

# NON PERFORMING ASSETS (NPA) OF COMMERCIAL BANKS AND AUDIT DISCIPLINE



## Abstract:-

The concept of nonperforming asset (NPA) is new one in India. A non-performing asset basically implies an asset which fails to earn any income to the bank. On the other hand, an asset becomes non – performing when it ceases to generate any income for the bank. Up to the mid eighties there was no uniformity policy amongst banks in booking income from various types of loans and advances granted by them. In order to ensure uniformity in booking income on loans as advanced by all the commercial bank, the Reserve Bank Of India (R.B.I) introduced the health code system in 1986. Based on the recommendations of the Narasimham Committee. A new set of guidelines on income recognition, classification assets and provisioning for various types of non-performing assets have been formulated.

## Keywords:

Non Performing Assets (NPA) ,  
Commercial Banks , Audit Discipline .

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## INTRODUCTION

Income on loan assets is to be recognized know receipt basis ( as against accrual basis) and if interest on a loan is in arrears for a specified period the same is to be treated as non-performing. Assets which fetch regular income to the bank in the form of interest should be treated as performing assets or earning assets. On the contrary, assets is not received by the bank for more than two quarters should be treated as non-performing assets.

## INTERNATIONAL PRACTICE OF NPA

The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. By internationally accepted accounting practices, interest income is not recognized until it is realized. Interest is booked as income only when actually received. But in India until recently accrued interest or interest due on loans was treated as income by banks. So, this was a misleading and deceptive practice. As a result, the books of accounts of banks did not reveal their true financial position.

## ORDER OF R.B.I.

The banks have been asked by the R.B.I. to identify non-performing assets and see to it that no credit for interest is taken in respect of the non-performing assets. Such assets will not be taken as part of the earning assets of the bank. The NPA accounts of the public sector banks is as follows in the year march 2013.

Name of the Bank	NPA amount in Rs (crs)
Allahabad Bank	5137
Andhra Bank	3714
Bank of India	8735
Bank of Baroda	7982
Bank of Maharashtra	1138
Canara Bank	6260
Central Bank of India	8456
Corporation Bank	2048
Dena Bank	1452
Indian Bank	3565
Indian over sease Bank	6607
Oriental Bank of Commerce	4183
Punjab National Bank	13465
Punjab and Sind Bank	1536
Syndicate Bank	2978
UCO Bank	7130
Union Bank of India	6314
United Bank of India	2964
Vijaya Bank	1532
State Bank of India	51189
S B B J	2120
S.B.H.	3186
S.B.M.	2081
S.B.P.	2453
S.B.T.	1750
I.D.B.I.	6450
<b>Source:-AIBEA Conference Report</b>	<b>1,64,461</b>

The amount of NPA or overdue is very big. This NPA amount is very serious and challengeable to the banks. Because of overdue or NPA amount their profit is tremendously declining. This NPA amount observed or discovered the audit discipline system adopted by R.B.I.

**Causes of Non-Performing Assets :-**

- 1) Loan proposals are not carefully and cautiously examined it may lead to assets becoming non-performing.
- 2) Granting of loans more than what the borrower deserves may lead to creation of non-performing assets.
- 3) If there is a lack of machinery for recovery of loans or if the bank officials fail to maintain recovery discipline, it may lead to NPA.
- 4) Vested interests of bank officials is an important factor which causes NPA
- 5) If the loans given to the borrowers are utilized for unproductive purpose or for reckless speculation, and bank officials do not keep a close watch on the end use it leads to NPA
- 6) The political and administrative interference in the credit decision making leads to NPA
- 7) Assets may affect by various following factors.
  - (a) If the project for which fund lent out turns out to be unviable and unfeasible.
  - (b) If the completion of a project may be delayed due to mis- management, inefficiency, Govt policy etc it leads to NPA.
  - (c) If there may be disputes and disopinion amongst the promoters.
  - (d) If the project is not managed by competent personnel.
  - (e) Fluctuations in economic activity occur at regular intervals.
  - (f) Stiff competition among the rivals.

**MEASURES TO CHECK NPA :-**

Following preventive measures and remedial actions can be suggested

- 1) At the time of lending out funds a banker must ensure that the funds lent out are safe, that is the money will definitely come back, without any loss.
- 2) Before sanctioning the amount of loan, the bank should carefully evaluate the borrower's repaying capacity.
- 3) While minimize risk of default, suitable security is procured at the time advancing loans, recover becomes easier, in case of default and this checks assets becoming non-performing.
- 4) The bank should investigate into the purpose for which money is being borrowed. Loans are given for productive purposes, it leads to creation of income, yielding assets and for recovery, obviously checks creation of non-performing assets.
- 5) Bank should take follow-up steps to see that the end-use of loan is not for some other purpose. This would naturally prevent occurrence of N.P.A.
- 6) Timely recovery of loan is absolutely necessary for preventing or minimizing the incidence of new NPA.
- 7) Bank should ensure that overdraft facility will not exceed the limit.
- 8) Agricultural loans should coincide with sells of farmers produce. Recovery will commence soon after the crop is harvested.

Thus we can say that NPA is very serious problem before the banks. Because of new rule, regulation their balance sheet will shows correct scenario of financial position. The above discussion clearly indicates that bank must be very cautious, judicious, prudent and practical while lending out funds.