

# STATUTORY BRANCH AUDIT

## STANDARD OPERATING PROCEDURE (SOP) DEEMED NPA (TECHNICAL NPA)



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# Why Deemed NPA/Technical NPA !!!

- ❖ Almost all banks are classified NPA based on automated system as stipulated by RBI
- ❖ Manual Intervention are hardly allowed in system without dual verification and also it is not feasible to detect during our Audit as well
- ❖ Our role for identifying Deemed NPA/Technical NPA based on inherent weakness will be crucial
- ❖ Analysis should be restrict to Medium/Large Borrowers. Stressed Accounts to be Selected first based on In-depth Data Analysis and Team Collaboration
- ❖ Last 3 Months SMA-1 & SMA-2 accounts can be part of our Sample

# Crucial Points for In-depth Analysis



- ❖ Stock Statement Analysis
- ❖ Annual Turnover Report (ATOR) Analysis
- ❖ Temporary Over Draft Analysis
- ❖ Short Review Analysis
- ❖ Branch Inspection Report Analysis
- ❖ External Auditors Report Analysis
- ❖ External Site Related Analysis
- ❖ Source of Credit in Statement Analysis

# Stock Statement Analysis

- ❖ Proper analysis of Stock Statement vis a vis Drawing Power to be done with System for any stressed Accounts
- ❖ Wrong Margin on Stock & Debtors are allowed vis a vis Sanction Letter to be checked properly
- ❖ Average Stock & Debtors should be in align with credit summation in account
- ❖ Non Receipt of Stock Statements for 6 Months will be straight away classified as Regular NPA
- ❖ Early Warning Signals are late submission of Stock Statement, unusual stock position, no significant figures changes in Stock Statement etc.

# Annual Turnover Report (ATOR) Analysis

- ❖ ATOR for working capital to be analyzed for stressed Accounts
- ❖ For Calculation of Credit Summation following figures to be excluded;
  - ❖ Temporary Transactions for 1-2 Days with Same Amount
  - ❖ Loan Return
  - ❖ Inward Cheque Bounce (Only Huge Amount)
- ❖ Early Warning Signals are not sufficient credits to serve EMI, Genuine Credit Summation are less than 2 times of Working Capital Limit Sanctioned

# Temporary Over Draft Analysis

- ❖ Frequent TOD in accounts observed during the year to be analyzed properly
- ❖ No. of times TOD exercised during the year and reason for the same to be checked thoroughly
- ❖ Early Warning Signals are TOD allowed to serve EMI, >1 time TOD allowed, discharge of TOD on near due date

# Short Review Analysis

- ❖ Short review note to be analyzed Carefully
- ❖ Regular Renewal/Review has not been within 180 days from the due date will be straight away classified as Regular NPA
- ❖ Early Warning Signals are Short Review done without receiving latest financial documents, Every year Short Review in Accounts Observed, Single Page Short Review with inadequate information observed

## Branch Inspection Report Analysis

- ❖ Latest visit report of branch to check operation of unit
- ❖ Last 3 Inspection report verify for Stressed Accounts
- ❖ Adverse remarks or non operational of factory unit should be cross check with stock statement submitted and Manual drawing power prepared for such accounts
- ❖ Early Warning Signals are Adverse Inspection Report Remarks, Unit Non-operational in Inspection Report however stock statement submitted



# External Auditors Report Analysis

- ❖ Verification of External Auditors Report such as Stock/Internal/Concurrent Audit/ASM/Due Diligence Report
- ❖ Adverse Remarks by External Auditors to be verify and compliance of adverse remarks in reports are rectified or not to be check
- ❖ Early Warning Signals are Shortfall of Drawing Power observed in Latest Stock Audit Report, Persistent Irregularities observed in Internal/Concurrent Audit Report for Specific Borrower, Very Serious Remarks by ASM Auditors, Statutory Liability Default Observed in Due Diligence Report

## External Site Related Analysis

- ❖ GST return filling and frequency check online from GST tab search tax payer
- ❖ Latest External Rating Verification and last updated External Rating (Upgrade/Downgrade/Stable)
- ❖ ROC Compliant to be verify
- ❖ Early Warning Signals are GST Suspended or Cancelled, Downgrade of External Rating, ROC Non Active etc.

## Source of Credit in Statement Analysis

- ❖ Source of credit on last quarter of year to be check in system and analyze
- ❖ Early Warning Signals are Shadow Transactions observed in Account, Usage of Internal Office Accounts for serving EMI and reversal of entries, last date credit from non operational accounts and reversal of entries, Adhoc Limit used for serving EMI on due date

# PRATICLE APPROACH

- **OUR APPROACH WILL NOT TO ACT LIKE FORENSIC AUDITOR/CRIMINAL INVESTIGATION AGENCY**
- **TO GIVE MOC ANYHOW IS NOT TO BE OUR APPROACH**
- **OUR APPROACH IS VERY SIMPLE, NOT TO SAVE BORROWER WHICH ARE IN OUR VIEW GOING TO BE A NPA OR ACTUALLY A NPA**

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Thanking You  
Suggestions are appreciated

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