MATTERS TO BE INCORPORATED IN AUDITORS REPORT

As per

"Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 2008 "
Updated upto 2nd July, 2012

Applicability: Every Auditor of NBFC

<table>
<tr><td>Under Para</td><td>NBFC accepting/holding public deposits</td><td>NBFC not accepting/holding public deposits</td></tr>
<tr><td>2</td><td colspan="2">In addition to the Report U/s 227 of the CA, 1956, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in paragraphs 3 and 4 below.</td></tr>
<tr><td colspan="3">3. Matters to be included in the Auditor's report</td></tr>
<tr><td>A</td><td colspan="2">In the case of all Non-Banking Financial Companies
◆ Whether the company is engaged in the business of NBFI and whether it has obtained a Certificate of Registration (CoR) from the Bank
◆ Whether the company is entitled to continue to hold such CoR in terms of its asset/income pattern as on March 31 of the applicable year.
◆ whether the non-banking financial company has been correctly classified as AFC during the applicable financial year.
◆ whether the non-banking financial company has been correctly classified as NBFC-MFIt during the applicable financial year".</td></tr>
<tr><td>B & C</td><td>(B) In the case of a NBFC accepting/holding public deposits
■ Whether the public deposits accepted by the company together with other borrowings are within the limits admissible to the company.
■ Whether the public deposits held by the company in excess of the quantum of such deposits permissible to it, are regularised in the manner provided in the Directions.
■ Whether an AFC having CRAR less than 15% or an IC or LC is accepting "public deposit" without minimum</td><td>(C) In the case of a NBFC not accepting public deposits
■ Whether the Board of Directors has passed a resolution for non- acceptance of any public deposits.
■ Whether the company has accepted any public deposits during the relevant period/year;
■ Whether the company has complied with the prudential norms relating to income recognition, accounting standards, asset classification and provisioning for bad and doubtful debts as Prudential Norms (Reserve Bank) Directions, 2007.</td></tr>
</table>

	investment grade credit rating from an approved credit rating agency. ■ In case of above companies, whether the credit rating, for each of the fixed deposits schemes that has been assigned by CRA and whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency; ■ In case of NBFCs having NOF of Rs 25 lakh and above but less than Rs 200 lakhs, whether the public deposit held by the companies is in excess of the quantum of such deposit permissible to it and whether such company has frozen its level of deposits as on the date of the Notification; or has brought down its level of deposits to the level of revised ceiling of deposits in terms of the Notification. ■ Whether the company has defaulted in paying the interest and /or principal amount after it becomes due; ■ Whether the company has complied with the prudential norms on i**ncome recognition**, **accounting standards**, **asset classification**, **provisioning for bad and doubtful debts**, and **concentration of credit/investments as per** Prudential Norms (Reserve Bank) Directions, 2007. ■ Whether the capital adequacy ratio as disclosed in the return submitted to the Bank has been correctly determined and whether such ratio is in compliance with the minimum CRAR prescribed therein; ■ Whether the company has complied with the liquid assets requirement and whether the details of the designated bank in which the approved securities are held is communicated to the Bank. ■ Whether the company has furnished within the stipulated period the return on deposits as specified in the NBS 1.	■ In respect of ND-SI-NBFC the capital adequacy ratio as disclosed in form NBS- 7, has been correctly arrived at and such ratio is in compliance with the minimum CRAR . ■ NDSI-NBFC has furnished to the Bank the annual statement of capital funds, risk assets/exposures and risk asset ratio (NBS-7) within the stipulated period. **(D) In the case of a company engaged in the business of non-banking financial institution not required to hold CoR subject to certain conditions** Apart from the matters enumerated in (A)(I) above where a company has obtained a specific advice from the Bank that it is not required to hold COR from the Bank the auditor shall include a statement that the company is complying with the conditions stipulated as advised by the Bank.

	■ Whether the company has furnished to the Bank within the stipulated period the half-yearly return on prudential norms. ■ Whether, in the case of opening of new branches or offices to collect deposits or in the case of closure of existing branches/offices or in the case of appointment of agent, the company has complied with the requirements contained in the NBFC Acceptance of Public Deposits (RBI) Directions, 1998.	
4	**Reasons to be stated for unfavourable or qualified statements** Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 3 above, his report shall indicate such fact together with reasons therefor.	
5	**<u>Obligation of auditor to submit an exception report to the Bank</u>** ● Where, in the case of a NBFC, the statement regarding any of the items referred to in para 3 above, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with 1. the provisions of Chapter III B of Reserve Bank of India Act, 1934 (Act 2 of 1934); or 2. the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998; or 3. Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; or 4. Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007; it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company **to DNBS** . ● The duty of the Auditor shall be to report only the contraventions of the provisions of RBI Act, 1934, and Directions, Guidelines, instructions referred to above and such report shall not contain any statement with respect to compliance of any of those provisions.	

Notes:
IC: Investment Company, CRA: Credit Rating Agency
LC: Loan Company
AFC: Asset Finance Company

Prepared By
Amit Kumar *(Amicus Curiae)*
 # 9717841557