

# Post Implementation Audit of a Core Banking Solution in a Leading Micro Finance Institution





## Overview

Urban Micro Finance institutions play a critical role in uplifting the Micro Enterprises and urban poor. They provide timely credit to Small and Micro enterprises for productive engagements and purchase of assets for economic activities to grow their business, apart from providing credit facilities to small groups. They are governed by the regulations of RBI and should adhere to IRAC Norms for loans to ensure the quality of Assets financed.

The term loan provided to Micro Enterprises is repayable in Equated Monthly installments ranging between 18 to 60 months.

## Business Need

One of the leading MFIs in India had come across certain discrepancies with regard to the behavior of the loan accounts against their features/requirements as per the Manual on the various loan products. These discrepancies were causing errors in some computations and schedules. They wanted to validate the product features and definitions against the parameters available in their Core Banking Solution - Flexcube

## Our Solution

We did a systems audit for this MFI. The procedures and processes involved in the maintenance of loan product accounts from the date of first disbursement till the date of closure of the loan were audited for their compliance with the instructions available in the Manual on the Loan Product. The following were the broad areas that were taken up for auditing:

- Loan Sanction Amount and Disbursements
- Collection of Processing Fees and other Charges
- Rate of Interest & Interest Base computation during Regular Stage & Post Maturity Stage
- Computation of Penalty Interest
- Asset Classification and Accounting Procedure vs. RBI's IRAC Norms
- Recoveries and Appropriation of Credits
- Repayment Terms and Repayment Methods
- Rescheduling of Accounts
- Exceptional Reports requirements and MIS
- Rationalization of General Ledger Heads

The study involved verification of screen-wise/table-wise parameters and bringing out the discrepancies in the set-up, if any. Wherever discrepancies were noticed, the reasons for such discrepancies against the behavior of the account were studied in depth, and proper remedial measures to correct such discrepancies were suggested for implementation.



## Benefits

- The MFI is able to provide accurate statement of accounts to their clients and relieved off customer complaints on differences in the areas like interest charged, repayment period, recovery of charges etc. in the account.
- This exercise helped the MFI to locate the anomalies and address them in time to avoid income leakage or excess recovery as a measure of optimizing profitability.
- The MFI is able to report correct figures to regulatory authorities like RBI in the matters of complying with IRAC Norms.
- The customer is assured of error free working of the loan portfolio paving the way for better housekeeping
- Parameterization of future products will be easier for the MFI going by the experience gained in this project.
- If the MFI plans to upgrade its application to a newer version in the future, this system audit will help them migrate, error free data thereby improving data quality and fine tuning the processes.