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Reserve Bank of India (Small Finance Banks – Statutory Audit) Directions, 2026 (Updated as on October 01, 2026)

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पर्यवेक्षण विभाग, भारतीय रिज़र्व बैंक, केंद्रीय कार्यालय, मेकर टावर-ई, 20वीं मंजिल, कफ परेड, कोलाबा, मुंबई400- 005
दूरभाष-022 :6989 2022 ई-मेल: argdosco@rbi.org.in
Department of Supervision, Reserve Bank of India, Central Office, Maker Tower-E, 20th floor, Cuffe Parade, Colaba, Mumbai- 400 005
Tel: 022-6989 2022 Email: argdosco@rbi.org.in

हिंदी आसान है, इसका प्रयोग बढ़ाइए

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In exercise of powers conferred by Section 30(1A) of the Banking Regulation Act, 1949, and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Small Finance Banks - Statutory Audit) Directions, 2026.

2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to the Small Finance Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank') in respect of appointment / reappointment of their Statutory Central Auditors (SCAs) / Statutory Auditors (SAs).

   For the purpose of these Directions, the term SCAs is applicable to banks which appoint separate Statutory Branch Auditors (SBAs), whereas in all other cases, the term SAs shall be applicable.

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

   (1) *'All India Financial Institutions'* shall mean National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), Export-Import Bank of India (EXIM Bank) and National Bank for Financing Infrastructure and Development (NaBFID) as established under their respective statutes (hereinafter collectively referred to as 'AIFIs').

(2) *'Audit Firm'* shall mean a partnership firm or Limited Liability Partnership (LLP).

(3) *'Central Co-operative Bank (CCB)'* shall be as defined under Sub-Section (d) of Section 2 of National Bank for Agriculture and Rural Development Act, 1981.

(4) *'Commercial Banks'* means banking companies (other than Small Finance Banks, Payment Banks, and Local Area Banks), corresponding new banks, and the State Bank of India, as defined respectively under clauses (c), (da), and (nc) of Section 5 of the Banking Regulation Act, 1949.

(5) *'Group Entities'* shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary - parent [defined in terms of Accounting Standards (AS) 21], Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter Promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20 per cent and above.

(6) *'NBFCs [including Housing Finance Companies (HFCs)]'* shall mean such entities as defined in the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025.

(7) *'Primary (Urban) Co-operative Banks (UCB)'* shall mean entities as defined in Section 5 (ccv) read with Section 56 of the Banking Regulation Act, 1949.

(8) *'Public Sector Banks (PSBs)' (individually as a 'PSB')* shall refer to State Bank of India and corresponding new banks collectively.

(9) *'State Bank of India'* shall mean State Bank of India as defined in Section 5 (nc) of the Banking Regulation Act, 1949.

(10) *'State Co-operative Bank (StCB)*' shall be as defined under Sub-Section (u) of Section 2 of National Bank for Agriculture and Rural Development Act, 1981.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949, the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by RBI or the Glossary of Terms published by RBI or as used in commercial parlance, as the case may be.

Chapter II - Governance and Oversight

A. Role of the Board and Senior Management

6. The bank shall decide on the number of SCAs / SAs based on a Board or Audit Committee of the Board (ACB)[1] Approved Policy, *inter alia*, taking into account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerisation, availability of other independent audit inputs, identified risks in financial reporting and any other relevant factors.

7. The Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards, and best practices. Any concerns in this regard shall be flagged by the ACB to the Board of Directors of the bank and the concerned Senior Supervisory Manager (SSM), Department of Supervision (DoS), RBI.

8. The Board / ACB of the bank shall review the performance of SCAs / SAs on an annual basis. The bank shall report any serious lapses or negligence in audit responsibilities or conduct issues on part of the SCAs / SAs or any other matter considered as relevant to DoS, RBI within two months from completion of the annual audit. The bank shall send such reports with the approval / recommendation of the Board / ACB, with the full details of the audit firm. Board shall review the performance of SCAs / SAs in case ACB is non-existent in the bank.

9. The Board / ACB of the bank shall make recommendations to the competent authority as per the relevant statutory / regulatory instructions for fixing of audit fees of SCAs / SAs.

10. The bank shall formulate a Board or ACB[2] approved policy to be hosted on its official website / public domain and formulate necessary procedure thereunder

[1] Substituted w.e.f. October 1, 2026, consequent to Reserve Bank of India (Small Finance Banks - Governance) Amendment Directions, 2026.
[2] Substituted w.e.f. October 1, 2026, consequent to Reserve Bank of India (Small Finance Banks - Governance) Amendment Directions, 2026.

to be followed for appointment of SCAs / SAs. Apart from conforming to all relevant statutory / regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

Chapter III - Guidelines for Appointment

A. Number of Statutory Central Auditors / Statutory Auditors and Branch Coverage

11. The banks with asset size of ₹15,000 crore and above as at the end of previous year, shall ensure to get their statutory audit conducted under joint audit by a minimum of two audit firms. For the purpose of these Directions, asset size means total assets. All other banks should appoint a minimum of one audit firm for conducting statutory audit. The bank shall ensure that the joint auditors of the banks do not have any common partners and they are not under the same network of audit firms as defined in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014. Further, the bank shall finalise the work allocation among SCAs / SAs, before the commencement of the statutory audit, in consultation with their SCAs / SAs.

12. Considering the above factors and the requirements of the bank, the Board / ACB[3] shall decide the actual number of SCAs / SAs to be appointed, subject to the following limits:

Sr. No.	Asset Size of the Bank	Maximum Number of SCAs / SAs
1.	Up to ₹5,00,000 crore	4
2.	Above ₹5,00,000 crore and up to ₹10,00,000 crore	6
3.	Above ₹10,00,000 crore and up to ₹20,00,000 crore	8
4.	Above ₹20,00,000 crore	12

The above limits have been prescribed to ensure that the number of SCAs / SAs appointed by the banks are adequate, commensurate with the asset size and

[3] Substituted w.e.f. October 1, 2026, consequent to Reserve Bank of India (Small Finance Banks - Governance) Amendment Directions, 2026.

extent of operations of the banks, with a view to ensure that audits are conducted in a timely and effective manner.

13. The SCAs / SAs shall visit and audit at least the top 20 branches / top 20 per cent of the branches of the bank (in case of banks having less than 100 branches), to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15 per cent of total gross advances of the bank. In addition, the banking companies shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding the audit of accounts of all branches.

B. Eligibility Criteria of Auditors

14. The bank shall appoint audit firm(s) as its SCA(s) / SA(s) fulfilling the eligibility norms as prescribed below.

Asset Size of the bank as on 31st March of Previous Year	**Minimum No. of Full-Time partners (FTPs) associated with the audit firm for a period of at least three (3) years** **Note 1**	**Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the audit firm for a period of at least three (3) years**	**Minimum No. of Full Time Partners / Paid CAs with CISA / ISA Qualification** **Note 2**	**Minimum No. of years of Audit Experience of the firm** **Note 3**	**Minimum No. of Professional staff** **Note 4**
Above ₹15,000 crore	5	4	2	15	18
Above ₹1,000 crore and up to ₹15,000 crore	3	2	1	8	12
Up to ₹1,000 crore	2	1	1	6	8

***Note 1*:** There shall be at least one-year continuous association of partners with the audit firm as on the date of shortlisting by the banks for considering them as

full-time partners. Further, for appointment as SCAs / SAs of banks with an asset size above ₹1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years. For banks with an asset size above ₹1,000 crore, the full-time partner's association with the audit firm shall mean 'exclusive association'. The definition of 'exclusive association' will be based on the following criteria:

(1) The full-time partner should not be a partner in another audit firm/s.

(2) They should not be employed full time / part time elsewhere.

(3) They should not be practicing in their own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.

(4) The Board / ACB shall examine and ensure that the income of the partner from the firm / Limited Liability Partnership (LLP) is adequate for considering them as full-time exclusively associated partners, which will ensure the capability of the firm for the purpose.

***Note 2*:** Certified Information Systems Auditor (CISA) / Information Systems Audit (ISA) Qualification

There shall be at least one-year continuous association of Paid CAs with CISA / ISA qualification with the firm as on the date of shortlisting by banks for considering them as Paid CAs with CISA / ISA qualification for the purpose.

***Note 3*:** Audit Experience

Audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of Commercial Banks, Small Finance Banks, Payment Banks, Local Area Banks, or AIFIs. In case of merger and demerger of audit firms, merger effect will be given after two years of merger while demerger shall be effected immediately for this purpose.

***Note 4*:** Professional Staff

Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists / stenographers / computer operators / secretaries / subordinate staff. There should be at least one-year of continuous association of professional staff with the audit firm as on the date of shortlisting by banks for considering them as professional staff for the purpose.

15. **Additional Consideration**

(1) The audit firm, proposed to be appointed as SCAs / SAs for the bank, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.

(2) The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or other financial regulators.

(3) The bank shall ensure that appointment of SCAs / SAs is in line with the ICAI's Code of Ethics / any other such standards adopted and does not give rise to any conflict of interest.

(4) If any partner of an audit firm is a director in any bank, the said firm shall not be appointed as SCAs / SAs of any of the group entities of that bank.

Explanation: The Group Entities here refer to RBI regulated entities in the Group, which fulfil the definition of Group Entity, as provided in these directions. Therefore, if any partner of an audit firm is a director in an RBI regulated entity in the Group, the said firm shall not be appointed as SCAs / SAs of any of RBI regulated entities in the Group. However, if an audit firm is being considered by any of RBI regulated entities in the Group for appointment as SCAs / SAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board.

(5) The SCAs / SAs for a bank with asset size above ₹1,000 crore should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software

(GAS), commensurate with the degree / complexity of computer environment of the bank where the accounting and business data reside in order to achieve audit objectives.

16. **Continued Compliance with Basic Eligibility Criteria**

(1) In case an audit firm (after appointment) fails to comply with any of the eligibility norms (on account of reasons such as resignation or death of any of the partners / employees, action by Government Agencies, NFRA, ICAI, RBI, and other financial regulators), it shall promptly approach the bank with full details. Further, the audit firm shall take all necessary steps to regain eligibility within a reasonable time and in any case, the audit firm must comply with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.

(2) In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees or any other reason, which makes the audit firm ineligible with respect to any of the eligibility norms, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

C. Independence of Auditors

17. In case of any concern with the management of the bank such as non-availability of information / non-cooperation by the management, which may hamper the audit process, the SCAs / SAs shall approach the Board / ACB of the bank, under intimation to the concerned SSM of RBI. The SCAs / SAs shall directly approach the Board only when the bank does not have an ACB or when they notice a matter of concern involving any member of the ACB.

18. Concurrent auditors of the bank should not be considered for appointment as SCAs / SAs of the same bank. The audit of the bank and any entity with ‘Large Exposure’ (as defined by the Board) to the bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

Explanation: These Directions do not prohibit an audit firm from doing audit of any company / entity with Large Exposure to the bank from being appointed as SCA / SA of the bank. It only stipulates that this aspect should also be explicitly factored while assessing independence of the SCAs / SAs. In this regard, the Board / ACB shall see that there is no conflict of interest and the independence of auditors is ensured.

19. Before appointment or after completion of the audit assignment as SCAs / SAs, the time gap between any non-audit works (services mentioned in Section 144 of Companies Act, 2013, internal assignments or special assignments) by the SCAs / SAs for the bank or any audit / non-audit works for its group entities should be at least one year. However, during the tenure as SCA / SA, an audit firm may provide such services to the concerned bank which may not normally result in a conflict of interest, and bank shall take its own decision in this regard, in consultation with the Board / ACB. A conflict of interest would not normally arise in the case of following special assignments (indicative list):

    (1) Tax audit, tax representation and advice on taxation maters

    (2) Audit of interim financial statements

    (3) Certificates required to be issued by the SCA / SA in compliance with statutory or regulatory requirements

    (4) Reporting on financial information or segments thereof

        Explanation: The Group Entities refer to RBI regulated entities in the Group, which fulfil the definition of Group Entity as provided in the directions. However, if an audit firm engaged with audit / non- audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI regulated entities in the Group for appointment as SCAs / SAs, it shall be the responsibility of the Board / ACB of the concerned RBI regulated entity to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board / ACB.

20. The restrictions as detailed in Paragraphs 18 and 19 above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners, as defined in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014.

D. Professional Standards

21. The SCAs / SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

22. In the event of lapses in carrying out audit assignments resulting in misstatement of a bank's financial statements, and any violations / lapses vis-à-vis RBI's directions regarding the role and responsibilities of the SCAs / SAs in relation to the bank, the SCAs / SAs would be liable to be dealt with suitably under the relevant statutory / regulatory framework.

E. Tenure and Rotation

23. In order to protect the independence of the auditors, the bank shall appoint the SCAs / SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The audit firms which have already completed tenure of one year or two years with any bank may be permitted to complete the balance tenure only, i.e., two years and one year, respectively, if they fulfil the eligibility norms on an annual basis. Further, the bank can remove the audit firms during the above period only with the prior approval of the DoS, RBI as applicable for prior approval for appointment, as mentioned at Paragraph 29 (1) of these Directions. Upon completion of the prescribed tenure of three years of the SCA / SA and until appointment of the incoming SCAs / SAs for the relevant financial year, the outgoing SCAs / SAs of the bank may continue for the Limited Review of financial statements for ensuing quarter(s), in accordance with the provisions of this Direction and the applicable statutory requirements.

24. An audit firm shall not be eligible for reappointment in the same bank for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities. In case an audit firm has conducted audit of any bank for part-tenure (one year

or two years) and then not appointed for remainder tenure, then also it shall not be eligible for reappointment in the same bank for six years from completion of part-tenure.

25. One audit firm can concurrently take up statutory audit of a maximum of four Small Finance Banks, Payment Banks, Commercial Banks and Local Area Banks (but not more than one PSB or one AIFI or RBI), eight UCBs, eight NBFCs and five StCBs / CCBs (including not more than one StCB) during a particular year, subject to compliance with required eligibility criteria and other conditions for each bank and within overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. These limits are applicable in respect of audit of all RBI regulated entities, irrespective of the asset size.

For the purpose of these Directions, a group of audit firms having common partners and / or under the same network, will be considered as one entity and they shall be considered for allotment of SCAs / SAs accordingly. Shared / Sub-contracted audit by any other / associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

26. If the bank is appointing separate branch auditors, then it shall ensure that there are no common partners between the retiring audit firm / s and proposed audit firm/s. If the retiring and proposed auditors are proprietary concerns, the firm in which any proprietor or both is / are partner / s should not be considered for audit. Further, the sister concerns or associate firms of rested auditors should also not be proposed for appointment till they complete the rest period.

F. Audit Fees and Expenses

27. The audit fees for SCAs / SAs shall be decided in terms of the relevant statutory / regulatory provisions.

28. The audit fees for SCAs / SAs shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and

administrative units, complexity of transactions, level of computerisation and identified risks in financial reporting.

G. Appointment Procedure

29. The guidelines on minimum procedural requirements are given below:

(1) The bank shall obtain prior approval of DoS, RBI for the appointment / reappointment of SCAs / SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, the bank shall apply to the DoS, RBI before 31st July of the reference year.

(2) The bank shall shortlist minimum of two audit firms for every vacancy of SCAs / SAs so that even if the audit firm at first preference is found to be ineligible / refuses appointment, the audit firm at second preference can be appointed and the process of appointment of SCAs / SAs does not get delayed. However, in case of reappointment of SCAs / SAs by a bank till completion of tenure of continuous term of three years, there shall not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.

(3) The bank shall continue to follow the existing procedure followed by them for selection of SCAs / SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB for selection as SCAs / SAs. Upon selection of SCAs / SAs by the bank in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs / SAs.

(4) The bank shall obtain a certificate, along with relevant information as per **Annex I (Form B)**, from the audit firm(s) proposed to be appointed as SCAs / SAs by the bank to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner / s of the audit firm proposed for appointment of SCAs / SAs of the bank, under the seal of the said audit firm.

(5) The bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per **Annex II (Form C),** stating that the audit firm(s) proposed to be appointed as SCAs / SAs by it complies with all eligibility norms prescribed by RBI for the purpose.

(6) While approaching RBI for its prior approval for appointment of SCAs / SAs, the bank shall indicate its total asset size as on 31st March of the previous year (audited figures), forward a copy of Board / ACB Resolution recommending names of audit firms for appointment as SCAs / SAs in the order of preference and also furnish information as per **Annex I (Form B)** and **Annex II (Form C)**, as mentioned above, to facilitate expeditious approval of appointment / re-appointment of the concerned audit firm.

Chapter IV - Long Form Audit Report

A. Procedure and Timelines

30. The bank shall ensure timely receipt of Long Form Audit Report (LFAR) from the Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) and Statutory Branch Auditors (SBAs).

31. The LFAR of the bank, after due examination, shall be placed before the ACB, indicating the action taken / proposed to be taken for rectification of the irregularities, if any, mentioned therein.

32. The bank shall forward a copy of the LFAR (i.e., for the bank as a whole) along with the related agenda notes and the Board / ACB[4] views or directions, to the concerned Senior Supervisory Manager (SSM), Department of Supervision, RBI, within 60 days from the date of submission of the same by the SCA / SA.

B. Long Form Audit Report by the Statutory Central Auditors

B.1 Objectives, Strategy, Scope, and Coverage

33. The overall objective of the LFAR should be to identify and assess the gaps and vulnerable areas in the business operations, risk management, compliance and the efficacy of internal audit and provide an independent opinion on the same to the Board of the bank and provide the observations of SCAs.

34. This may also involve commenting on various risks to which the bank is exposed to such as credit, market, operational and liquidity risk and risk management efficacy, assessment of appropriateness of procedures for preparation of supervisory returns, Know Your Customer (KYC) / Anti-Money Laundering (AML) / Combating Financing of Terrorism (CFT) issues, cyber security, business performance, business strategy including very high growth / high return on equity (ROE) accompanied with high risks.

[4] Substituted w.e.f. October 1, 2026, consequent to Reserve Bank of India (Small Finance Banks - Governance) Amendment Directions, 2026.

35. Some of the matters to be dealt with by the SCAs in their LFARs will be based on the LFARs received from the Statutory Branch Auditors (SBAs). In dealing with such matters, the SCAs should exercise their own judgement to make their observations based on review of LFARs from SBAs.

36. While deciding their audit strategy, the SCAs shall factor-in all material issues which are considered critical by looking at the size and complexity of the business operations, business strategy / models, internal controls including the control culture of the bank, structure and complexity of the IT systems, etc.

37. The scope and coverage of Statutory Audit and LFAR will broadly be as per the indicative areas given in Paragraphs 40 to 73. However, if the SCAs feel a need for some material additions in the scope, this shall be done by giving specific justification and with the prior intimation to the ACB of the bank.

38. SCAs may resort to need based limited transaction testing.

39. In deciding whether a qualification in the main report is necessary, the SCAs should use their judgement based on the available evidence / facts and circumstances of each case. The bank is expected to measure and monitor the accuracy of data and to develop appropriate escalation channels and action plans to rectify any deterioration in data quality.

B.2 Indicative Coverage

B.2.1 Credit Risk Areas

40. **Loan Policy**: The observations should broadly cover the sufficiency and effectiveness of the loan policy along with the compliance to instructions issued by RBI in areas like exposure norms, interest rates, statutory and other restrictions, among others. Other aspects relating to updation of the policy, system of monitoring and adherence thereto should also be commented upon. The observations should also comprise business model / business strategy as per the policy as against the actual business / income flow of the bank.

41. **Credit Assessment**: Whether the credit assessment process is sufficiently placed to capture the risk as also the adequacy of information / data available with the bank. The quick mortality cases should be closely examined.

42. **Sanctioning / Disbursement**: Policy relating to delegation of powers at various levels, appropriateness of checks and balances, adherence to authorised limits, disbursal after complying with terms and conditions of disbursal should be examined.

43. **Documentation**: The entire process, including the system of ensuring execution as per the terms of sanction, system of documentation in respect of joint / consortium advances, availability of relevant documents to ensure creation of charge in favour of the bank when required, renewal of documents, should be examined. Defects observed along with compliance to RBI guidelines / bank's internal policy should also be examined.

44. **Review / Monitoring / Post Sanction Follow-up / Supervision**: Extent of coverage and effectiveness of credit monitoring system covering both on balance sheet and off-balance sheet exposures, along with the quality of reporting both within the bank and outside agencies such as Central Repository of Information on Large Credits, Credit Information Companies should be examined along with adherence to RBI instructions / bank's own policy. Special focus should be given on functioning and effectiveness of system of identifying and reporting of Red Flagged Accounts, Early-Warning System (EWS), receipt of periodic balance confirmation / acknowledgement of debts, stock / book debt statements, balance-sheet, audited-accounts etc. System of scrutiny of the above information and follow-up by the bank should also be examined to identify process gaps. System of periodic physical verification or inspection of stocks, equipment, machinery, other securities and review / renewal of advances including enhancement of limits, overall monitoring of advances through maturity / aging analysis should also be examined and suitably factored-in.

45. **Restructuring / Resolution of Stressed Accounts**: Comments on deviations observed in restructured accounts / stressed accounts under resolution with reference to Internal / RBI guidelines should be provided. Special emphasis

should be given on the stance of the bank with respect to resolution of stressed accounts, specially covering compliance to regulatory guidelines, formulation of Board approved policies including timelines for resolution, the manner in which decisions are taken during review period, Board approved policies regarding recovery, compromise settlements, exit from exposure through sale of stressed assets, mechanism of deciding whether a concession granted to a borrower should be treated as restructuring or not, implementation of resolution in accordance with the laid down conditions, among others.

46. **Asset Quality**: Special emphasis should be given on continuous monitoring of classification of accounts into Standard, Special Mention Account, Sub-standard, Doubtful or loss as per Income Recognition, Asset Classification and Provisioning norms by the system, without manual intervention, correct recognition of income, and adequacy of provision thereof. Effectiveness of the system for compiling data relating to Non-Performing Assets (NPAs) and their provisions, data integrity, system of suspension of charging of interest and adherence thereto, should be examined and commented upon. Deviations observed, if any, should be provided along with examples. Further, comments be provided on the procedure followed by the bank in upgradation of NPAs, updation of the value of securities with reference to RBI regulations and compliance by the bank with divergences observed during earlier RBI Inspection(s) with examples of deviations, if any.

47. **Recovery Policy**: The existence and effectiveness of recovery policy, along with regular updates, manner of appropriation of recovery, instances wherein the appropriation was not as per the recovery policy be examined and commented upon. Instances observed / reported, wherein the instructions of controlling authority related to legal action for recovery or recalling of advances is not acted upon, system of compromise settlements, system of monitoring accounts under Insolvency and Bankruptcy Code 2016 (IBC), write-off, should be specifically commented. In respect of compromise settlement, special emphasis should be given to the systems and processes relating to cases of recovery of ₹1 crore and above and also the cases wherein limit of sacrifice laid down in the recovery policy is breached. The auditors should verify the list of accounts where insolvency proceedings had been initiated under IBC but subsequently was

taken out of insolvency under Section 12A of the IBC. The auditors should satisfy themselves regarding the reasons of the creditors, especially the bank concerned, to agree to exiting the insolvency resolution process, and may comment upon deficiencies observed, if any.

48. **Large Advances**: Comments on significant adverse features in top 50 standard large advances and the accounts which need management's attention should be provided. In respect of other advances, the process needs to be checked and commented upon, based on a sample testing.

49. **Audit Reports**: Major adverse features observed in the reports of all audits / inspections, internal or external, carried out at credit department during the financial year should be suitably incorporated in the LFAR, if found persisting.

50. **Recovery Records**: Recovery from all the written-off accounts during the financial year should be examined and commented upon.

51. **Wilful Defaulter**: System of identifying and reporting of wilful defaulter should be examined and commented upon.

B.2.2 Market Risk Areas

52. **Investments including Derivatives**: The focus should be on the merit of investment policy and adherence to RBI guidelines. Any deviations to RBI directions, and guidelines issued by Fixed Income Money Market and Derivatives Association of India / Financial Benchmarks India Private Limited / Foreign Exchange Dealers' Association of India should be suitably highlighted. Special focus should be given on system of purchase and sale of investments, delegation of powers, reporting systems, segregation of back, middle and front office functions, efficacy of control over investments, including periodic verification / reconciliation of investments with book records, valuation mode, changes in mode of valuation, system relating to inter-bank call money operations, system relating to unquoted investments in the portfolio, system of audit including periodic verification / verification of investment activities / portfolios, policies and systems for monitoring activities such as underwriting, derivatives, etc., among others. With respect to RBI directions, special focus should be given on

compliance to exposure norms, classification of investments into Held to Maturity (HTM) / Available for Sale (AFS) / Fair Value through Profit and Loss (FVTPL) category and inter-category shifting of securities, compliance to valuation, asset classification and provisioning norms, along with deviation from accounting and disclosure norms, among others. Comments should also be made on the composition of investment portfolio as per RBI guidelines and the depreciations on investments, if not provided for. System of recording of income from investments, income accrued and due but not received, monitoring of mature investments and their timely encashment etc. should be examined and commented. The auditor shall also comment upon the veracity of liquidity characteristics of different investments in the books, as claimed by the bank in different regulatory / statutory statements. The internal control system, including all audits and inspections, IT and software being used by the bank for investment operations should be examined in detail.

53. **Statutory Liquidity Ratio (SLR) / Cash Reserve Ratio (CRR) Requirements**: Any discrepancies in the process of compilation and calculation of Net Demand and Time Liabilities (NDTL) by the bank should be highlighted in LFAR. It should be specifically commented whether the bank has complied with SLR / CRR requirements, with the instances of non-compliance, thereof.

54. **Asset Liability Management**: Existence of Policy on Asset-Liability Management and monitoring thereof, along with compliance with RBI guidelines and functioning of Asset Liability Management Committee should be examined.

B.2.3 Governance, Assurance Functions and Operational Risk Areas

55. **Governance and Assurance Functions**: Observations on governance, policy and implementation of business strategy and its adequacy vis-à-vis the risk appetite statement of the bank, effectiveness of assurance functions (risk management, compliance and internal audit) should be examined and suitably incorporated in the LFAR. Adequacy of risk-awareness, risk-taking and risk-management, risk and compliance culture per se, compliance testing, including the sustenance of the compliance, as also system of branch inspection, frequency, scope / coverage of inspection / internal audit, concurrent audit or revenue audit should also be examined along with the system of follow-up of

these reports, position of compliance, corrective action taken by the bank among others.

56. **Balancing of Books / Reconciliation of Control and Subsidiary Records**: Special focus should be given on the system of control for internal accounts along with effectiveness of the system of monitoring the position of balancing of books / reconciliation of control and subsidiary records, with details of books not balanced, if any. The item wise details of system generated transitory accounts not nullified at the year-end should be given separately with ageing of such items.

57. **Inter-Branch Reconciliation**: The effectiveness of the system of inter-branch / inter-office reconciliation with respect to each type of entries, along with sufficiency of audit trail should be examined and commented upon. Age-wise analysis of unreconciled entries for each type of entry covered under inter-branch reconciliation, as on balance sheet date along with subsequent clearance, thereof, if any, should be provided. Any unusual entries observed in the reconciliation process, along with procedure for auto and forced matching of entries, should be commented. Compliance with RBI guidelines with respect to provisioning for old outstanding entries, should be factored in the observations.

58. **Frauds / Vigilance**: Appropriateness of fraud risk management system and processes for early detection, timely reporting to RBI, investigation of frauds as also adequacy of provisioning with respect to reported frauds and deviations observed in compliance with directions issued by RBI should be examined and commented upon. Age-wise analysis of the cases / complaints investigated / under investigation of Vigilance Department along with observations on major frauds discovered during the year under audit should be provided. Special focus should be given on the potential risk areas which might lead to perpetuation of fraud (e.g. falsification of accounts / false representation by the borrower; misappropriation of funds especially through related party / shell company transactions; forgery and fabrication of financial documents like invoices, debtor lists, stock statements, trade credit documents, shipping bills, work orders and encumbrance certificates to avail credit; use of current accounts outside consortium where Trust and Retention Account (TRA) is maintained to divert funds; list of debtors / creditors were being fabricated and receivables were not

followed up / write off of debt of related parties; fake export / shipping bill ; over-statement of invoice amounts, stock statements, shipping bills, turnover; fly by night operations including the cases where vendors, related / associate parties, manufacturing units etc., are not available on the registered addresses; round tripping of funds, etc.).

59. **Suspense Accounts, Sundry Deposits, etc.**: System of clearance of items debited / credited to suspense / sundry accounts should be examined with the focus on audit trail, along with age-wise analysis of un-cleared entries of suspense accounts, sundry deposits, etc. as on balance sheet date along with subsequent clearance, thereof, if any. Any unusual entries observed in suspense accounts, sundry deposits etc. should be specifically commented. An examination of inactive / inoperative accounts may also be carried out, as it is a fraud prone area. It should also be examined whether the bank has made adequate provision with respect to un-cleared entries in suspense accounts, sundry deposits, etc. as per RBI guidelines and to the satisfaction of the auditor.

60. **Know Your Customer (KYC) / Anti-Money Laundering (AML)**: It should be examined whether the bank has duly updated and approved KYC and AML policies in synchronization with RBI directions and whether the said policies are effectively implemented by the bank. Assessment of the effectiveness of provisions for preventing money laundering and terrorist financing may be provided for.

61. **Cash and Other Security Items**: System of monitoring of cash at branches, and management of cash through currency chest operations, including adequacy of insurance cover, system and procedure for physical custody of cash, systems and controls for procurement, issue and custody of valued stationary items such as Cheque Books, Demand Drafts, Pay Orders, Gold Coins etc., should be examined.

62. **Para-Banking Activities**: It should be examined whether the bank has effective internal control system with respect to para-banking activities undertaken by it. A list of para-banking activities undertaken by the bank should be provided.

63. **Management Information System (MIS)**: Existence and adequacy of MIS, method of compilation and accuracy of information, appropriateness of procedures for preparation of supervisory returns and their reliability under the Off-Site Surveillance System of RBI, reliability of information flow for the internal risk management system should be commented. Additionally, comments should also be provided on whether the bank has effective system of preparation and consolidation of branch returns and financial statements.

64. **Any Other Comments relating to People, Process and System Risks**: Any other concerns relating to people, process and system risks may be commented upon.

B.2.4 Capital Adequacy

65. **Capital Adequacy Certificate:** A copy of the capital adequacy certificate should be provided along with comments as to whether the bank has effective system of calculation of capital adequacy as per the directions of RBI. Any concerns which are considered material relating to the bank's solvency and capital may be commented upon.

66. **Internal Capital Adequacy Assessment Process (ICAAP) Document:** Comments should be provided on whether stress test is done as per RBI stress test Guidelines; whether assumptions made in the document are realistic, encompassing all relevant risks; and whether bank strategy is aligned with its Board approved Risk Appetite Statements.

B.2.5 Going Concern and Liquidity Risk Assessment

67. **Going Concern Assessment**: The auditor should comment whether the going concern basis of preparation of financial statements is appropriate; and auditor's evaluation of the bank's assessment of its ability to continue to meet its obligations for the foreseeable future (for at least 12 months after the date of the financial statements) with reasonable assurance for the same. Any material uncertainties relating to going concern should be disclosed.

68. **Profitability**: Analysis of variation in major items of income and expenditure compared to previous year should be carried out along with important ratios such as Return on Assets (RoA), Return on Equity (RoE), etc.

69. **Liquidity Assessment**: As a part of assessment of the bank on going concern basis, the auditor should also consider the robustness of the bank's liquidity risk management systems and controls for managing liquidity, any external indicators that reveal liquidity or funding concerns, the availability of short-term liquidity support and compliance with norms relating to Liquidity Coverage Ratio (LCR) and Net Stability Funding Ratio (NSFR) among others.

B.2.6 Information Systems

70. **Robustness of Information Technology (IT) Systems**: Auditors should comment on the robustness of IT systems covering all the software used by the bank along with functions thereof, inter-linkage / interface between different IT Systems, Automated Teller Machine (ATM) network and its security, payment system products and services among others. It should be examined whether the software used by the bank were subjected to Information System (IS) Audit, Application function testing and any other audit mandated by RBI. Adequacy of IS Audit, migration audit (as and where applicable) and any other audit relating to IT and cyber security system and bank's compliance to the findings of those audits should be commented upon.

71. **IT Security and Information Security Policy**: Auditors should comment whether the bank has duly updated and approved IT Security and Information Security Policy and whether the bank has complied with RBI advisory/directives relating to IS environment / cyber security, issued from time-to-time.

72. **Critical Systems / Processes**: It should be examined whether there is an effective system of inter-linkage including seamless flow of data under Straight Through Process (STP) amongst various software / packages deployed. Special emphasis should be placed on outsourced activities and bank's control over them, including bank's own internal policy for outsourced activities.

B.2.7 Other Matters

73. Comments on the following should also be provided:

(1) Accounting policies including changes in accounting policies made during the period.

(2) Adequacy of provisions made for statutory liabilities such as Income Tax, Gratuity, Pension, Provident Fund, etc.

(3) Adequacy of provisions made for off-balance sheet exposures and other claims against the bank.

(4) Balances with other banks - observations on outstanding items in reconciliation statements.

(5) Procedure for revaluation of NOSTRO accounts and outstanding forward exchange contracts.

(6) System related to compliance with Depositor Education and Awareness Fund (DEAF) norms.

(7) Compliance mechanism with regard to recommendations of specific committees appointed by RBI such as Ghosh, Jilani, Mitra, etc.

(8) Working of subsidiaries / associates / joint ventures of the bank.

(9) Reporting system to the holding bank.

(10) Major losses of the subsidiary, if any.

(11) Business conduct including customer service by the bank describing instances, if any, of wrong debit of charges from customer accounts, mis-selling, ineffective complaint disposal mechanism, etc.

(12) Any other matter, which the auditor considers should be brought to the notice of the management.

C. Long Form Audit Report by the Statutory Branch Auditors

74. Statutory Branch Auditors (SBAs) shall submit the LFAR to the SCAs of the bank. The overall objective of the audit of bank branch should be to have transaction

testing and provide inputs to the SCAs on adequacy of implementation of various policy and regulatory requirements, including efficacy of the system and assurance functions (risk management, compliance and internal audit) at branch level.

75. The threshold fixed for different purposes for comments in the LFAR will decide that above the threshold, the transaction detailing needs to be seen and commented upon. However, below the threshold, the system and processes should be checked and commented upon.

76. Verification of data integrity and data related control systems and processes should be carried out and commented upon, with the special thrust on those data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes.

77. Indicative Format / Coverage in the LFAR by the SBAs is enclosed as **Annex III**. Additional Questionnaire applicable to Specialised Branches is enclosed as **Annex IV**. The questionnaire contains questions, which are relevant to the specialised branches dealing in foreign exchange transactions, branches having very large advances, recovery of NPA and clearing house operations, if any. LFAR for Large / Irregular / Critical Advance Accounts which is to be obtained by the SBAs from branches dealing in large advances / asset recovery branches is enclosed as **Annex V**.

Chapter V - Repeal and Other Provisions

A. Repeal and Saving

78. With the issue of these Directions, the existing directions, instructions, and guidelines relating to Statutory Audit as applicable to Small Finance Banks stand repealed, as communicated vide circular no. DoS.CO.PPG.66/11.01.005/2026-27 dated July 31, 2026. The directions, instructions and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above circular shall continue to remain repealed.

79. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

(1) any right, obligation or liability acquired, accrued, or incurred thereunder;

(2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;

(3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of Other Laws Not barred

80. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

81. For giving effect to the provisions of these Directions or to remove any difficulties in the application or interpretation of the provisions of these Directions, RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by RBI shall be final and binding.

(C. Saravanan)
Chief General Manager

Annex I

(FORM B)

Eligibility Certificate from (Name and Registration Number of the Audit Firm)

A. Particulars of the Firm:

Asset Size of the bank as on 31st March of Previous Year	Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years	Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years	Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Number of Years of Audit Experience#	Number of Professional staff

*Exclusively associated in case of Small Finance Bank with asset size of more than ₹1,000 crore

#Details may be furnished separately for experience as SCAs / SAs and SBAs

B. Additional Information:

(i) Copy of Constitution Certificate.

(ii) Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.

(iii) Whether the firm has been appointed as SCA / SA by any Other Commercial Bank, Small Finance Bank, Payment Bank, Local Area Bank, All India Financial Institution (AIFI), RBI, Non-Banking Financial Company, or Urban Co-operative Bank in the present financial year? If yes, details thereof.

(iv) Whether the firm has been debarred from taking up audit assignments by any regulator / Government agency? If yes, details thereof.

(v) Details of disciplinary proceedings against firm by any Financial Regulator / Government agency during last three years, both closed and pending.

C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs / SAs of Small Finance Banks. It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters, or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors have been declared as wilful defaulter by any bank / financial institution. For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.

It is confirmed that the information provided above is true and correct.

Signature of the Partner
(Name of the Partner)
Date:

Annex II

(FORM C)

Certificate to be submitted by the Small Finance Banks regarding eligibility of audit firm proposed to be appointed as Statutory Central Auditor (SCA) / Statutory Auditor (SA)

1. The bank is desirous of appointing M/s_____, Chartered Accountants (Firm Registration Number_____) as Statutory Central Auditor (SCA) / Statutory Auditor (SA) for the financial year _____ for their 1st / 2nd / 3rd term and therefore has sought the prior approval of RBI as per the section 30(1A) of the Banking Regulation Act, 1949.

2. The bank has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA) / Statutory Auditor (SA) of the bank for FY_____ along with relevant information (copy enclosed), in the format as prescribed by RBI.

3. The firm has no past association / association for_____ years with the bank as SCA / SA / SBA.

4. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs / SAs of Small Finance Banks.

Signature
(Name and Designation)
Date:

Annex III

Indicative Format / Coverage in the Long Form Audit Report (LFAR) by the Statutory Branch Auditors (SBAs)

Name of Bank:

Name of Branch:

Branch Code:

Zone / Circle Code:

Financial Year:

I.	**ASSETS**		
1.	**Cash**		
(a)	Does the system ensure that cash maintained is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?	:	
(b)	Have the cash balances at the branch / ATMs been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?	:	
(c)	(i) Does the branch generally maintain / carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank?	:	
	(ii) Does the figure of the balance in the branch books in respect of cash with its ATMs tally with the amounts of balances with the respective ATMs, based on the year end scrolls generated by the ATMs? If there is any difference, same should be reported.	:	
(d)	Whether the insurance cover available with the branch adequately meets the requirement to cover the cash-in hand and cash-in transit?	:	
2.	**Balances with Reserve Bank of India, State Bank of India and other banks (For branches with Treasury Operations)**		
(a)	Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? Nature and extent of differences should be reported.	:	
(b)	Observations on the reconciliation statements may be reported in the following manner:	:	

	(i) Cash transactions remaining un-responded (give details)	:	
	(ii) Revenue items requiring adjustments / write-off (give details)	:	
	(iii) Other credit and debit entries originated in the statements provided by RBI / other banks, remaining un-responded for more than 15 days:	:	
	(iv) Where the branch maintains an account with RBI, the following additional matter may be reported: Entries originated prior to, but communicated/ recorded after the year end in relation to currency chest operations at the branch / other link branches, involving deposits into / withdrawals from the currency chest attached to such branches (Give details)	:	
(c)	In case, any matter deserves special attention of the management, the same may be reported.	:	
3.	**Money at Call and Short Notice**		
(a)	Has the branch kept money-at-call and short notice during the year?	:	
(b)	Has the year-end balance been duly confirmed and reconciled?	:	
(c)	Has interest accrued up to the year-end been properly recorded?	:	
(d)	Whether instructions / guidelines, if any, laid down by the controlling authorities of the bank have been complied with?	:	
4.	**Investments (for branches outside India)**		
(a)	In respect of purchase and sale of investments, has the branch acted within its delegated authority, having regard to the instructions / guidelines in this behalf issued by the controlling authorities of the bank?	:	
(b)	Have the investments held by the branch whether on its own account or on behalf of the Head Office / other branches been made available for physical verification? Where the investments are not in the possession of the branch, whether evidence with regard to their physical verification have been produced?	:	
(c)	Is the mode of valuation of investments in accordance with RBI guidelines or the norms prescribed by the relevant regulatory authority of the country in which the branch is located whichever are more stringent?	:	

(d)	Whether there are any matured or overdue investments which have not been encashed and / or has not been serviced? If so, give details?	:	
5.	**Advances**		
	General Instructions		
	(i) The answers to the following questions may be based on the auditor's examination of all large advances. For this purpose, large advances are those in respect of which the outstanding amount is in excess of 10 per cent of outstanding aggregate balance of fund based and non-fund based advances of the branch or ₹10 crore, whichever is less. Care- For all accounts above the threshold, the transaction audit / account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon. Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.		
	(ii) The critical comments based on the review of the above and other test check should be given in respective paragraphs of the LFAR as given below.		
(a)	***List of accounts examined for audit***		

Account No.	**Account Name**	**Balance as at year end – Funded**	**Balance as at year end – Non-funded**	**Total**
Total		A	B	C = A + B
Total Outstanding of the branch		X	Y	Z = X + Y
Percentage examined		A as % of X	B as % of Y	C as % of Z

(b)	***Credit Appraisal***		
(i)	In your opinion, has the branch generally complied with the procedures / instructions of the controlling authorities of the bank regarding loan applications, preparation of proposals for grant / renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof. What, in your opinion, are the major shortcomings in credit appraisal, etc.	:	

(ii)	Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner: • Account No. • Account Name • Balance as at year end	:	
(iii)	Whether the applicable interest rate in borrowal accounts is correctly fed into the system?	:	
(iv)	Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to Marginal Cost of Funds Based Lending Rate (MCLR) / External Benchmark Lending Rate (EBLR)?	:	
(v)	Have you come across cases of frequent renewal/ rollover of short-term loans? If yes, give the details of such accounts.	:	
(vi)	Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?	:	
(c)	***Sanctioning / Disbursement***		
(i)	In the cases examined by you, have you come across instances of: (a) Credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? (b) Are such cases promptly reported to higher authorities?	:	
(ii)	Whether advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.	:	
(iii)	Did the bank provide loans to companies for buy-back of shares/securities?	:	
(d)	***Documentation***		
	In the cases examined by you, have you come across instances of		
(i)	Credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.	:	
(ii)	Deficiencies in documentation, including non-registration of charges, non-obtaining of guarantees, etc.? If so, give details of such cases.	:	

(iii)	Advances against lien of deposits have been granted without marking a lien on the bank's deposit receipts and the related accounts in accordance with the guidelines of the controlling authorities of the bank.	:	
(e)	***Review / Monitoring / Supervision***		
(i)	Is the procedure laid down by the controlling authorities of the bank, for periodic review of advances, including periodic balance confirmation / acknowledgement of debts, followed by the branch? Provide analysis of the accounts overdue for review / renewal. What, in your opinion, are major shortcomings in monitoring, etc.	:	
	a) between 3 to 6 months, and	:	
	b) over 6 months	:	
(ii)	a) Are the stock / book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases? b) Is the DP properly computed? c) Whether the latest audited financial statements are obtained for accounts reviewed / renewed during the year?	:	
(iii)	a) Whether there exists a system of obtaining reports on stock audits periodically? b) If so, whether the branch has complied with such system? c) Details of: ➢ cases where stock audit was required but was not conducted ➢ where stock audit was conducted but no action was taken on adverse features	:	
(iv)	Indicate the cases of advances to non-corporate entities with limits beyond that is set by the bank where the branch has not obtained the duly audited accounts of borrowers.	:	
(v)	Does the branch have on its record, a due diligence report in the form and manner required by the Reserve Bank of India in respect of advances under consortium and multiple banking arrangements. Give the list of accounts where such certificate / report is not obtained or not available on record. (In case, the branch is not the lead bank, copy of certificate / report should be obtained from lead bank for review and record)	:	

(vi)	Has the inspection or physical verification of securities charged to the bank been carried out by the branch as per the procedure laid down by the controlling authorities of the bank? Whether there is a substantial deterioration in value of security during financial year as per latest valuation report in comparison with earlier valuation report on record?	:	
(vii)	In respect of advances examined by you, have you come across cases of deficiencies, including in value of securities and inspection thereof or any other adverse features such as frequent / unauthorized overdrawing beyond limits, inadequate insurance coverage, etc.?	:	
(viii)	Whether the branch has any red-flagged account? If yes, whether any deviations were observed related to compliance of bank's policy related with Red Flag Accounts?	:	
(ix)	Comment on adverse features considered significant in top five standard large advances and which need management's attention.	:	
(x)	In respect of leasing finance activities, has the branch complied with the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance, etc.? Has the branch complied with the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities?	:	
(f)	**Asset Classification, Provisioning of Advances and Resolution of Stressed Assets**		
(i)	a) Has the branch identified and classified advances into standard / special mention accounts/ substandard / doubtful / loss assets through the computer system, without manual intervention? b) Is this identification & classification in line with the norms prescribed by the Reserve Bank of India. c) Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (including SMA-0, SMA-1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given. d) Also indicate whether required changes have been incorporated/ suggested in the Memorandum of Changes. e) List the accounts (with outstanding in excess of ₹10 crore) which have either been downgraded or upgraded with regard to their	:	

	classification as Non-Performing Asset or Standard Asset during the year and the reason thereof. f) Whether RBI guidelines on income recognition and provisioning have been followed.			
(ii)	a) Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank? b) Whether RBI Guidelines for restructuring on all such cases have been followed. c) Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking / reporting of defaults for resolution purposes among others?	:		
(iii)	a) Whether the upgradation in non-performing advances is in line with the norms of Reserve Bank of India. b) Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.	:		
(iv)	Have you come across cases where the relevant Controlling Authority of the bank has authorized legal action for recovery of advances or recalling of advances, but no such action was taken by the branch? If so, give details of such cases.	:		
(v)	Whether there are any accounts wherein process under IBC is mandated but not initiated by the branch? Whether there are any borrowers at the branch against whom the process of IBC is initiated by any of the creditors including bank? If yes, provide the list of such accounts and comment on the adequacy of provision made thereto?	:		
(vi)	a) Have appropriate claims for credit guarantee (ECGC and others), if any, been duly lodged and settled? b) Give details of claims rejected? (As per the given table) c) Whether the rejection is appropriately considered while determining the provisioning requirements	:		
	Particulars		**Number**	**Amount**
	Claim at the beginning of the year	:		
	Further claim lodged during the year	:		
	Total A	:		
	Amounts representing	:		
	(i) Claims accepted / settled	:		
	(ii) Claims rejected	:		
	Total B	:		
	Balance as at year end (A-B)	:		

(vii)	In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?	:	
(viii)	In the cases examined by you, has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/settlement and write-off cases? Details of the cases of compromise/settlement and write-off cases involving write-offs/waivers in excess of ₹ 50.00 lakhs may be given.	:	
(ix)	Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Give Age-wise analysis of decrees obtained and pending execution.	:	
(x)	Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?	:	
(xi)	In cases where documents are held at centralized processing centres / office, whether the auditor has received the relevant documents as asked by them on test check basis and satisfied themselves. Report exceptions, if any	:	
(xii)	List the major deficiencies in credit review, monitoring and supervision.	:	

(g) ***Non-Fund Based facilities***

(i) List of borrowers with details of LCs devolved or guarantees invoked during the year

Sr. No.	Invocation Date	Party Name	Beneficiary Name	Amount	Recovery Date

(ii) List of borrowers where the LCs have been devolved, or guarantees have been invoked but not paid with amount thereof.

Sr. No.	Invocation Date	Party Name	Beneficiary Name	Amount	Reason for non-Payment

(iii) List of instances where interchangeability between fund based and non-fund-based facilities was allowed subsequent to devolvement of LC / invocation of BG.	:	

6.	**Other Assets**		
(a)	**Suspense Accounts / Sundry Assets**		
	(i) Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of outstanding entries in excess of 90 days may be obtained from the branch and the reasons for delay in adjusting the entries may be ascertained. Does your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/write-off? If so, give details.	:	
	(ii) Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved. Are there any intangible items under this head e.g. losses not provided / pending investigation?	:	
II.	**LIABILITIES**		
1.	**Deposits**		
(a)	Does the bank have a system of identification of dormant/ inoperative accounts and internal controls with regard to operations in such accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.	:	
(b)	After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year-end? If so, obtain the clarifications from the branch and give your comments thereon.	:	
(c)	Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.	:	
(d)	Is the branch complying with the regulations on minimum balance requirement and levy of charges on non-maintenance of minimum balance in individual savings accounts?	:	

<table>
<tr><td>2.</td><td colspan="3">Other Liabilities – Bills Payable, Sundry Deposits, etc.</td></tr>
<tr><td>(a)</td><td>The number of items and the aggregate amount of old outstanding items pending for one years, or more be obtained from the branch and reported under appropriate heads. Give details thereof.</td><td>:</td><td><table><tr><td>Year</td><td>Number of Items</td><td>Amounts</td><td>Remarks</td></tr></table></td></tr>
<tr><td>(b)</td><td>Does your test check indicate any unusual items or material withdrawals or debits in these accounts? If so, give details thereof.</td><td>:</td><td></td></tr>
<tr><td>3.</td><td>Contingent Liabilities</td><td></td><td></td></tr>
<tr><td></td><td>List of major items of the contingent liabilities (other than constituent’s liabilities such as guarantees, letter of credit, acceptances, endorsements, etc.) not acknowledged by the branch?</td><td>:</td><td></td></tr>
<tr><td colspan="4">III. PROFIT AND LOSS ACCOUNT</td></tr>
<tr><td>(a)</td><td>Has the test checking of interest / discount / commission / fees etc. revealed excess/short credit of a material amount? If so, give details thereof.</td><td>:</td><td></td></tr>
<tr><td>(b)</td><td>Has the branch complied with the Income Recognition norms prescribed b RBI? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets).</td><td>:</td><td></td></tr>
<tr><td>(c)</td><td>Has the test check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.</td><td>:</td><td></td></tr>
<tr><td>(d)</td><td>Does the bank have a system of estimating and providing interest accrued on overdue/matured/ unpaid/ unclaimed term deposits including in respect of deceased depositors?</td><td>:</td><td></td></tr>
<tr><td>(e)</td><td>Are there any divergent trends in major items of income and expenditure, in comparison with corresponding previous year, which are not satisfactorily explained by the branch? If so, the same may be reported.</td><td>:</td><td></td></tr>
<tr><td colspan="4">IV. GENERAL</td></tr>
<tr><td>1.</td><td colspan="3">Gold/ Bullion / Security Items</td></tr>
<tr><td>(a)</td><td>Does the system ensure that gold/bullion is in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?</td><td>:</td><td></td></tr>
</table>

(b)	Does the branch maintain adequate records for receipt, issues and balances of gold/bullion and updated regularly? Does the periodic verification reveal any excess/shortage of stocks as compared to book records and if any discrepancies observed have been promptly reported to controlling authorities of the bank?	:	
(c)	Does the system of the Bank ensure adequate internal control over issue and custody of security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)? Whether the system is being followed by the branch? Have you come across cases of missing/lost items?	:	
2.	**Books and Records**		
(a)	Whether there are any software / systems (manual or otherwise) used at the branch which are not integrated with the CBS? If yes, give details thereof.	:	
(b)	i) In case the branch has been subjected to IS Audit whether there are any adverse features reported and have a direct or indirect bearing on the branch accounts and are pending compliance? If yes give details.	:	
	ii) Whether branch is generating and verifying exception reports at the periodicity as prescribed by the bank.	:	
	iii) Whether the system of bank warrants expeditious compliance of daily exception reports and whether there are any major observations pending such compliance at the year end.	:	
	iv) Whether the bank has laid down procedures for manual intervention to system generated data and proper authentication of the related transactions arising there from along with proper audit trail of manual intervention has been obtained.	:	
	v) Furnish your comments on data integrity (including data entry, checking correctness/integrity of data, no back ended strategies etc.) which is used for MIS at HO / CO level.	:	

3.	**Inter-Branch Accounts**		
	Does the branch expeditiously comply with / respond to the communications from the designated cell / Head Office as regards unmatched transactions? As at the year-end are there any un-responded/un-complied queries or communications beyond 7 days? If so, give details?	:	
4.	**Frauds**		
	Furnish particulars of: (i) Frauds detected / classified but confirmation of reporting to RBI not available on record at branch.	:	
	(ii) Whether any suspected or likely fraud cases are reported by branch to higher office during the year? If yes, provide the details thereof related to status of investigation.	:	
	(iii) In respect of fraud, based on your overall observation, please provide your comments on the potential risk areas which might lead to perpetuation of fraud (e.g. falsification of accounts/false representation by the borrower; misappropriation of funds especially through related party/ shell company transactions; forgery and fabrication of financial documents like invoices, debtor lists, stock statements, trade credit documents, shipping bills, work orders and encumbrance certificates and avail credit; Use of current accounts outside consortium where Trust and Retention Account (TRA) is maintained, to divert funds; List of Debtors/ Creditors were being fabricated and receivables were not followed up/ write off of debt of related parties; Fake export/shipping bill, etc.; Over statement of invoice amounts, stock statements, shipping bills, turnover; fly by night operations including cases where vendors, related/ associate parties, manufacturing units etc. aren't available on the registered addresses; Round Tripping of funds, etc.)	:	
	(iv) Whether the system of Early Warning Framework is working effectively and as required, the early warning signals form the basis for classifying an account as RFA.	:	

5.	**Implementation of KYC / AML guidelines**		
	Whether the branch has adequate systems and processes, as required, to ensure adherence to KYC / AML guidelines towards prevention of money laundering and terrorist financing?	:	
	Whether the branch followed the KYC / AML guidelines based on the test check carried out by the branch auditors?	:	
6.	**Management Information System**		
(a)	Whether the branch has the proper systems and procedures to ensure data integrity relating to all data inputs which are to be used for MIS at corporate office level and for supervisory reporting purposes. Have you come across any instances where data integrity was compromised?	:	
7.	**Miscellaneous**		
(a)	In framing your audit report / LFAR, have you considered the major adverse comments arising out of the latest reports such as: i) Previous year's Branch Audit Report / LFAR; ii) Internal audit / Snap Audit / concurrent audit report(s); iii) Credit Audit Report; iv) Stock audit Report; v) RBI Inspection Report, if such inspection took place; vi) Income and Expenditure (Revenue) Audit; vii) IS / IT / Computer / Systems Audit; and viii) Any special inspection / investigation report?	:	
(b)	Are there any other matters, which you, as branch auditor, would like to bring to the notice of the management or the Statutory Central Auditors?	:	

Annex IV

Additional Questionnaire Applicable to Specialised Branches

A. For Branches dealing in Foreign Exchange Transactions

1. Are there any material adverse features pointed out in the reports of concurrent auditors, internal auditors, and / or the Reserve Bank of India's inspection report which continue to persist in relation to NRE / NRO / FCNR-B / EEFC / RFC and other similar deposits accounts. If so, furnish the particulars of such adverse features.

2. Whether the branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to the following in relation to the foreign exchange and, if not, state the irregularities.

   (a) Deposits
   (b) Advances
   (c) Export bills
   (d) Bills for collection
   (e) Dealing room operations (where a branch has one)
   (f) Any other area

3. NOSTRO Accounts (Obtain from the branch management, a list of all NOSTRO Accounts maintained / operated by the branch).

   (a) Whether the bank has a system of periodic confirmation / reconciliation of the balances in NOSTRO accounts maintained with each overseas bank / correspondent? Has such confirmation been received, and account reconciled at year end in each case? If not, give details.

   (b) Whether the system of the bank ensures that all entries originated by overseas banks / correspondents, have been duly responded promptly in the respective NOSTRO accounts maintained by the bank?

(c) Are there any dormant / closed NOSTRO accounts in respect of which balances continue to exist in the books of the branch, at year end?

(d) Have the NOSTRO balances been converted at year end at the rates of exchange as prescribed by the controlling authorities?

(e) In case, any matter deserves special attention of the management, the same may be reported

4. Does the branch follow the prescribed procedures in relation to maintenance of Vostro Accounts?

B. For branches dealing in Clearing House Operations, normally referred to as Service Branches

1. Does the branch have a system of periodic review of the outstanding entries in clearing adjustments accounts? In your view, has the system generally been complied with?

2. Whether review of the clearing adjustments accounts (inwards / outwards) reveals any old / large / unusual outstanding entries, which remain unexplained? Give year-wise break-up of outstanding in number and value.

3. Has the branch strictly followed the guidelines of the controlling authority of the bank with respect to operations related to clearing transactions? Comment on the systems and procedures followed by the branch in this regard.

C. For Branches dealing in Recovery of Non-Performing Assets such as Asset Recovery Branches

1. In respect of borrowers with outstanding of ₹10 Crore and above, the information should be obtained from the Branch Management. Comments of the SBAs on advances with significant adverse features and which might need the attention of the management / Statutory Central Auditors should be appended to the LFAR.

2. List the accounts with outstanding in excess of ₹10 Crore, which have been upgraded from Non-Performing to Standard during the year and the reasons

thereof.

Sr. No.	Name of the Unit / Account	Outstanding (in ₹ crore)	IRAC Status as on 31st March [Last Year]	IRAC Status as on 31st March [Current Year]	Reason/s
1					
2					
3					
4					
5					

3. Whether the branch has a system of updating periodically, the information relating to the valuation of security charged to the bank?

4. Age-wise analysis of the recovery suits filed and pending for the last three years along with latest status thereof.

Year	No. of Accounts	Amount (in ₹ crore)
Up to n-3		
(n-2)		
(n-1)		
Current Financial Year (n)		

5. Is the branch prompt in ensuring execution of decrees obtained for recovery from the defaulting borrowers? Also, list the time barred decrees, if any, and reasons thereof. Give age-wise analysis of decrees obtained and not executed.

6. List the recoveries and their appropriation against the interest and the principal and the accounts settled / written off / closed during the year as per the bank's policy. Give particulars of recoveries which are pending for appropriation as on year-end with reasons thereof.

7. List the new borrower accounts transferred to the branch during the year. Have all the relevant documents and records relating to these borrower accounts been transferred to the branch? Has the branch obtained confirmation that all the accounts of the borrower (including non-fund-based exposures and deposits pending adjustment / margin deposits) been

transferred to the branch?

Signature of the Branch Auditor

Annex V

Long Form Audit Report (LFAR) for Large / Irregular / Critical Advance Accounts

(Statutory Branch Auditors to obtain from branches dealing in large advances / asset recovery)

Sr.No.	Items / Particulars	Details
1.	Name of the Borrower	
2.	Address	
3.	Nature of business / activity	
4.	Total exposure of the branch to the borrower	
	(a) Fund Based (₹ in crore)	
	(b) Non-Fund Based (₹ in crore)	
5.	Name of Proprietor / Partners / Directors (As Applicable)	
6.	Name of the Chief Executive, if any	
7.	Asset Classification by the branch	
	(a) as on the date of current audit	
	(b) as on the date of previous Balance Sheet	
8.	Asset Classification by the branch auditor	
	(a) as on the date of current audit	
	(b) as on the date of previous Balance Sheet	
9.	Are there any adverse features pointed out in relation to asset classification by RBI inspection or any other audit	
10.	Date on which the asset was first classified as NPA (where applicable)	
11.	Facilities sanctioned	

Date of Sanction	Nature of facilities	Limit (₹ crore)	Prime Security	Collateral Security	Margin (in %)	Balance outstanding at the year-end	
						Current Year	Previous Year

12.	Whether the facility is a consortium facility or a facility made on multiple bank basis	
13.	If Consortium-	
	(a) Names of participating banks with their respective shares	
	(b) Name of the Lead Bank in Consortium	
14.	If on multiple banking basis, names of other banks	
15.	Has the branch classified the facility under the Credit Rating norms in accordance with the guidelines of the controlling authorities of the bank	
16.	(a) Details of verification of primary security and evidence thereof	
	(b) Details of valuation and evidence thereof	

Date of Verification	**Nature of Security**	**Value**	**Valuation done by**
Insured for ₹ (expiring on_____)			

17.	(a) Details of verification of collateral security and evidence thereof	
	(b) Details of valuation and evidence thereof	
18.	Give details of the Guarantee in respect of the facility	
	(a) Central Government Guarantee	
	(b) State Government Guarantee	
	(c) Bank Guarantee or Financial Institution Guarantee	
	(d) Corporate / Personal / Other Guarantee	
	Provide the date, validity and value of the above Guarantees.	
19.	**Compliance with the terms and conditions of the sanction**	
	Terms and Conditions	**Compliance**

(i)	**Primary Security**		
	a)	Charge on primary security	
	b)	Mortgage of fixed assets	
	c)	Registration of charges with Registrar of Companies	
	d)	Insurance with date of validity of Policy	
(ii)	**Collateral Security**		
	a)	Charge on collateral security	
	b)	Mortgage of fixed assets	

	c)	Registration of charges with Registrar of Companies	
	d)	Insurance with date of validity of Policy	
(iii)	Guarantees - Existence and execution of valid Guarantees.		
(iv)	Asset coverage to the branch based upon the arrangement (i.e., consortium or multiple-bank basis)		
(v)	**Others**		
	(a)	Submission of Stock Statements / Quarterly Information Statements and other Information Statements	
	(b)	Last inspection of the unit by the branch officials: Give the date and details of errors / omissions noticed	
	(c)	In case of consortium advances, whether copies of documents executed by the company favoring the consortium are available	
	(d)	Any other area of non-compliance with the terms and conditions of sanction	

20. Key financial indicators of the borrower for the last two years and projections for the current year (Amount in ₹ crore)

Indicators	**Audited Year ended 31st March (n-2)**	**Audited Year ended 31st March (n-1)**	**Projections for Current Year (n)**
Turnover			
Increase in turnover over previous year (in %)			
Profit before depreciation, interest and tax			
Less: Interest			
Net Profit before tax			
Less: Depreciation			
Less: Tax			
Net Profit after Depreciation and Tax			
Net Profit to Turnover Ratio			
Capital (Paid-up)			
Reserves			
Net Worth			
Turnover to Capital Employed Ratio (The term capital employed means the sum of net worth and long term liabilities)			
Current Ratio			
Stock Turnover Ratio			

Total Outstanding Liabilities / Total Net Worth Ratio			
In case of listed companies, market value of Share?			
(a) High (b) Low (c) Closing			
Earnings Per Share			
Whether the accounts were audited? If yes, up to what date; and are there any audit qualifications			

21.	**Observations on the operations in the Account**		
	Particulars	**Excess over drawing power**	**Excess over limit**
	1. No. of occasions on which the balance exceeded the drawing power / sanctioned limit (give details)		
	Reasons for excess drawings, if any		
	Whether excess drawing were reported to the Controlling Authority and approved		
	2. Total summation in the account during the year	**Debit Summation (₹ crore)**	**Credit Summation (₹ crore)**
	Less: Interest Balance		

22.	Adverse observations in other audit reports / Inspection Reports / Concurrent Auditor's Report / Stock Audit Report / Special Audit Report or RBI inspection with regard to:	
	(a) Documentation	
	(b) Operations	
	(c) Security/Guarantee	
	(d) Others	
23.	Branch Manager's overview of the account and its operations	
24.	(a) In case the borrower has been identified / classified as NPA during the year, whether any unrealised income including income accrued in the previous year has been accounted as income, contrary to the income recognition norms.	
	(b) Whether any action has been initiated towards recovery in respect of accounts identified / classified as NPA.	

Date, Signature and Seal of Branch In-Charge