

# BANK AUDIT

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CASE  
STUDIES



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# 1. Provisioning for secured & unsecured portions in NPA accounts

**Relevant Para from RBI Master Circular (02.04.2024) : Para 5.4 – Asset Classification & Provisioning**

A Ltd. has a Cash Credit (CC) limit of ₹7 Crores with B Bank, secured by a mortgage of land and building valued at ₹5 Crores. In the financial year 2024-25, A Ltd.'s account was classified as a Non-Performing Asset (NPA) under the Substandard Asset Category due to non-repayment of dues.

## **Provisioning Computation:**

### ➤ Auditor's Calculation:

Secured Portion: ₹5 Crores @ 15% = ₹75 Lakhs

Unsecured Portion: ₹2 Crores @ 25% = ₹50 Lakhs

Total Provision Required: ₹125 Lakhs

### ➤ Bank's Computation:

Total Loan Amount: ₹7 Crores @ 15% = ₹105 Lakhs

## **Question**

Is the auditor's computation of provisioning correct, or has the bank correctly calculated the required provision? Please provide your analysis.



## 2. Non-deduction of creditors while computing Drawing Power (DP)

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.4 – Renewal of CC/OD Accounts

B Bank sanctioned Cash Credit (CC) limits to A Ltd. based on Stock and Book Debts as security.

### Key Events:

- The bank regularly computes the Drawing Power (DP) limit; however, during the audit, it was observed that branch officers did not deduct creditor amounts while calculating DP.
- Further review revealed that creditors exceeded the total stock and book debts.
- When questioned, the bank justified that the creditors were within the accepted levels as per the CMA (Credit Monitoring Arrangement) at the time of sanction, and therefore, no deduction was made.

### Question

Analyse whether the bank's explanation is justified from an NPA provisioning and risk assessment perspective.



3.

## Calculation of Drawing Power for CC/ OD account

**XYZ Ltd.**, a manufacturing company, has a **credit facility under a consortium arrangement** from Z bank of **INR 2,500 lakhs (Z bank share is 75%)** which is secured against **stock and book statements**. During the audit, the following computation of Drawing Power by the bank for the account was noted:

### Question

As an auditor, do you agree with this calculation of the Drawing Power?

Particulars	Amount
Raw Material (A)	20,357.69
Finished Goods (B)	1,305.91
Total Stock (A+B) = D	21,663.60
Sundry Creditors (C)	23,951.24
Paid Stock (C-D)	-2,287.64
Margin @25%	-571.91
<b>DP from Stock</b>	<b>-1,715.73</b>
Book Debts upto 90 Days	6,894.24
Margin @40%	2,757.70
<b>DP from Book Debts</b>	<b>4,136.54</b>
<b>Total Drawing Power</b>	<b>2,420.81</b>
Our share (%)	75%
<b>Our Share of DP</b>	<b>1,815.61</b>
Outstanding	1,702.04
<b>Excess/(Shortage)</b>	<b>113.57</b>

3.

## Calculation of Drawing Power for CC/ OD account

Particulars	Calculation as per bank	Calculation as per auditor
Raw Material (A)	20,357.69	20,357.69
Finished Goods (B)	1,305.91	1,305.91
Total Stock (A+B) = D	21,663.60	21,663.60
Sundry Creditors (C)	23,951.24	23,951.24
Paid Stock (C-D)	(2,287.64)	(2,287.64)
Margin @25%	(571.91)	
<b>DP from Stock</b>	<b>(1,715.73)</b>	<b>(2,287.64)</b>
Book Debts upto 90 Days	6,894.24	6,894.24
Margin @40%	2,757.70	2,757.70
<b>DP from Book Debts</b>	<b>4,136.54</b>	<b>4,136.54</b>
<b>Total Drawing Power</b>	<b>2,420.81</b>	<b>1,848.90</b>
Our share (%)	75%	75%
<b>Our Share of DP</b>	<b>1,815.61</b>	<b>1,386.68</b>
Outstanding	1,702.04	1,702.04
<b>Excess/(Shortage)</b>	<b>113.57</b>	<b>(315.36)</b>

4.

## Fraudulent loan with partially recoverable security

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.9 – Accounts Classified as Fraud

In the second quarter of FY 2024-25, B Bank, detected a major fraud in one of its loan accounts.

### Key Events:

- The borrower, A Ltd., had misrepresented financial records to secure a loan of ₹100 Crores.
- Upon investigation, it was confirmed that the tangible security available was only ₹40 Crores, while the remaining ₹60 Crores was deemed unrecoverable.



### Question

As of March 31, 2025, what would be the provisioning and financial implications for B Bank in compliance with regulatory requirements?

## 5. Agriculture term loan classified as NPA – Auditor's review required

Relevant Para from RBI Master Circular (02.04.2024): Para 9.3 – Agricultural Advances

In 2021, Mr. A availed an Agriculture Term Loan of ₹10 Lakhs for purchasing a tractor. By the end of 2025, the outstanding loan balance had increased to ₹11.50 Lakhs, including ₹1.50 Lakhs of accrued interest.

### Key Events:

- During the financial year 2024-25, the bank classified the account as Sub-Standard (NPA) and made a provision on the full outstanding amount of ₹11.50 Lakhs.
- The bank's management stated that since the account was already classified as an NPA, no further review was required, and the auditor need not examine it further.

### Question

Evaluate whether the bank's approach is appropriate and provide comments on whether the auditor should conduct further review.



6.

## Overdue EMIs in term loan & classification as NPA

**Relevant Para from RBI Master Circular (02.04.2024): Para 3.2.1 & 3.2.3 – Income Recognition & Asset Classification**

A & Co. has a Term Loan (TL) where EMIs have been overdue since February 2024 and remain unpaid until March 2025. The EMI is scheduled to be due on the first day of the following month (e.g., January 2024 EMI was due on February 1, 2024).

### Account Statement Overview:

- January 31, 2024: Outstanding balance ₹10 Lakhs (after January EMI collection).
- Interest accrued for February & March 2024: ₹20,000.
- March 31, 2024: Outstanding balance ₹10.20 Lakhs.
- Interest accrued for FY 2024-25: ₹1.20 Lakhs.
- Insurance Charges: ₹15,000.
- Outstanding balance as of March 31, 2025: ₹11.55 Lakhs.

### Question

Determine the NPA classification date based on overdue EMIs and assess whether reversal of interest or other adjustments are required as per Para 3.2.1 & 3.2.3 of RBI guidelines.



## 7. NPA classification of personal housing loan linked to a partnership firm's CC limit

### Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.7 – Classification of Facilities Linked to NPA Borrowers

Mr. A and Mrs. B, who are married, are also the Managing Partners of their partnership firm, AB & Co., which has a Cash Credit (CC) limit of ₹5 Crores with C Bank Ltd.

The CC limit remained overdrawn for 100 days, leading the bank to classify it as an NPA on 31/03/2025. Additionally, Mr. A & Mrs. B have personal housing loans, for which all EMIs have been paid on time from their individual sources of income. However, their residential property has been provided as collateral security for the CC limit.

### Question

1. Should the housing loans of Mr. A & Mrs. B also be classified as NPA due to the classification of their partnership firm's CC limit as NPA?
2. If AB & Co. were a Private Limited Company instead of a partnership firm, with A & B as Directors, would the NPA classification of their housing loans change?
3. If the housing loan, which is jointly held by Mr. A & Mrs. B, is also classified as NPA, will the vehicle loan taken solely in the name of Mrs. B also be marked as NPA by the bank?



8.

## Non-renewal of CC limit leading to NPA classification

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.4 – Renewal of CC/OD Accounts

A borrower has a Cash Credit (CC) limit of ₹50 Lakhs and a Term Loan of ₹50 Lakhs with a monthly EMI of ₹50,000.

### Key Events:

- The CC limit was due for renewal on 30/06/2024, but the borrower failed to provide the required documents.
- Due to incomplete documentation, the bank did a short-term review for 3 months instead of a full renewal.
- Despite the renewal delay, the borrower regularly paid interest on the CC limit and all EMIs for the term loan, except for February & March 2025.
- The bank classified both the CC and Term Loan accounts as NPA on 27/12/2024, citing non-renewal of CC limits.
- The borrower submitted the required documents on 31/03/2025, and the bank subsequently renewed the CC limit after a credit appraisal.

### Question

Determine the asset classification status of both the Cash Credit Limit and the Term Loan as of 31/03/2025, considering the renewal of CC limits and overdue EMI payments.



## 9. Delay in Stock Statement submission affecting DP assessment

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.4 – DP Computation & NPA Classification

M/s. A Ltd. has a Cash Credit (CC) limit of ₹5 Crores with B Bank Ltd.

### Key Events:

- The last stock statement submitted by the borrower was for September 2024, reflecting stock details as of 05/10/2024
- The stock statement was submitted to the bank on 07/10/2024



### Question

1. Determine the NPA classification status of the CC account as of 31/03/2025, considering the timeliness of stock statement submission.
2. If the CC limit availed by M/s. A Ltd. was only ₹90 Lakhs instead of ₹5 Crores, would the NPA classification decision remain the same?

10.

## Term loan EMIs not recovered due to fully utilized CC limit

**Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.6 – Overdraft & Term Loan EMI Adjustments**

M/s A Ltd. has a Cash Credit (CC) limit of ₹50 Lakhs and a Term Loan (TL) of ₹150 Lakhs, with a monthly EMI of ₹2,25,000.

### Key Events:

- The bank follows a systematic process of recovering TL EMIs from the CC account.
- As of 31/12/2024, the CC account was fully utilized with an outstanding balance of ₹50 Lakhs.
- Due to the fully utilized limit, the EMIs for November & December 2024 (₹4,50,000) were not recovered from the CC account.
- The overdue EMIs remained unpaid since then.
- On 25/03/2025, the bank debited the pending EMIs in the CC account, despite the account already being in an overdrawn position.

### Question

Evaluate the NPA classification status of M/s A Ltd. CC and Term Loan accounts as of 31/03/2025, considering the bank's method of EMI recovery and overdue position.



11.

## LC devolvement and its impact on CC limit classification

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.7.2 – Devolvement of LC & BGs

A Pvt Ltd. has a Cash Credit (CC) facility of ₹1 Crore and a Letter of Credit (LC) facility of ₹20 Lakhs with the bank.

### Key Events:

- As of 31/12/2024, the outstanding balance in the CC account was ₹85 Lakhs.
- During the period 01/01/2025 to 31/03/2025, the CC balance fluctuated between ₹85 Lakhs and ₹90 Lakhs, but the borrower regularly serviced the interest payments.
- However, the LC of ₹20 Lakhs was devolved on 20/12/2024, and the bank transferred the liability to an "LC Devolved Account" separately.
- As of 31/03/2025, the LC Devolved Account remains unpaid.

### Question

Assess the NPA classification status of the CC account and LC devolved liability as of 31/03/2025, considering Para 4.2.7.2 of the applicable guidelines.



## 12. Non-acceptance of bills discounted under LC – NPA classification

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.7.3 – Bills Discounted under LC

A Ltd. has a Cash Credit (CC) facility of ₹1 Crore and has also availed Bills Discounted against a Letter of Credit (LC) worth ₹20 Lakhs.

### Key Events:

- As of 31/12/2024, the outstanding CC balance was ₹105 Lakhs
- During the period 01/01/2025 to 31/03/2025, the CC balance remained between ₹105 Lakhs and ₹110 Lakhs, exceeding the sanctioned limit.
- A bill worth ₹20 Lakhs, discounted under an LC, was presented to the issuing bank on 15/05/2025, but the issuing bank did not accept the bill on presentation.

### Question

1. Assess the NPA classification status of the CC account and Bills Discounted facility as of 31/03/2025
2. Determine the exact date of NPA classification for the Bills Discounting facility, based on Para 4.2.7.3 of the applicable guidelines



13.

## Multiple short-term reviews instead of proper renewal

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.4(b) – Non-Renewal of Limits

A Ltd. has a Cash Credit (CC) facility of ₹1 Crore, which was due for renewal on 30/06/2024. However, the borrower did not submit the required financial statements and other documents for renewal.

### Key Events:

- The bank conducted a short-term review of the account for the period 01/07/2024 to 30/09/2024 based on the available documents
- At the borrower's request, the bank conducted a second short-term review for the period 01/10/2024 to 31/12/2024.
- No further renewal or review was done after 31/12/2024.

### Question

Determine the NPA classification status of the CC account as of 31/03/2025, considering Para 4.2.4(b) of the applicable guidelines



14.

## NPA classification in a Consortium lending scenario

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.8 – Consortium Lending

A Company has availed a consortium loan, where B is the Lead Bank, and C is one of the member banks. The borrower is under financial stress and has been unable to meet its debt obligations with all consortium banks, though it is selectively servicing dues for certain banks

### Key Events:

- As of 31/12/2024, B (Lead Bank) classified the account as NPA, along with some other banks in the consortium.
- However, C Bank continued to treat the account as a Performing Asset, stating that all dues payable to C were fully recovered and no outstanding amount was overdue.

### Question

Assess whether C Bank's classification of the account as a Performing Asset is justified as of 31/03/2025, considering the regulatory guidelines under Para 4.2.8 regarding NPA classification in a consortium lending arrangement



## 15. Incorrect DP computation due to margin & debtor cover issues

**Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.4 – Drawing Power & NPA Classification**

Mr. A was sanctioned a Cash Credit (CC) limit of ₹1 Crore, and the bank assessed the Drawing Power (DP) limit as ₹1 Crore throughout the year.

### **Key Events:**

- During the audit, it was observed that while computing DP limits, the bank did not consider the debtors' cover period and the applicable margin as per the sanction terms.
- When the correct margin and debtors' cover period were applied as per the sanction note, the DP limit should have been only ₹50 Lakhs, instead of ₹1 Crore
- As of 31/03/2025, the outstanding balance in the CC account was ₹85 Lakhs, exceeding the revised DP limit of ₹50 Lakhs.

### **Question**

Determine the NPA classification status of the CC account as of 31/03/2025, considering the correct DP limit assessment as per Para 4.2.4 of the applicable guidelines



16.

## Infrequent credits in CC account – NPA determination

**Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.6 – Operation of Overdraft/CC Accounts**

A Ltd. has a Cash Credit (CC) limit of ₹10 Lakhs. However, the borrower does not operate the account regularly and only deposits the full interest amount at the end of each quarter.

### **Key Events:**

- As of 31/03/2025, the outstanding balance remains ₹10 Lakhs, with no apparent overdue amount.
- The borrower follows a pattern where interest for the entire quarter is credited at the quarter-end instead of making regular payments
- **Scenario 1:**
  - Interest for the last quarter is deposited at the end of the quarter (March 2025)
  - As of 31/03/2025, the outstanding balance remains ₹10 Lakhs
- **Scenario 2:**
  - The borrower deposits the entire interest for the full financial year on 30/03/2025
  - As of 31/03/2025, the outstanding balance remains ₹10 Lakhs, with no overdue showing in the account.



### **Question**

1. Determine if the account qualifies as an NPA despite no apparent overdue balance
2. Assess whether the one-time annual deposit of interest prevents NPA classification as per Para 4.2.6 of the applicable guidelines

17.

## CC account with no credits during a quarter – NPA impact

Relevant Para from RBI Master Circular (02.04.2024): Para 4.2.6 – Non-Servicing of Interest in CC Accounts

Mr. A has a Cash Credit (CC) limit of ₹1 Lakh.

### Key Events:

- As of 10/12/2024, the account had a credit balance of ₹10,000, which remained unchanged until 15/01/2025.
- On 15/01/2025, Mr. A withdrew ₹50,000, resulting in an outstanding balance of ₹40,000
- Interest debited:

January 2025: ₹2,000

February 2025: ₹4,000

March 2025: ₹4,500



### Scenario 1:

- No credits were recorded in the account during the quarter.

### Scenario 2:

- On 25/12/2024, the account received a credit of ₹10,500

### Question

1. Does the absence of credits in the borrower's account during the quarter impact the NPA classification?
2. Considering this credit, determine whether the account qualifies as an NPA and assess whether any interest reversal is required

18.

## Fully utilized CC limit with no credits leading to NPA

Relevant Para from RBI Master Circular (02.04.2024): Para 2.1.2 – Overdrawn Accounts in CC

A Ltd. has a Cash Credit (CC) limit of ₹5 Crores.

### Key Events:

- As of 31/12/2024, the outstanding balance was ₹5.05 Crores, exceeding the sanctioned limit.
- No credits were made in the account from 01/01/2025 to 31/03/2025
- As of 31/03/2025, the outstanding balance further increased to ₹5.20 Crores.
- The company repaid all overdue amounts on 10/04/2025, reducing the balance to ₹4.98 Crores



### Question

Determine whether the CC account qualifies as an NPA as of 31/03/2025, considering the absence of credits and continuous overdrawn position before repayment on 10/04/2025

19.

## One EMI always remaining overdue in a term loan

Relevant Para from RBI Master Circular (02.04.2024): Para 2.1.2 – Term Loans with Overdue Installments

A Term Loan account had 5 overdue EMIs as of October 2024. Subsequently, the borrower made partial recoveries, but at least one instalment remained overdue throughout the period until March 2025.



### Question

Should the loan account be classified as NPA as of 31/03/2025, considering that one EMI remained overdue despite partial recoveries?

20.

## NPA reclassification after overdue EMIs were cleared

Relevant Para from RBI Master Circular (02.04.2024): Para 2.1.2 – Reclassification After Regularization

A Term Loan account had 5 overdue EMIs as of 31/10/2024 and was consequently classified as NPA.

### Key Events:

- The entire overdue amount was fully recovered on 15/01/2025, bringing the account up to date with no pending dues as of that date.
- However, the borrower failed to pay the EMIs for February 2025 and March 2025

### Question

Should the account continue to be classified as NPA, considering the overdue EMIs after regularization in January 2025?



21.

## Prepayment of multiple EMIs but non-servicing of interest

Relevant Para from RBI Master Circular (02.04.2024): Para 2.1.2 – Interest Servicing in Term Loans

A borrower with a Term Loan account prepaid 10 months' EMIs in June 2024. However, after this prepayment, no further payments were made towards the loan.

### Question

Should the loan account be classified as NPA as of 31/03/2025, considering the non-servicing of interest despite the advance EMI payment?



22.

## Impact of stolen asset on loan classification

Mr. A availed a Term Loan of ₹10 Lakhs for purchasing a car. However, he failed to pay two consecutive EMIs.

### Key Events:

➤ While reviewing the loan file, the auditor found a letter sent to the controlling authority, stating that the borrower's car had been stolen, and the branch was aware of this situation.



### Question

Determine the asset classification status of the loan as of 31/03/2025, considering the non-payment of EMIs and the reported theft of the financed asset.

Thank  
you