hpscb
(Scheduled Bank)

हिमाचल प्रदेश राज्य सहकारी बैंक सीमित
H.P. State Co-operative Bank Ltd.

CREDIT AUDIT POLICY

www.hpscb.com

Credit Audit Policy

The Banking System in our country is one of the pillars of our economy. Now-a-days, banks have become a part and parcel of industrial and commercial activity and their role has become increasingly very important in development of our economy. Hence, the strength of our banking system is one of indicators of our economic strength.

In recent globalization in Indian economy coupled with the introduction of prudential norms for asset classification, income recognitions and capital adequacy have now created a new banking scenario. Now there is severe competition among banks, in all the field of traditional as well as innovative banking activities. Each bank is competing with one another under prevailing circumstances. On account of this, all banks are hard pressed for profitable investment and quality assets. It is now essential to have efficiency in delivery of financial services as well as sophistication in product development and internal control mechanisms based on Credit Audit in banks.

Preamble

Credit Audit examines the compliance of sanctions and post sanction procedures laid down by the bank from time to time. Risk is inherent part of Bank's business. Effective Risk Management is critical to any Bank for achieving financial soundness. Credit Audit aims at achieving continuous improvement in the quality of the Commercial Credit portfolio. Duly aligned with Risk Focused Internal Audit, it examines the probability of default, identifies risks and suggests risk mitigation measures.

The Bank has in place an Audit/Inspection Manual covering supplementary/short inspection, revenue audit, credit portfolio audit, electronic audit for electronic data processing system etc. In continuation to this policy which was circulated vide HOGC No 09/2021-22 dated 20th April 2021, the Bank has framed Credit Audit Policy in accordance with the observations made by Reserve Bank of India vide their letter DBS.CO. PP. D.B.C.10/11.01.005/16-17 dated 19.04.2017.

A. Objectives of Credit Audit

- Improvement in the quality of credit portfolio.
- Reviewing the sanction process and compliance status of large loans.
- Feedback on regulatory compliance.
- Recommending corrective action to improve credit quality, credit administration and credit skills of staff, etc.

B. Functions of Credit Audit Department

- To process Credit Audit Reports.
- To analyze Credit Audit findings and advise the departments/ functionaries concerned.
- To follow up with controlling authorities.
- To apprise the Top Management.
- To process the responses received and arrange for closure of the relative Credit Audit Reports.
- To maintain database of advances subjected to Credit Audit.

C. Scope and Coverage

The focus of credit audit needs to be broadened from the account level to look at the overall portfolio and the credit process being followed. The important areas are:

i) Portfolio Review

Examine the quality of Credit & Investment (Quasi Credit) Portfolio and suggest measures for improvement, reduction of concentrations in certain sectors to levels indicated in the Loan Policy and Prudential Limits suggested by RBI.

ii) Loan Review

- Compliance to the Terms and Conditions stipulated in Loan Policy.
- Compliance to the Sanction Terms and Conditions stipulated in the sanction letter.
- Compliance of pre-disbursement conditions stipulated in the sanction letter.
- Legal Opinion to the effect that the bank has acquired the legal valid title over the property offered as security.
- Confirm the availability of List of document as per Legal Opinion.

- Availability of prescribed loan documents as per Loan Policy/Scheme.
- In case of Term Loan, Confirm the availability of margin money brought in by the borrower.
- Public domain reports such as CIBIL/ other Credit Information Companies, CERSAI, ROC etc., to ensure no adverse feature.
- Pre-sanction visit report/ Due diligence report as & where applicable.
- Engineer Valuation/ Manager Independent Valuation Report for the properties wherever required.
- Ascertaining the availability of Drawing Power before disbursement of Loan Amount.
- Review of the sanction process and status of post sanction processes/ procedures (not just restricted to large accounts) but for all the loan accounts.

D. Action Points for Review

- Verify compliance of bank's laid down policies/schemes and regulatory compliance with regard to sanction Examine adequacy of documentation.
- Conduct the credit risk assessment.
- Examine the conduct of account and follow up looked at by line functionaries.
- Oversee action taken by line functionaries in respect of serious irregularities.

E. Frequency of Review

The frequency of review should vary depending on the magnitude of risk (say, for the high- risk accounts – 6 months, for the average risk accounts- 2 years, for the low-risk accounts- 3 year).

- Feedback on general regulatory compliance.
- Examine adequacy of policies, procedures and practices.
- Review the Credit Risk Assessment methodology.
- Examine reporting system and exceptions thereof.
- Recommend corrective action for credit administration and credit skills of staff.
- Forecast likely happenings in the near future.

Suggestion:- It can be done for loans above Rs. 20.00 lakhs, once in a year by the internal auditors as a part of their audit & its assets audit part can be named as credit audit.

F. Procedure to be followed for Credit Audit

Credit Audit is conducted on site, i.e. at the branch which has appraised the advance and where the main operative credit limits are made available. Reports on conduct of accounts of allocated limits are to be called from the corresponding branches. Every advance under audit would have following stages:-

- Credit Appraisal
- Sanctioning and disbursement
- Review, Monitoring, Supervision and Inspection
- Renewal, Enhancement, Rescheduling, Call back
- Classification as per IRAC norms.

i) Credit Appraisal

The process of granting advances is initiated on receipt of an application from the intending borrower outlining his requirements and detailing his financial strength. The auditor should check:-

- Whether the application received from the borrower is in the prescribed format furnishing his entire borrowing requirement?
- Whether the branch has complied with general guidelines and procedures of the bank for lending, while processing the proposal. These guidelines include assessing the technical feasibility, economic viability and industry performance etc?
- Whether both the receipt of application and processing of the same are properly recorded and documented by the branch?
- Whether the same has been sent to the controlling/sanctioning authority within the time-frame for sanction?

ii) Sanctioning and disbursement

Every bank has got various layers of sanctioning authorities. Hence the auditor has to test check whether the sanctions have been made by particular sanctioning authorities. The auditor should verify the following:-

- Sanction letter properly drawn up and communicated to the borrower and acceptance by the borrower is kept on record.
- Proper documents, correctly stamped, and duly executed are obtained
- Creation / modification of charges with ROC wherever applicable
- Inspection of register of charges is made in the ROC office before and after creating Charge
- Proper valuation of immoveable property by Approved Valuer is made and apparently the valuation is not found on higher side.
- Whether Valuation Report submitted by the Valuer is in Bank's prescribed format.
- Proper mortgage as per guidelines is created.
- Amount disbursed as per prescribed rules and guidelines in order to ensure proper end use of funds.
- Whether specific approval of sanctioning authority is obtained for deviations if any.
- Whether stock statements are obtained where so ever required.

iii) Review, Monitoring, Supervision and Inspection

Monitoring by the branch ensures assess the quality of advances and each bank prescribes various norms for the same. Generally, post disbursement monitoring should include the following:

- Monitoring operations in the accounts like cash withdrawals, diversion of funds etc.
- Conduct of periodical inspections as per terms of sanction and reports in proper format held on record / sent to controlling offices wherever applicable with comments of branch Manager.

- Maintenance of prescribed books and registers like insurance due date register, stock statements register, inspection register, documents due date register etc
- Compliance of laid down guidelines in respect of consortium accounts, like periodical meetings, joint documentation, creation of charge, exchange of information etc.
- Application of prescribed rates of interest, incidental & service charges, processing fees etc
- Periodical review of credit rating followed by revision of rate of interest.

iv) Renewal , Enhancement, Rescheduling, Call back

- If limits are re-aligned or enhanced, necessary documents to be executed.
- All rescheduling/restructuring to be done in accordance with RBI norms.
- To avoid documents from getting time-barred, obtain Letter of acknowledgement of debts & securities or balance confirmation certificate.

v) Classification as per IRAC norms

Advances are classified as Performing and Non-Performing Assets. The banks should follow the Reserve Bank of India's guidelines to classify an advance as Non Performing Asset (NPA) and the proper classification of advances is the primary responsibility of the bank's management. Credit auditors are not required to visit borrowers' factory/ office.

Conclusion

Credit audit system is compliance to the RBI /NABARD/ Government guidelines. It supplements the efforts of the Risk Management Department to strengthen the internal control system of the bank. The Credit audit system shall be a part of Bank's early-warning system to detect irregularities and lapses. It helps checking repeated / recurring violations of the internal and regulatory guidelines in controlling risks and in preventing fraudulent transactions. Credit audit attempts to shorten the interval between a transaction and its examination by an independent person not involved in its execution/documentation. The emphasis is in favour of substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls so as to preclude the incidence of serious errors and fraudulent manipulations.

----

hpscb

(Scheduled Bank)

हिमाचल प्रदेश राज्य सहकारी बैंक सीमित

H.P. State Co-operative Bank Ltd.

Follow us on @hpscblofficial