3.5.2 VALUE OF SECURITY :- (LCA / 2)

In case of cash credit, value of the securities determines the drawing power of the borrower and whereas in case of the term loan value of security tells the coverage of the loan whether it is proper. Various deviations have been noticed in practice while determining value of the securities in the following manner :-

a). Submission of defective / incomplete Stock Statements like inclusion of unpaid stock, inclusion of illegible stocks for determining values.

b). Loss of uninsured securities due to circumstances beyond control like fire, riots etc.

c). Non-submission of regular stock statement.

d). No separate valuation of the stocks available for each sublimit.

e). Obsolete stocks due to long closure of the factory.

f). Latest valuation of collateral security not done/available.

g). Non-maintenance of the stock register by the party.

h). Receivables exceeding six months at very high level creating a doubt for its realisation.

i). Difference in quantum of stocks between the stocks, statements and the Annual Accounts at closing date.

j). Wrong calculation of the Drawing Power based on the stocks e.g., under valuation / over valuation of the stocks.
k). Outstanding exceeding the value of securities mortgaged.
REFFER CASE NOS. :- 3.4.8, 3.4.9, 3.4.11, 3.4.19, 3.4.22, 3.4.23, 3.4.24, 3.4.28, 3.4.29, 3.4.30, 3.4.35, 3.4.40, 3.4.50,

3.5.3 OVERDUES :- (LCA / 3)

Overdues are the result of the outstanding instalments and interests. Their nature may differ as under :-

a). Few of the instalments including interest may be outstanding.
b). No single instalment may be deposited.
c). Deposit of meagre amount at various intervals against huge instalments including interest.
d). Overdues may be due to circumstances beyond control like death, riots, floods etc.
e). Overdues due to closure of the entire operations of the establishment.
f). Willful overdues.
g). Overdues of the same borrower in more than one branches of the bank without knowledge of the other branch.
h). Overdues exceeding the sanctioned limit rather the drawing power.
i). Overdues omitted by way of wrong calculation of the stocks.

REFFER CASE NOS. :- 3.4.1, 3.4.2, 3.4.6, 3.4.7, 3.4.8, 3.4.9, 3.4.10, 3.4.12, 3.4.13, 3.4.14, 3.4.15, 3.4.19, 3.4.22, 3.4.23, 3.4.25, 3.4.27, 3.4.28, 3.4.29, 3.4.30, 3.4.33, 3.4.35, 3.4.36, 3.4.37, 3.4.38, 3.4.47, 3.4.48, 3.4.49, 3.4.52, 3.4.53

3.5.4 INSPECTION OF SECURITIES :- (LCA/4)

It is the usual practice of the bank to get periodically inspected all primary securities on the strength of which finances have been sanctioned and released. However, in practice compliance of this important step is lacking of and further cannot be ascertained due to poor maintenance of the inspection Register. Various such major irregularities care mentioned herebelow :-
a). No regular inspection of the securities resulting obsolete stocks in pledge a/c.
b). Inspection of transport vehicles not made periodically in case of Transport loan.
c). In absence of list of assets financed to the borrower,
proper inspection of securities financed as well as hypothecated, not possible.

d). Improper maintenance of the Inspection Register.
   REFER CASE NOS.: - 3.4.23, 3.4.28, 3.4.35, 3.4.37, 3.4.41, 3.4.53

3.5.5 INSURANCE COVERAGE :- ( LCA/5 )

Full value of securities against which the advances have been given, are required to be insured under joint names of the borrower and the banker. However, in actual practice major deviations have been noticed as under :-
a). Non-insurance of the assets-mortgaged / hypothecated.
b). Non-renewal of the insurance coverage already expired.
c). Defective coverage of the insurance e.g., fire/riot/theft coverage omitted.
d). Part of the eligible goods covered under insurance.
e). Insurance cover not in joint names.
   REFER CASE NOS. :- 3.4.6, 3.4.7, 3.4.8, 3.4.9, 3.4.10, 3.4.12, 3.4.19, 3.4.23, 3.4.25, 3.4.30, 3.4.31, 3.4.46, 3.4.47, 3.4.50

3.5.6 REGISTRATION OF CHARGES :- ( LCA/6 )

In order to create charges on mortgaged/hypothecated assets except pledge, registration of such charges are required under various acts. However, in actual practice such registrations have been omitted resulting no / defective creation of such charges in the following manner:-
a). Omission of registration of the charges required under the companies act, 1956.
b). Omission of registration of the charges with R.T.O.
   REFER CASE NOS. :- 3.4.1, 3.4.2, 3.4.3, 3.4.4, 3.4.5, 3.4.22, 3.4.25, 3.4.30, 3.4.47, 3.4.50

3.5.7 REPETITIVE ADVERSE FEATURES :- ( LCA / 7 )

Adverse features found during the course of inspection / audit are used to be rectified by the respective branches. However, in actual practice various adverse features persist in the branch showing either reluctance or deliberate ignorance of the branch. Such repetitive adverse features have always been highlighted e.g., omission of signatures of borrowers on various documents etc. However, the adverse features may persist due to circumstances beyond control like fire, riots etc.
REFER CASE NOS.: 3.4.17, 3.4.18, 3.4.19, 3.4.22, 3.4.23, 3.4.24, 3.4.25, 3.4.26, 3.4.27, 3.4.28.

3.5.8 MISCELLANEOUS :- ( LCA / 8 )

Several adverse features, though not possible to be categorised specifically but important enough, are analysed under this need. These miscellaneous deviations are analysed in the following manner :-

a). Willful sanction of second loan in spite of poor performance of the unit after 1st loan evidenced by closure of the factory immediately after second availment.

b). Credit facility under fixed charges must prevail especially in case of default in credit facility sanctioned under floating charges.

c). No vital action against the incumbent incharge for his willful default.


e). Diversion of funds under pledge/cash credit account for purpose other than working capital e.g., for meeting term loan obligations.

f). In case of the Deferred Payment Guarantee granted in the nature of the term loan, normal rate of interest not charged instead nominal guarantee fee charged.

g). Term Loan funded through some other account, treated as a guarantee.

h). Issue of guarantee on the strength of the stocks instead on the strength of the FDRs.

i). Poor pursual e.g., change in the agreement by the borrower with some other agency affecting the repayment.

j). Loan by the borrower from more than one branches of the same bank. Without knowledge of the other branches.

k). Branch returns improperly filled into or left blank.

l). Wrong classification of the advances.

m). To incorporate column for rate of interest charged by the bank in addition the column of rate of interest earned on the securities like FDR, TDRs etc. under lien for loan against deposits.

n). Credit balances in the loan account not disclosed separately to those of the Debit balances i.e., net debit balances.
o). Further sanctioning to the same party by the branch manager in case previous limit was sanctioned by the Regional Manager.

p). In most of the cases, legal action delayed.

q). Nearly in all cases, no legal action on the guarantor even though loan amount was defaulted by the borrower.

REFER CASE NOS. :- 3.4.23, 3.4.28, 3.4.29, 3.4.29-A, 3.4.32, 3.4.39, 3.4.40, 3.4.41, 3.4.42, 3.4.43, 3.4.44, 3.4.45, 3.4.46, 3.4.47, 3.4.52, 3.5.53

3.5.9 BAD AND DOUBTFUL DEBTS :- (LCA / 9)

Due to procedural or legal violation a debt may become bad and doubtful fully. However, improper coverage of the securities may result a debt, bad and doubtful either fully or partly. However, in case of large advances the quantum of such bad and doubtful debts is generally determined by the procedural / legal violation as well as improper coverage. For example, Non registration of the charge with the Registrar of companies in case of finance to the company , claim not maintainable under law.

REFER CASE NOS. :- 3.4.25