

REVISED FORMAT OF AUDIT REPORT & LATEST RBI CIRCULARS

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The illiterate of the 21st century will not be those who cannot read or write, but those who cannot learn, unlearn & relearn

.....Alvin Tofler

Questions??

- Why is the new form of reporting important?
- What are the contents of the new format & how is it different from the earlier format?
- [Revised Bank Branch Auditors Report](#)
- Can one modify the report format?
- What care needs to be taken?
- (Withdrawal/ taking back of MOC)

Requirements of SA-700

An audit Report should contain the following.

- (a) A title;
- (b) An addressee, as required by the circumstances of the engagement;
- (c) An introductory paragraph that identifies the financial statements audited;
- (d) A description of the responsibility of management (or other appropriate term, see paragraph 24) for the preparation of the financial statements;
- (e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
 - A reference to Standards on Auditing and the law or regulation; and
 - A description of an audit in accordance with those Standards;

Requirements of SA-700... Contd..

- (f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework
- used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework, see paragraph 37);
- (g) The auditor's signature;
- (h) The date of the auditor's report; and
- (i) The place of signature.

MASTER CIRCULAR ON HOUSING FINANCE

- Bank finance for land acquisition by private parties is not allowed, however, public agencies can avail bank finance subject to certain conditions.
- In case of Real Estate developers, valuation of land should be as per current market price determined by approved valuer's. Valuation of land for security purposes on the basis of discounted value of property after it is fully developed is not allowed.
- TL to private builders must be given only to reputed builders, employing professionally qualified staff. Close monitoring to be done to ensure no funds are used for land speculations.
- Buildings financed should adhere to National Building Code (NBC) formulated by BIS in view of importance of safety of buildings against natural disasters.

MASTER CIRCULAR ON HOUSING FINANCE..... Contd.

- Based on Mumbai HC judgment, loans to builders / developers should have a clause in their sanction terms to disclose on their pamphlets, advertisements, etc. the information regarding mortgage of property to the bank. Further NOC / permission of the mortgagee bank could be given on sale of flats / property.
- No loans to be given for construction activities of Govt. / semi Govt. offices / corporations of Govt. Eg. State Police Hsg. Corpn., where loans are proposed to be repaid out of budgetary allocations, since these are not commercial activities.
- LTV ratio for hsg loans needs to be maintained at 80%. For small loans upto 20 lacs, the LTV ratio can be upto 90%.

MASTER CIRCULAR ON HOUSING FINANCE..... Contd.

- For working out the value out the property, stamp duty, registration & documentation charges should not be included since they are not realizable.
- As regards Hsg. loan for building construction, the applicant applying for loan should own the land, copy of sanction plan should be his / her name, along with an affidavit that he / she will not violate the sanction plan is required to be taken. An architect appointed by bank should certify stage wise constructions.
- In case of Hsg. loan for purchase of built up house / flat, the applicant should give a affidavit / undertaking that the construction has been done as per approved building plan. Completion certificate should also be taken.

MASTER CIRCULAR ON FCNR(B) DEPOSITS

- FCNR(B) deposits accepted prior to Oct-11 were allowed only in the following six currencies from NRI's. (Euro, USD, Jap Yen, pound sterling, Australian Dollars, Canadian Dollars). From Oct-11 deposit can be accepted in any freely convertible currency.
- Maximum maturity period allowed is of 5 years.
- Ceiling on interest rate for respective currency / maturity period would be based on LIBOR / SWAP rates plus 200 / 300 basis points. Interest rates are to be reset every six months.
- Interest on deposits should be calculated on the basis of 360 days a year.
- Recurring deposits should not be accepted under this scheme.
- Loans against these deposits not to exceed Rs 1 cr.

MASTER CIRCULAR ON INTEREST ON ADVANCES

- Interest on advances to be charged on “Base Rate”. Introduced from 1st July, 2010 & extension given upto 30th June, 2011.
- Base Rate (BR) to be applicable for new loans and old loans coming up for renewal. Existing loans under BPLR can continue till maturity.
- DRI advances, loans to banks employee, loan against bank deposits to depositors can be priced without reference to BR.
- Crop loans upto Rs 3 lacs, where interest subvention is available export credit where interest subvention is available, restructured loans where right recommendation is available can be priced below BR.

MC ON LOANS–STATUTORY RESTRICTIONS

- Following loans are prohibited.
 - Advances against bank's own shares .
 - Advances to directors of the bank
 - Restrictions on holding shares in companies of more than 30% of the paid up share capital either as a pledge, mortgage / absolute owner, u/s. 19(2) of the BR Act, 1949
- No loans to be given to directors of other banks (incl. scheduled co-op bank) and their relatives without prior approval of BOD.
- Credit facilities sanctioned to Sr. Officers or relatives should be reported to the board (Sr. officer means grade IV & above of Nationalized Bank).
- Banks should not extend finance to units consuming ODS (Ozone Depleting Substances). Units engaged in foam products, refrigerators and air conditioners, aerosol products, solvents in cleaning application, fire extinguishers consume ODS.
- Advances against primary gold / bullion / silver bullion should not be granted. For advances against gold coins end use of funds to be monitored to avoid speculation in these commodities.

MC ON LOANS–STATUTORY RESTRICTIONS....Contd.

- Earlier many commodities were covered under Selective Credit Control (SCC). Now only following sugar is covered under SCC.
 - Buffer stock of sugar with sugar mills.
 - Unreleased stock of levy and free sugar with sugar mills.
- On levy sugar a minimum margin of 10% of the value of stocks needs to be kept, while on free sugar banks can decide the margin.
- Valuation of sugar to be made as follows.
 - (a) The unreleased stocks of the levy sugar charged to banks as security by the sugar mills shall be valued at levy price fixed by Govt.
 - (b) The unreleased stocks of free sale sugar including buffer stocks of sugar charged to the bank as security by sugar mills, shall be valued at the average of the price realised in the preceding three months (moving average) or the current market price, whichever is lower; the prices for this purpose shall be exclusive of excise duty.

OTHER IMPORTANT CIRCULARS

- Disclosure requirements on re-structured advances.

DBOD.BP.BC.No.80/21.04.132/2012-13 dtd 31/01/2013

- Earlier, banks were required to disclose annually details regarding all re-structured in the books on a cumulative basis even though many of them would have subsequently shown satisfactory performance over a sufficiently long period.
- Now RBI has instructed that once the higher provision and risk weights on re-structured advances (classified as standard either *ab-initio* or *on up gradation from NPA category*) revert bank to the normal level on account of satisfactory performance during the prescribed period, such advances should no longer be required to be disclosed by banks as restructured accounts in the “Notes on Accounts” in their Annual Balance Sheets.

OTHER IMPORTANT CIRCULARS... Contd..

- Home Loans – Levy of pre-payment penalty

DBOD. No. Dir. BC. 107 / 13.03.00/ 2011-12 dtd 05/06/2012

- No foreclosure / pre-payment penalties to be levied on home loans having floating interest rates with immediate effect.

OTHER IMPORTANT CIRCULARS... Contd..

- Interest subvention on crop loans

RPCD.No.FSD.BC.31/05.04.02/2012-13 dtd 28/09/2012

- 2% interest subvention on short term loans upto Rs 3 lacs during 2012-13.
- This amount of subvention will be calculated on the crop loan amount *from the date of its disbursement/drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks for the repayment of the loan, whichever is earlier, subject to a maximum period of one year.*
- Additional interest subvention of 3% is also available to farmers making prompt repayment of loan.

OTHER IMPORTANT CIRCULARS... Contd..

- Interest subvention on crop loans.... Contd.

RPCD.No.FSD.BC.31/05.04.02/2012-13 dtd 28/09/2012

- This subvention will be available to such farmers on a maximum amount of Rs.3 lakh availed of by them during the year, from the date of disbursement/drawal of the crop loan up to the actual date of repayment by farmers or up to the due date fixed by the bank for repayment of crop loan, whichever is earlier, subject to a maximum period of one year from the date of disbursement.
- Claims for 2% interest subvention are to be submitted on half yearly basis and 3% interest subvention on yearly basis.

OTHER IMPORTANT CIRCULARS... Contd..

- Rupee export credit- interest subvention.

DBOD.Dir.(Exp)BC.No.70/04.02.001/2012-13 dtd 14/01/2013

- Interest subvention scheme has been extended to certain employment oriented export sector on pre & post shipment rupee export credit.
- The scheme is available to the following sectors.
 - a) Handicrafts
 - b) Carpet
 - c) Handlooms
 - d) Small & Medium enterprises (SME's)
 - e) Readymade Garments
 - f) Processed Agricultural products
 - g) Sports goods
 - h) Toys
 - i) 134 Tariff lines on Engineering Goods.

OTHER IMPORTANT CIRCULARS... Contd..

- Rupee export credit- interest subvention... Contd..

- Out of the above engineering goods are recently introduced and hence interest subvention on these products will be available for the period Jan-13 to Mar-13
- The amount of subvention will be calculated on the amount of export credit from the date of disbursement
 - Upto the date of repayment or
 - Upto the date beyond which the outstanding export credit becomes overdue.
- Claim is to be submitted quarterly and in case no interest subvention, a NIL statement for the relevant quarter needs to be submitted.
- Banks should charge such an interest rate as per base rate system that after interest subvention, there should be a floor interest rate of 7%.

OTHER IMPORTANT CIRCULARS... Contd..

- Loan sanctioning / review systems

DBOD.BP.BC.No. 62 /21.04.103/2012-13 dtd 21/11/2012

- In case of lending under consortium / multiple banking arrangements, banks are required to share / exchange information about conduct of borrowers accounts at least at a quarterly intervals.
- Information regarding derivative transactions and unhedged foreign currency exposures also required to be shared.
- No fresh sanction of loans / adhoc loans or renewal of new / existing borrowers w.e.f. 01/01/2013 to be done until the above information is available.

OTHER IMPORTANT CIRCULARS... Contd..

- Performance Audit of claims made by the banks under ADWDRS 2008 has been called for by RBI by its circulars dtd 15th January 13 & 7th March 13.

Questions & Answers ?

THANKS !!!

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