

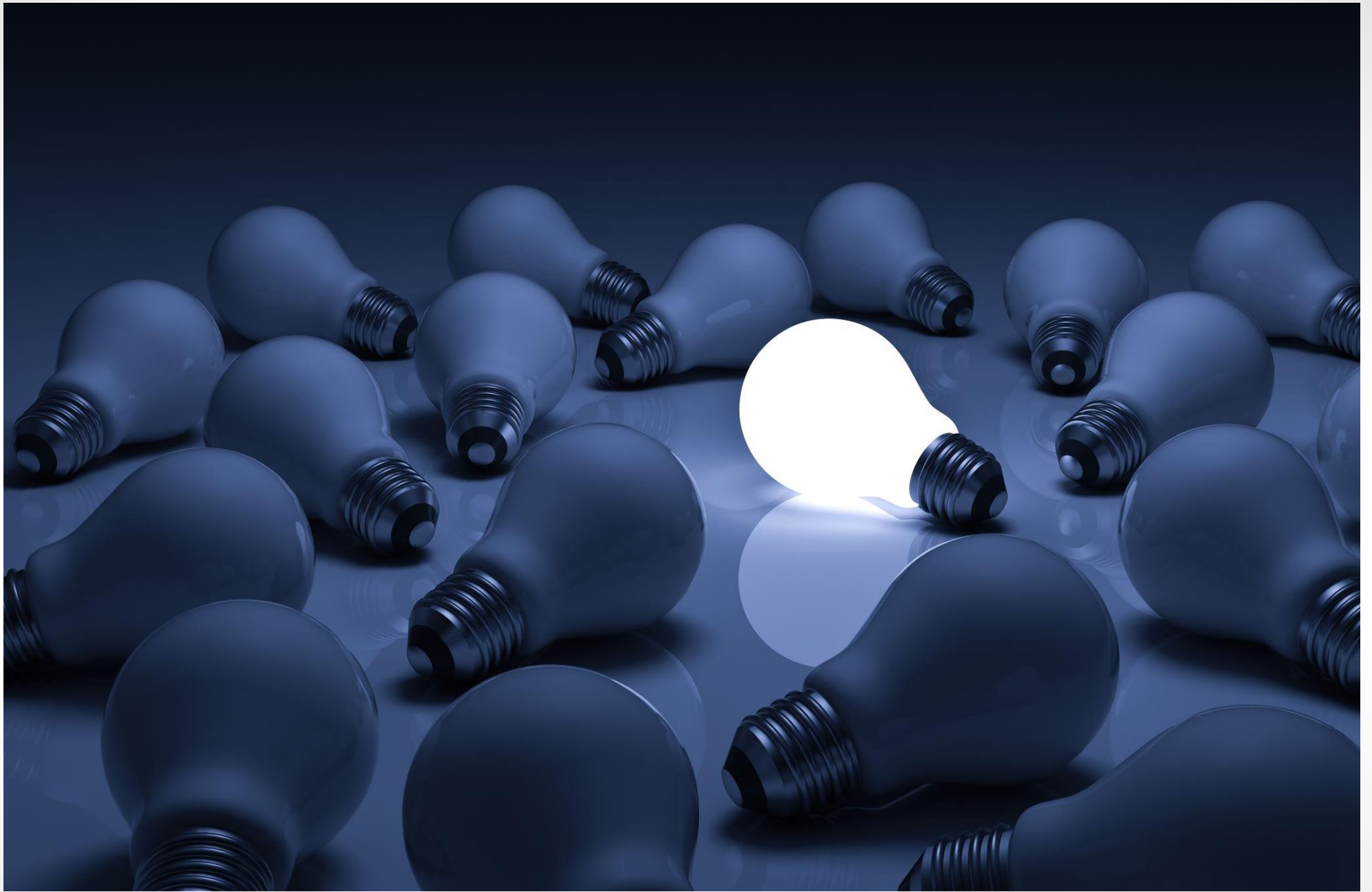


# Technology & Financial world



# *Use of Technology in World of Audit*

Sharing of Insights by CA Arpit Kabra



*“The real problem is not whether machines think but whether, human do”*





*Audit of Bank*

# *Advances*

---

## **General Audit Procedures**

- Appraisal
- Sanction
- Disbursement
- Documentation
- Post disbursements

## **Specific Audit Procedure - Product wise**

- Agriculture Loans
- Housing Loans
- MSME & Priority Sector Loans
- Emergency Credit Line Guarantee Scheme (ECLGS)

## **Funded Loans**

- Term Loans
- Cash Credit
- Overdraft
- Funded Interest Term Loans
- Demand Loans

## **Non-Funded Loans**

- Letter of Credit (LC)
- Bank Guarantee (BG)
- Bills Discounting

# *Checking*

---

## **Potential Window Dressing**

1. Generally at Quarter Ending
2. Transfer from unutilized credit limits to deposit & reverse
3. Allowing loans against such deposits
4. Scheme manipulations (e.g. Non priority advance to priority advance)

## **Ever-greening of Credit facilities**

1. Fictitious book-entries in CC & OD accounts
2. Analysing movement in Accounts Restructured
3. Movement in SMA / Potential NPAs
4. To collect information on Movement in NPA

# *Red flags*

---

## **Manipulation in Fund Routing and funding arrangement**

1. Not routing of sales proceeds through bank
2. Funds coming from other banks to liquidate the outstanding loan amount
3. Funding of the interest by sanctioning additional facilities
4. Movement of an account from one bank to another.
5. Foreign bills remaining outstanding for a long time and tendency for bills to remain overdue
6. Delay observed in payment of outstanding dues
7. Frequent request for general purpose loans.
8. Frequent ad hoc sanctions.

## **Manipulation in Banking Procedures**

1. Request received from the borrower to postpone the inspection of the godown for flimsy reasons
2. Availing finance for the unit from a far away branch
3. Same collateral charged to a number of lenders
4. Dispute on title of the collateral securities
5. Concealment of certain vital documents like master agreement, insurance coverage



# *Red flags*

---

## **Manipulation in Accounting Records and management and operations of company**

1. Under insured or over insured inventory (Refer Stock audit report)
2. Large number of transactions with inter-connected companies and large outstanding from such companies.
3. Significant movements in inventory, receivable and fixed asset, disproportionately higher than the growth in turnover.
4. Disproportionate increase in other current assets.
5. High value RTGS payment to unrelated parties.
6. Significant increase in working capital borrowing as percentage of turnover.
7. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
8. Substantial increase in unbilled revenue year after year.
9. Costing of the project which is in wide variance with standard cost of installation of the project
10. Claims not acknowledged as debt high
11. Frequent change in accounting period and/or accounting policies.
12. In merchanting trade, import leg not revealed to the bank Reduction in the stake of promoter / director
13. Resignation of the key personnel and frequent changes in the management
14. Frequent change in the scope of the project to be undertaken by the borrower



# *Red flags*

---

## **Manipulation in Accounting Records and management and operations of company**

1. Under insured or over insured inventory (Refer Stock audit report)
2. Large number of transactions with inter-connected companies and large outstanding from such companies.
3. Significant movements in inventory, receivable and fixed asset, disproportionately higher than the growth in turnover.
4. Disproportionate increase in other current assets.
5. High value RTGS payment to unrelated parties.
6. Significant increase in working capital borrowing as percentage of turnover.
7. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
8. Substantial increase in unbilled revenue year after year.
9. Costing of the project which is in wide variance with standard cost of installation of the project
10. Claims not acknowledged as debt high
11. Frequent change in accounting period and/or accounting policies.
12. In merchanting trade, import leg not revealed to the bank Reduction in the stake of promoter / director
13. Resignation of the key personnel and frequent changes in the management
14. Frequent change in the scope of the project to be undertaken by the borrower

# *Red flags*

---

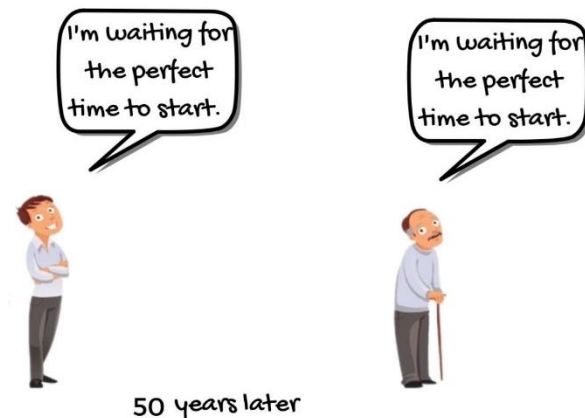
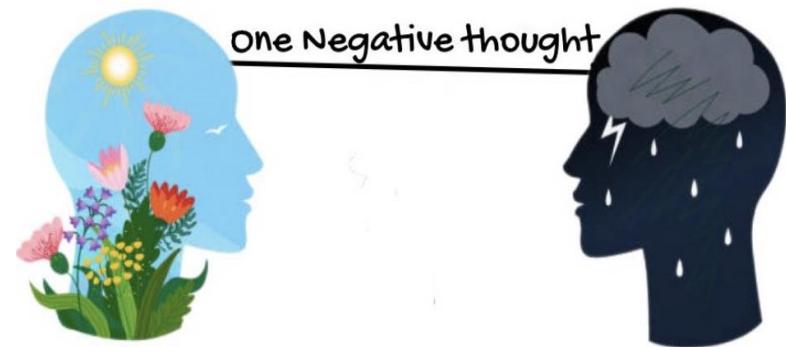
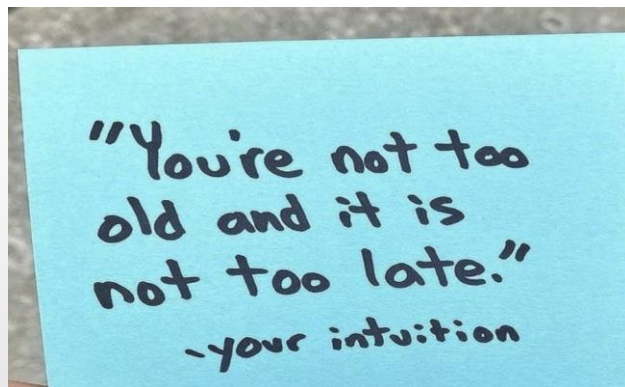
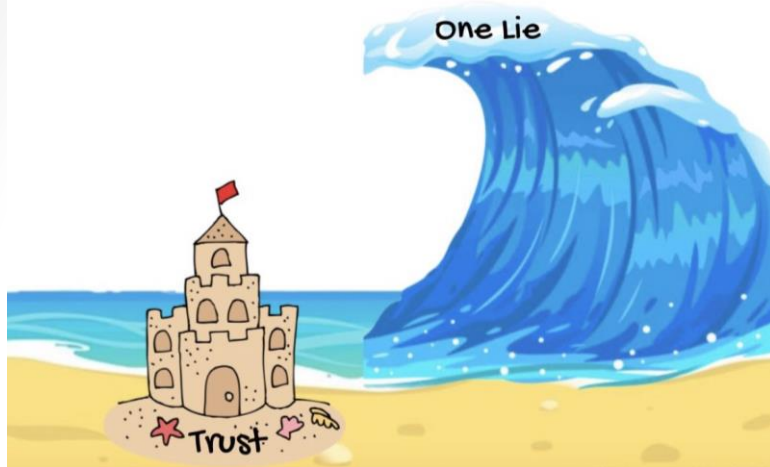
## **Manipulation highlighted in various reports and by other Departments**

1. Raid by Income tax /sales tax/ central excise duty officials
2. Critical issues highlighted in the stock audit report.
3. Liabilities appearing in ROC search report, not reported by the borrower in its annual report.
4. Material discrepancies in the annual report.
5. Significant inconsistencies within the annual report (between various sections).
6. Poor disclosure of materially adverse information and no qualification by the statutory auditors.

## **Manipulation in transactions and documents**

1. Heavy cash withdrawal in loan accounts.
2. Default in payment to the banks/ sundry debtors and other statutory bodies, etc., bouncing of the high value cheques
3. Floating front / associate companies by investing borrowed money
4. Substantial related party transactions.
5. Onerous clause in issue of BG/LC/standby letters of credit
6. Frequent invocation of BGs and devolvement of LCs
7. Non submission of original bills.
8. LCs issued for local trade / related party transactions
9. Invoices devoid of TAN and other details

# Graphical representation



# *Never Say Die !*

---

डुबकियां सिंधु में गोताखोर लगाता है,  
जा जा कर खाली हाथ लौटकर आता है।  
मिलते नहीं सहज ही मोती गहरे पानी में,  
बढ़ता दुगना उत्साह इसी हैरानी में।  
मूट्ठी उसकी खाली हर बार नहीं होती,  
कोशिश करने वालों की कभी हार नहीं होती।

असफलता एक चुनौती है, इसे स्वीकार करो,  
क्या कमी रह गई, देखो और सुधार करो।  
जब तक न सफल हो, नींद चैन को त्यागो तुम,  
संघर्ष का मैदान छोड़ कर मत भागो तुम।  
कुछ किये बिना ही जय जय कार नहीं होती,  
कोशिश करने वालों की कभी हार नहीं होती।

लहरों से डर कर नौका पार नहीं होती,  
कोशिश करने वालों की कभी हार नहीं होती।





Breathe well... and Meditate !  
For any feedback /clarification, please reach out

**CA Arpit Kabra**

[arpitca25@gmail.com](mailto:arpitca25@gmail.com) | +91 70 210 110 60

