

Commonly found Non-compliances in Financial Statements of Banks

1. **Case:** In the financial statements of a Bank for the financial year 20XX-XX, the relevant abstract of schedule of borrowings read as under:

Schedule 4- Borrowings	March 31, 20XX	March 31, 20XX
I. Borrowings in India		
...	xxx	xxx
II. Borrowings outside India		
...	xxx	xxx
TOTAL	xxx	xxx
Secured Borrowings included in I & II above		

Decision: It was viewed that the Bank has not disclosed any figure under the line item 'Secured Borrowings included in I & II above'. Even if the figures are 'Nil' at least the said fact must be mentioned clearly against the line item given for "Secured Borrowings included in I and II above". It is not in line with the format as prescribed in Form A to Third Schedule given under Part V of Banking Regulation Act, 1949 which is reproduced as below:

"Schedule 4: Borrowings
 I. Borrowings in India
 (i) Reserve Bank of India
 (ii) Other Banks
 (iii) Other institutions and agencies
 II. Borrowings outside India
 (Total I & II)
 Secured borrowings included in I & II above – Rs."

Accordingly, it was viewed that aforesaid disclosure for borrowings is not in line with the format as prescribed by Form A to Third Schedule given under Part V of Banking Regulation Act, 1949.

2. **Case:** In the financial statements of a Bank for the financial year 20XX-XX, there was no disclosure of "Segment Reporting" in the notes to accounts.

Decision: It was noted that explanation given under Paragraph 38 of AS 17, Segment Reporting, states as under,

"38.

...

Explanation: In case by applying the definition of 'business segment' and 'geographical segment' it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per this Standard is not required to be disclosed. However, the fact that there is only one 'business segment' and 'geographical segment' is disclosed by way of a note."

It was observed from notes to accounts of the bank that neither any segment reporting disclosures have been made nor the fact that the bank has only one 'business segment' as well as only one 'geographical segment' has been stated.

Accordingly, it was viewed that the requirements of AS 17 have not been complied with.

3. **Case:** In the financial statements of a Bank for the financial year 20XX-XX, the relevant abstract of schedule of 'Reserves & Surplus' read as under:

Schedule 2: Reserves & Surplus	March 31, 20XX	March 31, 20XX
Statutory Reserves	xxx	xxx
Capital Reserves	xxx	xxx
Share Premium	xxx	xxx
Revenue & Other Reserves	xxx	xxx
Balance in Profit and Loss A/c	xxx	xxx
TOTAL	xxx	xxx

Decision: It was noted that Third Schedule to Banking Regulation Act, 1949, prescribes the presentation / disclosure of Reserves in the Balance sheet in the following manner:

"Opening Balance :

Additions during the year :

Deductions during the year :

Closing Balance :"

It was noted from the schedule of Reserve and Surplus that it has not been presented in line with the above-mentioned requirement of Third Schedule to Banking Regulation Act, 1949.

Accordingly, it was viewed that the requirements of The Banking Regulation Act, 1949 have not been complied with.

4. **Case:** From the financial statements of a bank for the financial year 20XX-XX, the relevant abstract of schedule of 'Investments' reads as under:

Schedule 8: Investments	March 31, 20XX	March 31, 20XX
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...		
(vi) Others	xxx	xxx
...	xxx	xxx

Decision: It was noted that Third Schedule to Banking Regulation Act, 1949, prescribes the presentation / disclosure of Investments in the Balance Sheet in the following manner:

“ ...

(vi) Others (to be specified)”

It was noted from the financial statement of the Bank that material amount has been disclosed under the head “Others” under Schedule of Investments. However, the nature of “Others” has not been disclosed which is not in line with the above-mentioned requirement of Third Schedule to Banking Regulation Act, 1949.

Accordingly, it was viewed that the requirements of The Banking Regulation Act, 1949 have not been complied with.

5. **Case:** In the financial statements of a Co-operative Bank for the financial year 20XX-XX, the relevant abstract of schedule of ‘Borrowings’ reads as under:

Schedule D: Borrowings	March 31, 20XX	March 31, 20XX
(i) Refinance from National Housing Bank	xxx	xxx
(ii) CBLO Borrowings	xxx	xxx
(iii) Overdraft against Fixed Deposit	xxx	xxx
TOTAL	xxx	xxx

Decision: It may be noted that section 56(z1) of Banking Regulation Act, lays down the format of the Third Schedule applicable on Co-operative Banks which prescribes the presentation / disclosure of Borrowings in the Balance sheet in the following manner:

“CAPITAL AND LIABILITIES

5. Borrowings

(i) From Reserve Bank [the National Bank] of India/State/ Central Co-operative Bank

(a) Short-term loans, cash credits and over-drafts

...

(b) Medium-term loans

...

(c) Long-term loans

...

(ii) From the State Bank of India

(a) Short-term loans, cash credits and over-drafts

...

(b) Medium-term loans

...

- (c) Long-term loans
 - ...
- (iii) From the State Government
 - (a) Short-term loans, cash credits and over-drafts
 - ...
 - (b) Medium-term loans
 - ...
 - (c) Long-term loans
 - ..."

It was noted from the schedule of Borrowings that it has not been presented in line with the above-mentioned format of Third Schedule to Banking Regulation Act, 1949.

Accordingly, it was viewed that the format of financial statements prescribed for Co-operative Banks under Third Schedule to The Banking Regulation Act, 1949 have not been complied with.

6. **Case:** From the financial statements of a Co-operative Bank for the financial year 20XX-XX, it was noted that the bank has not disclosed Face value and Market Value of Investments in Government Securities under the Schedule of Investments.

Decision: It may be noted that section 56(zl) of Banking Regulation Act, lays down the format of the Third Schedule applicable on Co-operative Banks which prescribes the presentation / disclosure of Borrowings in the Balance sheet in the following manner:

“PROPERTY AND ASSETS

4. Investments

- (i) In Central and State Government Securities (at book value) ...
 - Face value Rs.
 - Market Value Rs.
- (ii) Other trustee securities
 - ..."

It was noted from the schedule of Investments that although the Co-operative Bank has made an investment in government securities, however, it was observed that face value and market value of investments in government securities have not been disclosed.

Accordingly, it was viewed that the format of financial statements prescribed for Co-operative Banks under Third Schedule to The Banking Regulation Act, 1949 have not been complied with.