

Key points for Bank Audit 2019

Many of you may have been allotted bank branch audits. I congratulate them heartily. Today, I am sharing with you few things to keep in mind while going for bank branch audit this time. It will be very much relevant for the members performing statutory audits:

1. In view of RBI circulars dated 07.02.2018 and 06.06.2018, in all those borrowal accounts which are categorised as MSME under MSMED Act 2006, whose aggregate credit exposure as on 31.01.2018 and 31.05.2018 from all banks and NBFCs did not exceed Rs. 25 crores and were not NPA as on 31.08.2017, a period of 180 days will be granted instead of usual 90 days from their respective due dates for repayment of all obligations that were overdue as on 01.09.2017 and those fell due between 01.09.2017 and 31.12.2018; and still be classified as standard. Further relaxation is being granted to GST registered entities. All those entities who were registered under GST as on 31.12.2018, period of 150 days will be granted for dues falling due in Jan and Feb 2019, and period of 120 days shall be granted for dues falling due in Mar and Apr 2019 without degrading the account. Time period of usual 90 days shall be applicable for dues falling due from May 1 2019 onwards. However, the time period permitted for repayment shall immediately change to usual 90 days from 1 Jan 2019 itself in respect of those entities who failed to get registered under GST upto 31.12.2018. A uniform provision of 5% shall be made on all such accounts which were overdue beyond 90 days but not classified as NPA due to these circulars. Keep in mind that this relaxation is only for asset classification. There is no relaxation

under income recognition. Hence, interest accrued on these accounts will be recognised as income only when actually realised.

2. New restructuring guidelines had come into effect w.e.f. 12th Feb 2018. All earlier guidelines in respect of resolution of stressed assets (including JLF, SDR, CDR) had been abolished. Consequently, any proceeding pending under any of these guidelines should have immediately come to an end on 12.02.2018. Under these guidelines, any account classified as standard before restructuring, shall immediately be downgraded to sub-standard on restructuring. All other classifications shall continue as usual.

Any account restructured under these guidelines in current financial year should not have been upgraded till 31.03.2019. Further, any account restructured under these guidelines in FY 2017-18 would hardly be eligible for upgradation. You may find such restructured accounts which the bank might have upgraded to standard wrongly.

3. In respect of MSME units, RBI had eased the restructuring guidelines vide circular dated 01.01.2019. As per this circular, any entity classified as MSME under MSMED Act the aggregate exposure to whom (both fund based and non-fund based) from all banks and FIs taken together does not exceed Rs. 25 crores as on 01.01.2019, whose accounts were standard as on 01.01.2019 and continue to be standard till the date of implementation of restructuring, the entity is registered under GST as on the date of implementation of restructuring (except those entities who are exempt from registration under GST laws) and the restructuring package is fully implemented by 31.03.2020, as a onetime relief, these accounts shall continue to be classified as standard even after restructuring.

Please note that this is a onetime measure. Any MSME account who otherwise meets all these conditions, if restructured for the second time, shall immediately be classified as NPA. Any account other than MSME shall also be classified as NPA immediately on restructuring even for the first time. Any MSME account the aggregate exposure to whom exceeds Rs. 25 crores on 01.01.2019 shall also be immediately classified as NPA even for the first restructuring. Eligible MSME accounts can avail the higher repayment period of 180 days in terms of circulars dated 07.02.2018 and 06.06.2018 cited above.

If any borrowal account is not eligible under the above circular dated 01.01.2019, it can be covered under the existing guidelines pertaining to revival of MSME accounts in terms of circular dated 17.03.2016.

4. RBI had vide a circular dated March 13 2018, discontinued issuance of Letters of Undertakings and Letters of Comforts for imports into India. So, you must ascertain that no fresh LoU or LoC has been issued/renewed after 13th March 2018 for import transactions. However, the same is still valid for inland trade.
5. If in respect of any entity, the proceedings under Insolvency and Bankruptcy Code were undergoing or initiated during the year, we must ensure that various provisions/guidelines of the Code as well as orders of NCLT and NCLAT were complied with.
6. We will have to ascertain whether timely information in respect of all accounts having aggregate (both fund based and non fund based) exposure of Rs. 5 crore and above was given to CRILC in compliance with RBI circular dated 22.05.2014 whenever such accounts got classified as SMA (SMA-0 or SMA-1 or SMA-2).
7. Name of the purchaser to be incorporated on the face of the DD/PO etc. w.e.f. 15-09-2018. Though, obviously copies of these

instruments shall not be available with the bank for verification, you can at least test check the system by perusing these instruments issued during your visit to the branch. It is especially to be checked in branches where these instruments are written manually.

8. The RBI, vide notification dated 27.12.2018, had advised all banks to complete filing all types of security interests with CERSAI latest by 31.03.2019. Any security interest be it mortgage of immovable property, intangible assets, stock, book debts, plant & machinery, furniture & fixtures and interest in any under construction building by any agreement or instrument is required to be filed with CERSAI. You should verify whether the same has been completed by 31.03.2019.

While conducting your bank audit assignment, please follow utmost care as the RBI has put in place an enforcement action framework to examine accountability of statutory auditors.

Source courtesy: CAclubindia