

September 18, 2007

ANNOUNCEMENT
For the Immediate Attention of the Members

Audits of NBFCs

Non Banking Finance Companies (NBFCs) are playing a vital role as the financial resource mobiliser in India given the country's geographical and population spread. However, having regard to the locations at which they generally operate, the type of clientele they serve and the some of instances of fraudulent/ mismanaged NBFCs, the Reserve Bank of India (RBI) established a strict regulatory framework for operation of NBFCs. Annual statutory audit of the NBFCs, including the NBFC Auditor's Report (Reserve Bank) Directions, 1998 constitutes important pillar of that framework. The aforesaid Directions include a number of reporting responsibilities, including making of exception reports, for the statutory auditors of NBFCs.

The Institute of Chartered Accountants of India has recently received a communication from the Department of Non Banking Supervision of the RBI in respect of audit of NBFCs. In its said communication the Reserve Bank of India has given an illustrative inclusive list of irregularities in NBFCs, required to be reported by the statutory auditors of NBFCs in terms of the requirements of the aforesaid Directions, but one or more of which have not been reported by some of the statutory auditors.

The abovementioned list is as follows:

- Net Owned Funds below the minimum required level not reported.
- Item not eligible for inclusion in 'Free Reserve' for the purpose of calculation of Net Owned Fund not excluded nor reported e.g. Share Premium included in Free

Reserve in case where the shares are redeemable at premium and the NBFC has not created any redemption reserve.

- Company engaged in the business of Non-Banking Financial Institution without obtaining Certificate of Registration from the Reserve Bank of India.
- Failure to comply with the prudential in terms of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 and Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.
- Non-reporting of downgrading of credit rating of deposit-taking NBFCs having bearing on the quantum of deposits permissible under the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
- Failure to report passing of Board Resolution by NBFCs (Non Deposit Taking) that they shall not accept public deposits.
- Failure to report acceptance of deposit by the NBFCs in excess of the quantum of deposits permitted in terms of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998.
- Failure to report adherence to conditions subject to which a company is classified as Core Investment Company.

Members are requested to take note of the above.