

One day Seminar on Urban Co-operative Bank



Nuances of Financial Statements of UCBs and Vital Aspects of Statutory Audit of UCBs

Organised by

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धनंजय ज. गोखले, सनदी लेखापाल
CA Dhananjay J. Gokhale

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Financial Statement Analysis

- Definition of Financial Statement
- Reference made in Auditor's Report
- Format of Financial Statements
 - Schedule III defines BS / PL for SCBs
 - Section 56(zl) for UCBs / RCBs
 - Cash-Flow as per AS-3 of ICAI
 - Notes on accounts (Disclosure Norms circular)
 - Formats vis-à-vis Annexures

Section 56(zl) substitution of Third Schedule – Form of Balance Sheet

FORM A
FORM OF BALANCE-SHEET

CAPITAL AND LIABILITIES	PROPERTY AND ASSETS
Rs. P. Rs.P	Rs. P. Rs. P.
1. CAPITAL:	1. CASH
(i) Authorised CapitalShares of Rs eachShares of Rs. Each	In hand with Reserve Bank ⁴³ [National Bank] State Bank of India, State Co-operative Bank _____ and Central Co-operative Bank
(ii) Subscribed CapitalShares of Rs eachShares of Rs..... each	2. BALANCES WITH OTHER BANKS (i) Current deposits (ii) Savings bank deposits (iii) Fixed deposits
(iii) Amount called up On..... Shares at Rs..... each less called unpaid On..... Shares at Rs..... each less called unpaid of (iii) above, held by	3. MONEY AT CALL AND SHORT NOTICE
(a) Individuals..... (b) Co-operative institutions..... (c) State Government.....	4. INVESTMENTS (i) In Central and State Government securities (at book value) Face value Rs..... Market value Rs.....
2. RESERVE FUND AND OTHER RESERVES:	(iii) Shares in co-operative institutions other than in item (5) below (iv) Other investments (to be specified)
(i) Statutory Reserve (ii) Agricultural (Credit Stabilization Fund) (iii) Building Fund	5. INVESTMENT OUT OF THE PRINCIPAL /SUBSIDIARY STATE PARTNERSHIP FUNDS:

Section 56(zl) substitution of Third Schedule – Form of Profit & Los Account

EXPENDITURE	INCOME
Rs. P. Rs. P.	Rs.P. Rs.P.
1. Interest on deposits, borrowings, etc. . . .	1. Interest and discount. . . .
2. Salaries and allowances and provident fund.	2. Commission, exchange and brokerage
3. Directors' and local committee members' fees and allowances.	3. Subsidies and donations.
4. Rent, taxes, insurance, lighting, etc.	4. Income from non-banking assets and profit from sale of or dealing with such assets.
5. law charges.	5. Other receipts.
6. Postage, telegrams and telephone Charges	6. Loss (if any).
7. Auditor's fees	
8. Depreciation on and repairs to property	
9. Stationery, printing and advertisement, etc.	
10. Loss from sale of or dealing with non-banking assets.	
11. Other expenditure	
12. Balance of profit	

General Instructions.— The corresponding figures (to the nearest rupee, if so desired) for the year immediately preceding the year to which the profit and loss account relates should be shown in separate columns.”.

Financial Statement Analysis

- Nature of Opinion in **Independent Auditor's Report**
 - True & Fair vis-à-vis True & Correct
 - Absolute assurance Vs Limited assurance Vs True & Fair
 - SAAE / Material Mis-statement
 - SA 700 / 705 / 706 / 720
 - SA 705 – Types of Modified Opinion:
Qualified / Adverse Disclaimer of Opinion

Financial Statement Analysis

- Correlation between Audit Report / Certificate / LFAR / MOCs
- Expectation gap about audit by Users of FS
 - Regulator
 - Stakeholders like shareholders
 - Depositors
- Challenges in Audit / Inspection
- Professional Skepticism



You can please some
of the people some of
the time...

But you can't
please all of the
people all of the
time.





Bias approach in Audit Vs Professional Skepticism

Auditor - Watchdog or Bloodhound?

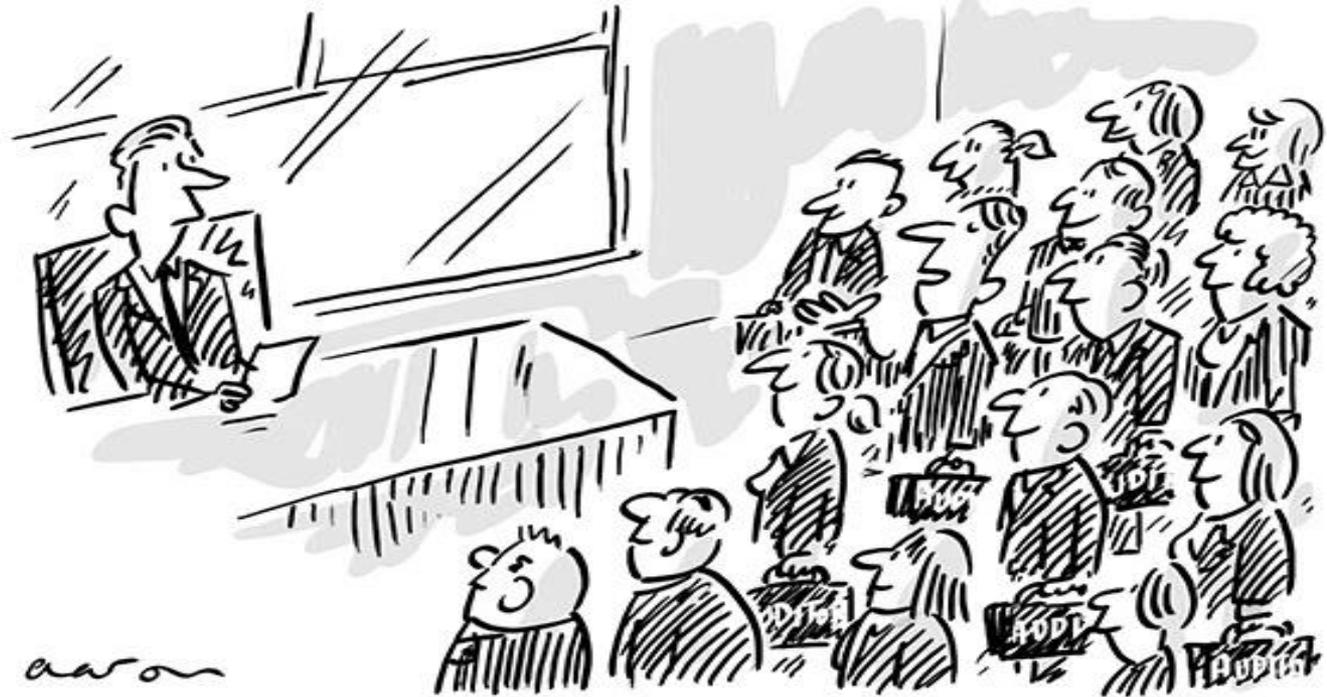


Professional Skepticism !!!



“Well I think you should tell him about the discrepancies we found.”

Testing of Independence and courage to report?



“Following our thorough and extensive cost savings audit, our recommendation is that you spend less on auditors.”

Is saving on audit fees a cost saving?

Financial Statement Analysis

- Who is TCWG in UCBs?
- Regulatory deferment vis-a-vis overriding Accounting Standards
 - Provision for fraud
 - Accounting Standard 15
 - IDR staggering
- Format of LFAR
- Format of Certification (ICAI GN)

Financial Statement Analysis

- Ratio Analysis / Analytical review
- Reasonability in estimates
- Going concern status of an entity
- Liquidity risk
- Excessive provision
 - Whether prudent?
 - Whether to stabilize profits
- PCR adequacy & excessiveness
- Below the line & above the line

Financial Statement Analysis

- Contingent nature v/s accounting
- Revaluation Accounting Reserves —
- Year-end closing of books —
Criticalness in system & actual date

Financial Statement Analysis

- Cyclical nature affecting class of customers
- Too good to be true Financials – whether an alert?
- Robustness of CBS and extent of automation through CBS
- Subjectivity in assessing sustainability of Profits

Financial Statement Analysis

- IDR / BDDR w.r.t. SRs
- Prudential w/off (Investments / Advances)
- Section 15(1) Restriction on payment of dividend - No banking company shall pay any dividend on its shares until all its capitalised expenses (including preliminary expenses, organisation expenses, share-selling commission, brokerage, amounts of losses incurred and any other item of expenditure not represented by tangible assets) have been completely written off.

Financial Statement Analysis

- Applicability of Co-operative Societies Act
- Compliance with Accounting Standards issued by ICAI
- Compliance with Auditing Standards issued by ICAI
- Looking beyond Financials

Disclosures to Financial Statement

RBI Master Direction on Financial Statements - Presentation and Disclosures dated November 28, 2025

- Inter-branch unreconciled entries
- Office Accounts
- Nostro Reconciliation
- Above the line & below the line

Disclosures to Financial Statement

- Provision for Fraud - staggered
- Window dressing
 - Short provisioning
 - Misclassification of NPA
 - Incorrect calculation of exposure/risk weight
 - Incorrect capitalisation of revenue exp
 - Deliberate inflation of assets / liabilities
- Excess BDDR / IDR

Disclosures to Financial Statement

- Divergence in asset classification and provisioning
 - Additional NPA provision $> 5\%$ of reported profit + Tax Prov + Prov for SA & NPA and
 - Incremental GNPA 15% of reported GNPA
- Concentration of deposits, advances, exposures and NPAs
- Disclosure of penalties imposed by the Reserve Bank of India

Vital points w.r.t. FS

- Share Capital – Linkage
- Reserves & Surplus
 - BDDR (charge of Profit)
 - IDR (excess not permitted)
 - IFR (on entire AFS + HFT incl SRs)
- Accounting of NBA
- Accounting of Security Receipts
- Cash & Bank Balances

Accounting Standards

AS	Description
1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statements
4	Contingencies and Events Occurring After the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
7	Construction Contracts
9	Revenue Recognition
10	Property, Plant and Equipment
11	The Effects of Changes in Foreign Exchange Rates
12	Accounting for Government Grants
13	Accounting for Investments

Accounting Standards

AS	Description
14	Accounting for Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
19	Leases
20	Earnings Per Share
21	Consolidated Financial Statements
22	Accounting for Taxes on Income
23	Accounting for Investments in Associates in Consolidated Financial Statements
24	Discontinuing Operations
25	Interim Financial Reporting

Accounting Standards

AS	Description
26	Intangible Assets
27	Financial Reporting of Interests in Joint Ventures
28	Impairment of Assets
29	Provisions, Contingent Liabilities and Contingent Assets

QUESTIONS?



Thank you !!!

CA Dhananjay J. Gokhale

Mobile: 9820047669 / 9322229740

Email: dhan_gokhale@hotmail.com