

Unit Inspection

❖ Indirect tools:

- QIS, Stock statement, market reports, Accounts, Operation in the account etc.

❖ Direct tools:

- Unit Inspection, stock inspection etc.

What is Unit inspection?

- ❖ Unit inspection means ensuring that the unit to which the bank has lent its funds is being run in a satisfactory manner.
- ❖ Its scope goes beyond stock statement scrutiny or even stock inspection.
- ❖ Unit inspection goes beyond arithmetical or physical correctness of the stocks.
- ❖ The scope of unit inspection covers ensuring whether there are orders on hand, licenses are renewed and taxes & statutory dues have been paid in time etc.

What is the Aim of Unit inspection?

❖ **To ensure that the security charged to the Bank: -**

- Tallies with the statement.
- Is adequate to cover the advance.
- Is easily marketable at the value stated.
- Proper inventory control is exercised to avoid excessive stock.

❖ **The unit which is being inspected is: -**

- Run in a proper manner.
- For the prescribed activities.
- In a profitable way.
- Observing all the stipulations of the business.

Modalities of unit inspection

- ❖ The person undertaking the inspection has to remember that he is representing the Bank.
- ❖ Before the inspection
- ❖ During the inspection
- ❖ After the inspection

Preparation before the inspection

❖ **Studying of:**

- Stock statements
- Annual accounts
- Projections, QIS
- Operations in the account
- Correspondence with the party
- TOD limits sanctioned during the year
- Projections submitted at the time of availing of advance.
- Scrutiny note
- Comparison of projections with stock statement and annual accounts etc.
- Whether documents are in force?
- Whether any compliance is pending?
- Insurance policy.
- ❖ To conduct analysis of variance during the inspection.
- ❖ To study whether the assumptions underlying the business plan were appropriate.
- ❖ Compliance of terms of sanctions by the borrower.
- ❖ Whether any amount is overdue?

At the time for inspection

- ❖ Whether all licenses has been renewed?
- ❖ Whether all statutory payments have been made on due dates?
- ❖ To confirm the proper upkeep of the various securities charged in favor of the bank such as machinery, equipment, furniture & fixture, premises etc.
- ❖ In case of pledged goods, ensure that they are stored in godowns as per the Bank's requirement.
- ❖ Whether Bank's hypothecation board has been displayed?
- ❖ Confirm the security arrangements at the premises, insurance, fire fighting arrangements etc.
- ❖ Observe the working atmosphere in the unit.
- ❖ To verify stock register, Returns and other relevant records.
- ❖ To verify order booking position. (UEOB-Unexecuted Order Book)
- ❖ To verify production records, ascertain capacity utilization.
- ❖ Verify level of stock holding at various stages. i.e. RM, WIP, FG.
- ❖ Whether stock of machinery spares is adequate?

After the inspection.

- ❖ As soon as the inspection is over, the representative should finalize the report based on notes prepared before undertaking the inspection and observations made at the site.
- ❖ All the positive and negative angles should be brought out in the Report without fear or favor.
- ❖ The process of inspection should help in assessing the merits and weaknesses of the unit, the deviations if any and justifications thereof.
- ❖ This will also help the Bank in knowing the risk factors in a particular finance, and decide the credit rating.

Inspection Report

- **Points to be covered:**
- Borrower.
- Location.
- Loan O/S.
- Overdue.
- Classification.
- Position of security.
- Max. Permissible Bank Finance.
- Insurance.
- Licenses & other statutory payments.
- Inspection of stock-general points.
- Storage.
- Stock records.
- Verification of stocks.
- Inspection of Fixed Assets.
- Inspection of Premises.

Conclusion

- ❖ This handout aims to highlight some of the important points for conducting unit inspection.
- ❖ It is not possible to prepare a model guide of unit inspection due to complex factors such as nature of business, industry norms & practices, quantum of advance, relationship of the borrower with the bank etc.
- ❖ The performance of the borrowal unit is a major factor for the success of any Bank and unit inspection is one of the tools to gauge the performance.

Inspection:

I: Identify

N: New / Old

S: Security

P: Permissions

E: Exhibit of bank's name board

C: Condition

T: Installation

I: Insurance

O: Operation

N: Location