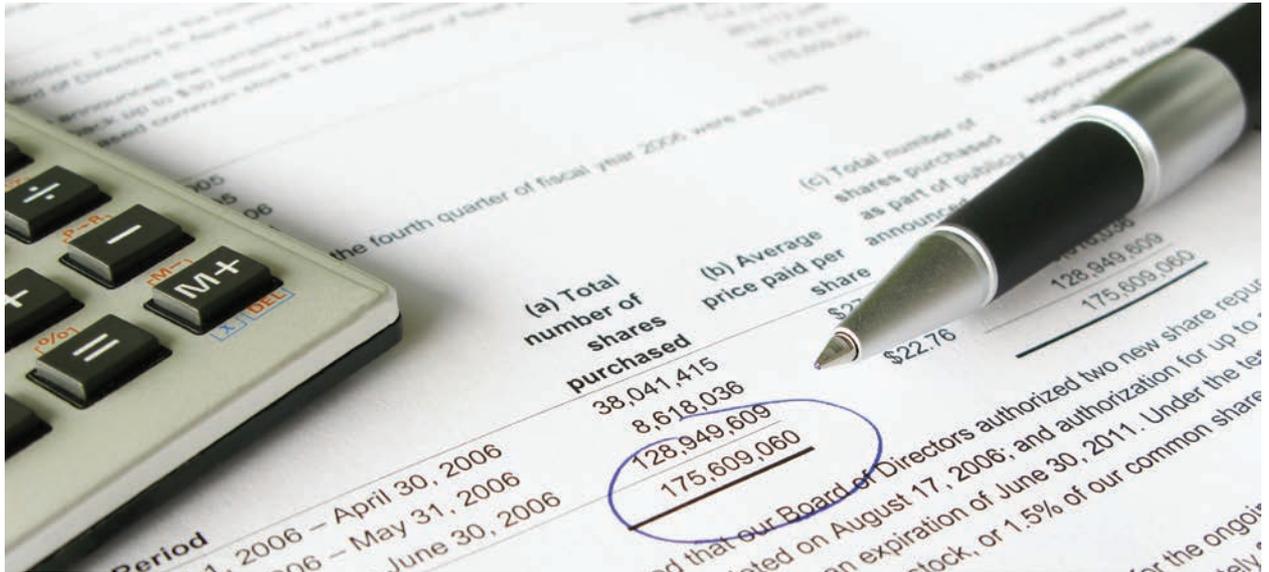


Disclosures in Financial Statements of a Bank



Disclosures, though considered being more relevant at the consolidation level, every branch auditor has an element of contribution towards everything that happens at CSA (Central Statutory Audit) level. Disclosures are assuming more and more importance, since not everything can be said/expressed through the formats of the financial statements. Finally, disclosures are meant towards providing information to the readers of the financial statement that was used by the management themselves in managing the entire affair. Hence, disclosure norms will keep improving over the period. RBI has come out with the master circular on disclosure. The circular brings out all the disclosure expectations in very clear and unambiguous terms. Technically, it would have been sufficient to provide reference to the master circular issued by RBI on 1st July, 2012 on disclosures. This article flows along the said Master circular and attempts to provide a reader “ready to use” tips.



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Background

The definition of the “User of the financial statement” is widening day by day. Accordingly, the role of the auditor too is widening and slowly moving towards “Social Responsibility” from mere “Responsibility towards Shareholders”. In a CBS era, though the information is available at the HO through consolidated statements, its verification with the documents at branch is crucial. The importance and the strength of branch audit concept, lies in the fact that it attempts to take care of the reader of the financial statement from “GIGO” risk at the transaction level, by verification of the input with the documents more closely. In the absence of a branch auditor, CSA would rely on the mere data

available through systems and the analytics thereof. RBI has always followed a conservative approach and thereby, India has managed to have strengthened the banking environment over the period. Audit certainly has helped in achieving the said objectives.

Auditors Role

The auditors' role in maintaining the market discipline is crucial. Regulators will be able to gain greater access to vital information, which is required for effective performance of their functions through external

auditors, in relation to the disclosure of information which is necessary and required for the efficient performance of the regulators' activities - as opposed to a right to report.

The relationship between supervisory authorities and the external auditors of a credit institution and the duties of these auditors was identified as an important lesson from the past. Because of auditors' access to financial undertakings' accounts and other essential documents and information; they assume a vital position in the overall supervisory process.

Disclosure Requirements for 31st March, 2013

Sr. No.	Disclosure Items	Brief Comments	Role of Branch Auditor
1.	Capital	This is about CRAR disclosures	Refer Note 1 below
2.	Investments	This is about disclosures relating to investments.	Not relevant at Business branch. To be covered at Treasury auditor.
3.	Repo Transaction	Security related disclosures	To be covered at CSA level
4.	Non-SLR Investment Portfolio	Security related disclosures	To be covered at CSA level
5.	Derivatives	Security related disclosures	To be covered at CSA level
6.	Sale & Transfers from HTM	Transfer of portfolio from HTM beyond 5% of Book value needs disclosure	To be covered at CSA level
7.	Forward Rate Agreement / Interest Rate Swap	Forward contract related disclosures	Refer Note 2
8.	Exchange Traded Interest Rate Derivatives	Security related disclosures	To be covered at CSA level
9.	Disclosures on Risk Exposure in derivatives	Security related disclosures	To be covered at CSA level
10	Asset Quality	1. NPA Related disclosures 2. Restructure accounts 3. Asset Sale to ARC's 4. NPA Purchase/Sale 5. Provision for Standard Assets	Refer Note 3 below
11.	Business Ratio	Various business ratios	To be covered at CSA Level
12.	Asset Liability Management - Maturity pattern of certain items of assets and liabilities	Maturity Pattern	To be covered at CSA Level
13.	Exposure to Real Estate Sector	1. Direct exposures related disclosures (to include residential, commercial and mortgaged backed securities). 2. Indirect exposures	Refer Note 4 below

Sr. No.	Disclosure Items	Brief Comments	Role of Branch Auditor
14.	Exposure to Capital Market	Security related exposures	To be covered at CSA level
15.	Risk Category wise Country Exposure	Country wise exposures	To be covered at CSA level
16.	Details of Single Borrower Limit (SGL), Group Borrower Limit (GBL) exceeded by the bank	Disclosures relating to exceeded prudential exposure limit	Refer Note 5 below
17.	Unsecured advances	Clarification on what should be considered as unsecured advances	Refer Note 6 below
18.	Amount of Provisions made for Income-tax during the year	Disclosure relating to provision on income tax	To be covered at CSA level
19.	Disclosure of Penalties imposed by RBI	Disclosure relating to regulatory penalties	To be covered at CSA level
20.	Accounting Standard 5 -	Net Profit or Loss for the period, prior period items and changes in accounting policies	To be covered at CSA level
21.	Accounting Standard 9 -	Revenue Recognition	To be covered at CSA level unless specifically instructed
22.	Accounting Standard 15 -	Employee Benefits	To be covered at CSA level unless specifically instructed
23.	Accounting Standard 17 -	Segment Reporting	To be covered at CSA level unless specifically instructed
24.	Accounting Standard 18 -	Related Party Disclosures	To be covered at CSA level unless specifically instructed
25.	Accounting Standard 21-	Consolidated Financial Statements	To be covered at CSA level unless specifically instructed
26.	Accounting Standard 22 -	Accounting for Taxes on Income	To be covered at CSA level
27.	Accounting Standard 23 -	Accounting for Investments in Associates in CFS	To be covered at CSA level
28.	Accounting Standard 24 -	Discontinuing Operations	Merger/Closure of a branch is not covered under this.
29.	Accounting Standard 25 -	Interim Financial Reporting	Not relevant for 31 st March, 2013.
30.	Provisions and contingencies	Various provisions	To be covered at CSA level
31.	Floating Provisions	Disclosures relating to Floating Provisions	To be covered at CSA level
32.	Draw Down from Reserves	Disclosures relating to Draw Down from Reserves	To be covered at CSA level
33.	Disclosure of Complaints	Disclosures relating to 1. Customer complaints. 2. Awards passed by banking ombudsman	To be covered at CSA level

Sr. No.	Disclosure Items	Brief Comments	Role of Branch Auditor
34.	Disclosure of Letters of Comfort (LoCs) issued by banks	Disclosure of Letters of Comfort issued if any	Refer Note 7 below
35.	Provisioning Coverage Ratio (PCR)	PCR disclosure	To be covered at CSA level
36.	Bancassurance Business	Details of fees/remuneration received	Usually this would form a separate line item in the income side.
37.	Concentration of Deposits, Advances, Exposures and NPAs	Various concentrations	To be covered at CSA level
38.	Sector-wise NPAs	Sector-wise NPAs	Refer Note 8 below
39.	Movement of NPAs	Movement of NPAs	To be covered at CSA level
40.	Overseas Assets, NPAs and Revenue	Overseas Assets, NPAs and Revenue	To be covered at CSA level
41.	Off-balance Sheet SPVs sponsored	Off-balance Sheet SPVs sponsored	May not be relevant at branch level
42.	Unamortised Pension & Gratuity Liabilities	Appropriate disclosure on Amortisation of Pension & Gratuity	To be covered at CSA level
43.	Disclosures on Remuneration	Details regarding Compensation Committee	Not Applicable to PSBs
44.	Disclosures relating to securitisation	Details regarding outstanding amount of Securitised Assets	To be covered at CSA level
45.	Credit Default Swaps	Disclosures regarding proprietary pricing models for CDS	To be covered at CSA level

Note 1: Capital (CRAR Disclosures)

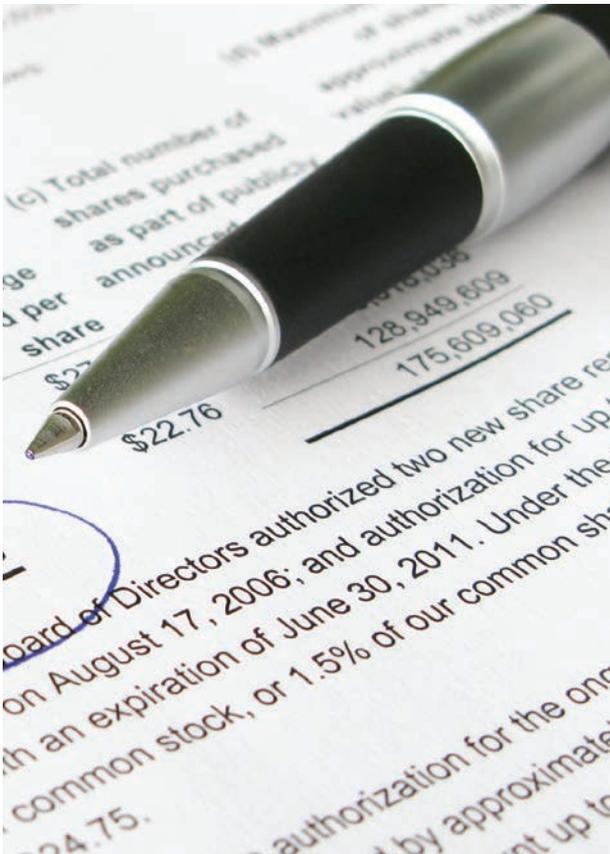
The calculations are facilitated only at CSA level. However, on account of the new Basel requirements of applying weights to the advances on the basis of risk implications, which is provided by virtue of classifying a portfolio into various buckets. At branch level, the auditor will have to be diligent in ensuring the right classification of advances into various buckets lest it leads to miscalculation of ratio at CSA level.

Note 2: Forward Rate Agreement/Interest Rate Swap

Although forward rates are booked at treasury branches, usually the books are maintained at branch level. It is necessary at the branch level to assess the negative gap between the values of the forward rate versus the rate as on the closing date, even during the continuance of the forward contract tenure. Master circular no. 14 dated 1st July 2012 necessitates the branch to earmark the limit to the extent of negative gap on a monthly basis.

Note 3: Asset Quality

1. Nonperforming assets: As we are all aware, at branch level, auditor can only look at the proper classification of advances.
2. Restructured accounts: The details of restructured accounts would be available at branch level. The branch auditor should take these details in writing from a branch manager. The disclosure involves bifurcation of advances restructured under each category that is standard, sub-standard and doubtful. Further, it requires to categorise each of the above categories into three parts viz. restructured through CDR mechanism, SME debt and others.
3. Sale of assets to ARC: This may not be the subject matter of the branch audit, since the banks have created a specialised cell to look after this portfolio.
4. Purchase/sale of NPA's: It would be advisable for branch auditor to obtain in writing, the details of purchase and sale NPA's and after due checking may be disclosed in the report.



5. Provision for standard assets: This may not be a subject matter of branch audit.

Note 4: Exposure to Real Estate Sector

Direct/Indirect exposures related to real estate sector (to include residential, commercial and mortgaged backed securities): The branch auditor should ensure that the books clearly show these exposures separately. Alternatively, it may be necessary to provide a separate disclosure by way of a note.

Note 5: Disclosures relating to exceeded prudential exposure limit

The branch auditor should take care whether branch has exceeded any single/ group borrower limit. If the bank has dispersed the exposure in various branches, obviously at the branch level, it would be difficult to assess this breach. Nonetheless, it would be advisable to cover this aspect during the audit.

Note 6: Unsecured advances

Any rights, licenses, authorisations etc. (intangible assets) charged to the bank as collateral security in respect of any advance given should not be considered as tangible security. Hence it should be classified as unsecured advances. However, such advances should be disclosed separately with the estimated value of such intangible collateral. The branch auditor should take these details from the bank during the audit and ensure that they are reported.

Note 7: Disclosure of Letters of Comfort issued, if any

This may not be so relevant at the branch audit level. However, it is advisable to ask for the details of any LOCs issued. If there are any, cumulative financial obligations under LOCs must be disclosed separately.

Note 8: Sector-wise NPAs

The disclosure norms require a bank to disclose percentage of NPA's to total advances in the following sectors.

1. Agriculture and allied activities
2. Industry (Micro & small, medium and large)
3. Services
4. Personal Loans

Although this will be taken care at CSA level, proper classification for above sectors is ensured at the branch level. ■